STATE OF NEW HAMPSHIRE

BEFORE THE

PUBLIC UTILITIES COMMISSION

DT 10-025

Request for Approvals in Connection with the Reorganization Plan of FairPoint Communications, Inc., et al.

FairPoint Communications, Inc., a Delaware corporation ("FairPoint"), Northern New England Telephone Operations LLC, a Delaware limited liability company doing business as FairPoint Communications-NNE ("FairPoint Communications-NNE"), and Northland Telephone Company of Maine, Inc., a Maine corporation ("Northland", and together with FairPoint and FairPoint Communications-NNE, the "Applicants"), respectfully represent as follows:

1. FairPoint is a telecommunications holding company with subsidiary companies that provide a full range of communications services to residential and business customers, including local and long distance voice, data, Internet, television and broadband, through 33 local exchange companies in 18 states. The corporate headquarters of FairPoint is located at 521 East Morehead Street, Suite 500, Charlotte, North Carolina, 28202.

2. FairPoint Communications-NNE is an incumbent local exchange carrier providing service in Maine and New Hampshire, having acquired on March 31, 2008, substantially all of the landline telephone business of Verizon New England Inc. and certain affiliates ("Verizon") in those states and Vermont (the "NNE Operations"). FairPoint offers service in Vermont through its operating subsidiary, Telephone Operating Company of Vermont LLC ("VT Telco"). FairPoint Communications-NNE is a telephone public utility in New Hampshire pursuant to RSA 362:2.

3. Northland is an incumbent local exchange carrier providing service predominantly in Maine but also in East Conway and Chatham, New Hampshire. Therefore, Northland is also a telephone public utility under RSA 362:2.

4. The principal office of FairPoint Communications-NNE and Northland is located at 1 Davis Farm Road, Portland, Maine 04103.

5. The Applicants are debtors and debtors in possession under Chapter 11 of the United States Bankruptcy Code in proceedings pending before the United States Bankruptcy Court for the Southern District of New York, Case Nos. 09-16335-BRL, et al. (the "Chapter 11 Case").

Background and Events Leading to Bankruptcy

6. In docket DT 07-011, this Commission issued its Order No. 24,823 (the "2008 Order") approving, with conditions, the transfer of substantially all of Verizon's landline telephone business in New Hampshire to FairPoint Communications-NNE as a subsidiary of FairPoint.

7. The 2008 Order approved, with modifications, a settlement agreement that had been executed among Verizon, FairPoint and the Commission Staff, effective as of January 23, 2008 (the "2008 Settlement").

8. Following the acquisition of the NNE Operations, FairPoint faced significant short- and long-term challenges, including, among other things (i) integrating the NNE Operations with pre-merger FairPoint, (ii) keeping pace with competition from bundled offerings by cable companies, as well as the use of alternative technologies, which are eroding FairPoint's

traditional base of wireline voice customers, (iii) monitoring, repairing and upgrading the existing telecommunications network in the NNE Operations while simultaneously building a new next generation IP based network, and (iv) overcoming the difficulty of transitioning certain back-office functions from Verizon's integrated systems to newly-created systems, which occurred in January 2009 (hereinafter, the "Cutover").

9. These challenges were made even more difficult by deteriorating market conditions. Although local exchange carriers were the only source of voice communications for many years, more recently local exchange carriers, including FairPoint, have experienced a decline in the number of access lines in service, primarily due to increased competition from wireless carriers, cable television operators who offer voice services and internet service providers who offer Voice over Internet Protocol ("VoIP") services. Moreover, these competitive challenges were exacerbated by the recent turmoil in the financial markets, which significantly limited available capital and resulted in a significant decline in the domestic economy in the past year. FairPoint believes that the economic decline has reduced consumer spending and contributed to an increase in the rate of decline in access lines and an increase in overdue accounts receivable balances from customers. Additionally, as a result of the Cutover, FairPoint Communications-NNE incurred higher than anticipated incremental costs and was required to devote significant resources, including management time and attention, to resolving these problems. As a result of the combined impact of each of these developments, FairPoint was unable to attain the performance levels it projected at the time of the acquisition of the NNE

Operations. As a result of these and other factors, FairPoint experienced a net loss in the third quarter of 2009 and a net loss in the first nine months of 2009.

10. The inability to achieve the financial performance projections with respect to the NNE Operations made it impossible for FairPoint to service its approximately $2.7 billion in debt obligations. Interest costs on FairPoint's significant debt have absorbed a large portion of its operating cash flow, thereby imposing limitations on FairPoint's ability to construct its next generation IP based network which FairPoint believes will enable it to offer a new suite of IP-based services and implement its strategic business plan.

11. As a result of the financial distress caused by the foregoing factors, FairPoint attempted over several months to restructure its indebtedness without resorting to bankruptcy proceedings. Ultimately, those efforts were not successful, and on October 26, 2009, FairPoint and its subsidiaries commenced Chapter 11 bankruptcy cases in the United States Bankruptcy Court for the Southern District of New York.

