

**EXHIBIT LIST**

**DOCKET TITLE: Verizon/Frontier Transfer**

**DOCKET NUMBER: UT-090842**

**DATE: December 15 - 18, 2009**

<b>WITNESS: FRONTIER: F. WAYNE LAFFERTY</b>				
<b>FWL-1T</b>	<b>Lafferty</b>			<b>Prefiled Rebuttal Testimony of F. Wayne Lafferty (44 pp.)(Revised 11/25/09)</b>
<b>FWL-2</b>	<b>Lafferty</b>			<b>Curriculum Vitae of F. Wayne Lafferty (52 pp)</b>
<b>CROSS-EXAMINATION EXHIBITS</b>				
	<b>Public Counsel</b>			<b>Joint Applicants's Response to PC Data Request No. 375</b>
	<b>Public Counsel</b>			<b>Joint Applicants's Response to PC Data Request No. 378 (Excerpt WA PC Set26 FRO378 Att 1 Lafferty - Wayne- Redacted Corrected (9-19-07).DOC)</b>
	<b>Public Counsel</b>			<b>Fairpoint Communications Form S-4/A (July 10, 2007) (Excerpt pp. 25-47)</b>

Docket No. UT-090842

Verizon and Frontier Responses to Public Counsel Data Request Nos. 363-389

November 30, 2009

**PUBLIC COUNSEL DATA REQUEST NO. 375**

Please provide all documents that Mr. Lafferty reviewed regarding the Frontier/Verizon transaction.

**Response:**

Applicants assert Objection Nos. 2, 3 and 7. Subject to and without waiver of the objections, Frontier responds as follows:

The following documents were reviewed:

- Applegate, Washington State Direct Testimony
- Liu, Washington State Direct Testimony
- Roth, Washington State Direct Testimony
- Russell, Washington State Direct Testimony
- Stillwell, Washington State Direct Testimony
- Weinman, Washington State Direct Testimony
- Williamson, Washington State Direct Testimony
- Alexander, Washington State Direct Testimony
- Roycroft, Washington State Direct Testimony
- Hill, Washington State Direct Testimony
- Denney, Washington State Direct Testimony
- Huesgen, Washington State Direct Testimony
- King, Washington State Responsive Testimony
- Pelcovits, Washington State Direct Testimony
- Solis, Washington State Direct Testimony
- Joint Application filed by Frontier and Verizon in WA
- Distribution Agreement
- MJD Communications, 10-K. 1998  
<http://www.sec.gov/Archives/edgar/data/1062613/0001005477-99-001458.txt>
- Transition Services Agreement, FairPoint Communications, Inc., Form 8-K  
[http://www.sec.gov/Archives/edgar/data/1062613/000110465907003517/a07-1924\\_2ex10d1.htm](http://www.sec.gov/Archives/edgar/data/1062613/000110465907003517/a07-1924_2ex10d1.htm)
- FairPoint Communications, Inc., 2008 Form 10-K,  
<http://www.sec.gov/Archives/edgar/data/1062613/000104746909002270/a2191266z10-k.htm>
- FairPoint Communications, Inc., Q209 Form 10-Q, at 45 (August 8, 2009)  
<http://www.sec.gov/Archives/edgar/data/1062613/000104746909007239/a2193968z10-q.htm>
- FairPoint Communications, Inc., New Hampshire -Quality of Service Report for September 2009 (October 20, 2009)

Docket No. UT-090842

Verizon and Frontier Responses to Public Counsel Data Request Nos. 363-389

November 30, 2009

[http://www.puc.state.nh.us/Telecom/Filings/FairPoint/Quality\\_of\\_Service\\_Reports/Quality%20of%20Service%20-%20Sept%202009.pdf](http://www.puc.state.nh.us/Telecom/Filings/FairPoint/Quality_of_Service_Reports/Quality%20of%20Service%20-%20Sept%202009.pdf)

- FairPoint Communications, Inc., 2007 Form 10-K  
<http://www.sec.gov/Archives/edgar/data/1062613/000095012308002304/x40915ke10vk.htm>
- CenturyTel Inc., 2007 Form 10-K  
<http://www.sec.gov/Archives/edgar/data/18926/000001892609000008/form10-k.htm>
- FairPoint Communications, Inc., New Hampshire -Quality of Service Report for August 2009 (September 21, 2009)  
[http://www.puc.state.nh.us/Telecom/Filings/FairPoint/Quality\\_of\\_Service\\_Reports/FairPoint%20August%202009%20Quality%20of%20Service%20Report.pdf](http://www.puc.state.nh.us/Telecom/Filings/FairPoint/Quality_of_Service_Reports/FairPoint%20August%202009%20Quality%20of%20Service%20Report.pdf)
- McCarthy Washington State Direct Testimony
- Frontier – Verizon: Oregon Staff and Intervenor Discussion (October 15, 2009)
- Frontier Systems Overview and Update (October 2009)
- Realignment Plan (September 16, 2009)
- Citizens Communications 4<sup>th</sup> Quarter 2006 Service Quality Report from the New York Department of Public Service.
- Citizens Communications 4<sup>th</sup> Quarter 2007 Service Quality Report from the New York Department of Public Service.
- Citizens Communications 4<sup>th</sup> Quarter 2008 Service Quality Report from the New York Department of Public Service.
- “Welcome to the New Frontier” (May 13, 2009)
- Frontier Integration Organization
- Frontier Proxy/Prospectus and other Frontier documents filed with the SEC
- Order No. 09-169 of the Public Utility Commission of Oregon in Docket No. UM-1416 (In the Matter of EMBARQ CORPORATION and CENTURYTEL, INC., Joint Application for Approval of Merger between the two companies and their regulated subsidiaries)
- State of Vermont Public Service Board February 15, 2008 Order in Docket No. 7270 (Joint Petition of Verizon New England Inc., d/b/a Verizon Vermont, certain affiliates thereof, and FairPoint Communications, Inc. for approval of an asset transfer, acquisition of control by merger and associated transactions)
- Stipulation Among FairPoint Communications, Inc., Verizon New England Inc. and the Vermont Department of Public Service in Docket No. 7270 dated January 8, 2008.