Operation and Events during Chapter 11 Case

12. Following the commencement of the Chapter 11 Case, FairPoint's efforts have been focused primarily on (i) obtaining the necessary Bankruptcy Court orders to operate the business during Chapter 11, (ii) continuing the work on the integration of the new back office operating systems, and (iii) developing and negotiating a plan of reorganization for successful operation following the Chapter 11 Case.

13. Promptly following the filing of the bankruptcy petitions, the Bankruptcy Court entered several "first day" orders facilitating continued operations. These included, but were not

limited to, orders regarding wages and benefits, maintenance of customer programs, management of cash, maintenance of insurance, etc. FairPoint also sought and obtained approval for the retention of financial, legal and restructuring professionals.

14. In support of operations during the Chapter 11 Case, FairPoint also sought and obtained interim Bankruptcy Court approval for debtor in possession financing. In connection therewith, FairPoint entered into a debtor in possession credit agreement with certain financial institutions providing a revolving credit facility in an aggregate principal amount of up to $75 million, of which up to $30 million is available for letters of credit that may be issued to third parties.

15. Through the efforts of FairPoint employees and retained consultants, FairPoint continued its efforts to address and improve back office system performance and improve service quality.

16. In addition to operating the business, FairPoint has actively engaged interested constituencies in negotiations with regard to a plan of reorganization that will dramatically reduce FairPoint's debt and place FairPoint in a position to succeed over the long term. As a result of these negotiations, FairPoint has developed a reorganization plan having the support of secured creditors and the leadership of FairPoint's labor unions (subject to membership ratification), as well as key representatives of the States of Maine, New Hampshire and Vermont.

Summary of the Reorganization Plan

17. The FairPoint entities have entered into a "First Amended Joint Plan of Reorganization under Chapter 11 of the Bankruptcy Code dated as of February 11, 2010 (the

"Plan"). The Plan and the proposed "Amended Disclosure Statement for Debtors' First Amended Joint Plan of Reorganization under Chapter 11 of the Bankruptcy Code," dated February 11, 2010, are attached hereto as Appendix 1 and Appendix 2, respectively. Under the Plan, the claims of lenders under the prepetition secured credit agreement which aggregate approximately $2.1 billion will satisfied by: (i) a *pro rata* share of new term loans in the aggregate principal amount of $1 billion, (ii) a *pro rata* share of cash in an amount equal to all cash of FairPoint on the effective date of the Plan (the "Effective Date") in excess of $40 million after taking into account cash payments required to be paid under the Plan on or after the Effective Date, including amounts paid or reserved for specified bankruptcy claims and expenses, and (iii) a *pro rata* share of 47,241,436 shares of the new common stock in the reorganized FairPoint, *provided, however,* that if the class of FairPoint unsecured claims does not accept the Plan, each holder of a prepetition credit agreement claim shall receive its *pro rata* share of 58,484,587 shares of the new common stock. The prepetition unsecured claimants (whose claims aggregate $635.3 million) will receive their *pro rata* share of 4,203,352 shares of the new common stock of reorganized FairPoint together with warrants for the purchase of an additional 7,164,804 shares (subject in each case to the issuance of securities pursuant to the reorganized FairPoint long term incentive plan); provided, that if this class of creditors does not vote to approve the Plan, members of this class will receive no distributions under the Plan on account of their claims. Unsecured claims of $10,000 or less are honored in full. The claims of subordinated creditors of FairPoint will receive no distributions under the Plan, and all of the shares of stock of FairPoint outstanding as of the Chapter 11 filing will be cancelled and the holders thereof will receive no payment or distribution.

18. Under the Plan, allowed unsecured claims of creditors of Northland and FairPoint Communications-NNE will be honored in full.

19. Following the Effective Date of the Plan, the total debt of FairPoint will be reduced from approximately \$2.7 billion as of the bankruptcy filing date to approximately \$1 billion, providing FairPoint with a very significant improvement in financial strength and flexibility. Annual interest costs will be reduced by approximately 69% from approximately \$208 million to approximately \$65 million and total leverage will be reduced from approximately 7.5x adjusted operating EBITDAR to approximately 2.7x. The Plan also contemplates that FairPoint will enter into a new \$75 million revolving credit facility.

20. Based on the current make-up of holders of secured indebtedness, it is possible that one or more holders may own ten percent (10%) or more of the common stock of reorganized FairPoint following the Effective Date.

21. FairPoint has reached agreement with union representatives evidenced by the 2010 Memorandum of Understanding attached as Exhibit B to the Plan.

The New Hampshire Regulatory Settlement

22. During the course of the Chapter 11 Case, FairPoint and FairPoint Communications-NNE have engaged in discussions and negotiations with key representatives authorized to negotiate on behalf of the State of New Hampshire. As a result of these negotiations, a settlement agreement attached as Exhibit E to the Plan (the "Regulatory

Settlement") has been reached with Staff Advocates of the New Hampshire Public Utilities Commission (the "Staff Advocates"). The Office of the Consumer Advocate also participated in those discussions and has executed a separate Memorandum of Understanding which is included as part of Exhibit E to the Plan.

23. Pursuant to the Regulatory Settlement, FairPoint has agreed that following the Effective Date of the Plan, FairPoint Communications-NNE will meet the broadband build-out requirements, the capital investment requirements and the SQI service quality program requirements of the 2008 Settlement and the 2008 Order, subject to certain clarifications and modifications as described below.

24. Sections 2.1 - 2.3 of the Regulatory Settlement set forth clarifications and modifications regarding service quality. Service quality penalties for 2009 will be deferred, and if FairPoint Communications-NNE meets specified service levels, the 2009 penalties will be waived in whole or in part. Service quality requirements and penalties for 2010 and subsequent years remain in effect. Service quality provisions regarding broadband are clarified, and the maximum total annual liability for service quality penalties is set at $12.5 million.

25. Under Section 2.4 of the Regulatory Settlement, pricing obligations regarding stand-alone DSL service would terminate on April 1, 2011, but FairPoint Communications-NNE would continue to honor the Verizon "for life" pricing.

26. Sections 2.5.1 - 2.5.5 of the Regulatory Settlement retarget broadband build-out commitments scheduled for April 1, 2010, to December 31, 2010, and provide further

clarification and specificity to broadband and capital investment requirements to achieve the benefits for customers under the 2008 Settlement and the 2008 Order.

27. Section 2.6 of the Regulatory Settlement sets forth terms under which broadband build-out requirements can be satisfied with resold service, and Section 2.7 provides for the disposition of broadband penalty payments.

28. Section 3 of the Regulatory Settlement recognizes that certain financial conditions of the 2008 Settlement and the 2008 Order will be satisfied or rendered moot by the substantial debt reductions resulting from the Plan and are no longer applicable.

29. Section 4 of the Regulatory Settlement includes provisions regarding corporate governance of FairPoint after the effectiveness of the Plan, as well as FairPoint's undertaking to reimburse the State of New Hampshire for its costs and expenses in the bankruptcy case. It further prohibits FairPoint from agreeing to terms with Maine or Vermont which in the aggregate would be materially more beneficial than those agreed upon with New Hampshire without first offering such terms to the Staff Advocates for New Hampshire. In addition, during the first two years following the effectiveness of the Plan, FairPoint is barred from paying dividends if FairPoint is in material breach of the Regulatory Settlement.

30. FairPoint Communications-NNE is the holder of the membership interests of VT Telco. In order to meet the objective of having the secured lenders hold a security interest in the capital stock and membership interests of the FairPoint subsidiaries, FairPoint Communications-NNE proposes to pledge such membership interests as security for the new term loan and the new revolving credit agreement. Such membership interests are not used to provide telephone

utility service in New Hampshire, nor are they in any way reflected in the rate base or rates of FairPoint Communications-NNE. Accordingly, FairPoint Communications-NNE proposes to honor this request of the secured lenders and pledge such membership interests.

Relief Requested

31. The Applicants believe, and therefore aver, that the reorganized FairPoint Communications-NNE and Northland will have the financial, managerial and technical capability to operate their respective utility franchises on and after the Effective Date.

32. The Applicants believe, and therefore aver, that the Regulatory Settlement is just and reasonable and in the public interest and ought to be approved.

33. FairPoint Communications-NNE and Northland believe, and therefore represent and aver, that the change in control of FairPoint Communications, Inc., as parent company of FairPoint Communications-NNE and Northland will not have an adverse effect on the public utility rates, terms, service or operation of FairPoint Communications-NNE or Northland within New Hampshire.

34. The Applicants believe, and therefore aver, that the modifications requested herein to the 2008 Order (and the 2008 Settlement approved in the 2008 Order) comport with the requirements of due process and are legally correct.

36. The Applicants believe, and therefore aver, that the pledge by FairPoint Communications-NNE of the membership interests of VT Telco will be consistent with the public good.

WHEREFORE, FairPoint, FairPoint Communications-NNE and Northland request that this Commission:

a. Make a finding pursuant to Puc 203.20 that the Regulatory Settlement is just and reasonable and serves the public interest and approve the same;

b. Determine pursuant to RSA 369:8, II(b) that the change in control of FairPoint Communications, Inc., as parent company of FairPoint Communications-NNE and Northland will not have an adverse effect on the public utility rates, terms, service or operation of FairPoint Communications-NNE or Northland within New Hampshire;

c. Pursuant to RSA 365:28, approve the modifications to the 2008 Order requested herein;

d. Pursuant to RSA 369:2, approve the pledge by FairPoint Communications-NNE of the membership interests of VT Telco; and

e. Grant such other and further relief as the Commission may determine to be just and reasonable.

Respectfully submitted,

FAIRPOINT COMMUNICATIONS, INC.

NORTHERN NEW ENGLAND TELEPHONE OPERATIONS LLC, D/B/A FAIRPOINT COMMUNICATIONS-NNE

NORTHLAND TELEPHONE COMPANY OF MAINE, INC.

By Their Attorneys

DEVINE, MILLIMET & BRANCH PROFESSIONAL ASSOCIATION

Dated February 24, 2010

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