In addition, Mr. Lafferty interviewed Frontier employees at senior and middle management levels and contractors working on the integration project.

Please see attachments:

Docket No. UT-090842

Verizon and Frontier Responses to Public Counsel Data Request Nos. 363-389  
November 30, 2009

WA PC Set26 FRO375 attach1 CenTel - Embarq OR PUC Order (5-11-09).pdf  
WA PC Set26 FRO375 attach2 FairpointSQNHAug09.pdf  
WA PC Set26 FRO375 attach3 Frontier Investor Presentation 5-13-2009.pdf  
WA PC Set26 FRO375 attach4 FWL NY 2008 3rd Qtr svc (3).pdf  
WA PC Set26 FRO375 attach5 Integration Organization 10-09 (10-29-09).pdf  
WA PC Set26 FRO375 attach6 New Frontier Presentation (DL 9-25-09).pdf  
WA PC Set26 FRO375 attach7 NYPSC Service Report - 2006 (10-31-09).pdf  
WA PC Set26 FRO375 attach8 NYPSC Service Report - 2007 (10-31-09).pdf  
WA PC Set26 FRO375 attach9 NYPSC Service Report - 2008 (10-31-09).pdf  
WA PC Set26 FRO375 attach10 OR - Staff-Intervener Briefing (10-15-09) - CONF.ppt  
WA PC Set26 FRO375 attach11 VT FP Order - Acquisition Approval (2-15-08).pdf  
WA PC Set26 FRO375 attach12 VT FP Stipulation.pdf  
WA PC Set26 FRO375 attach13 VZN Realignment Plan v14c (9-16-09) highly confidential.pdf  
WA PC Set26 FRO375 attach14 WA - Systems Presentation (10-13-09) highly confidential.pdf

Prepared By: Wayne Lafferty

Date: November 30, 2009

Witness: To be determined

Docket No. UT-090842

Verizon and Frontier Responses to Public Counsel Data Request Nos. 363-389

November 30, 2009

**PUBLIC COUNSEL DATA REQUEST NO. 378**

Please provide a copy of all reports, memoranda, or other documents produced for the Vermont Department of Public Service, as mentioned on page 3 of Mr. Lafferty's rebuttal testimony.

**Response:**

Applicants assert Objection Nos. 3 and 7. Subject to and without waiver of the objections, Applicants respond as follows:

Attached are copies of Mr. Lafferty's direct and rebuttal testimony filed with the Vermont Public Service Board.

WA PC Set26 FRO378 Att 1 Lafferty - Wayne - Redacted Corrected (9-19-07).DOC

WA PC Set26 FRO378 Att 2 Lafferty Surrebuttal Corrected (9-19-07).doc

Prepared By: Wayne Lafferty

Date: November 30, 2009

Witness: To be determined

STATE OF VERMONT

PUBLIC SERVICE BOARD

Joint Petition of Verizon New England Inc.        )  
d/b/a Verizon Vermont, Certain Affiliates        )  
Thereof and FairPoint Communications, Inc.        )  
For approval of asset transfer, acquisition of        )  
Control by merger and associated transactions        )

Docket No. 7270

**DIRECT TESTIMONY OF  
F. WAYNE LAFFERTY**

**ON BEHALF OF**

**THE DEPARTMENT OF PUBLIC SERVICE**

**May 24, 2007**

1 A. An Amended Service Quality Reliability Plan (Amended SQRP) is incorporated into the  
2 ARP. This plan establishes the process under which the Board monitors Verizon's  
3 service quality commitments. The Amended SQRP tracks many standard industry  
4 performance metrics and includes a service quality compensation payment mechanism  
5 under which customers receive compensation for Verizon's failure to meet the baseline  
6 standard for any of the performance areas in the plan.

7 **Q. What has been Verizon's performance under the Amended SQRP?**

8 A. [BEGIN PROPRIETARY]

9

10

11

12

13

14

[END PROPRIETARY] For Verizon, the

15

Amended SQRP does not appear to have been a good deterrent for poor service quality.

16

There are no indications Verizon has a solid plan to correct these costly service problems.

17 **Q. How would you expect FairPoint to address these service quality challenges?**

18 A.

The service quality compensation payments will have a more significant financial impact

19

on FairPoint overall than Verizon. Based on the results of our Business Reputation

20

Survey of FairPoint, with a couple of exceptions in most of its "classic" properties,

21

FairPoint has a history of providing good service. Mr. Nixon made the following

22

comments about service quality in his testimony.

1 A. My testimony addresses six of the specific criteria which the Board has historically  
2 addressed in its analysis of an acquisition. These Criteria are as follows:

- 3 • Legal Standard;
- 4 • Compatibility with Neighboring Systems;
- 5 • Terms of Service;
- 6 • Business Reputation; and
- 7 • Effect on Competition

8 Following are my recommendations in these areas:

- 9 • FairPoint should provide the Board and Department updates on the FCC  
10 approval status for the license transfers under section 310(d) of the FCC's  
11 rules and the section 214 authorizations prior to closing. Final approval of the  
12 Acquisition in Vermont should be conditioned on FairPoint obtaining the  
13 required approvals from the FCC.
- 14 • FairPoint and Verizon should provide notice to the Board and Department of  
15 receiving regulatory approval in Maine and New Hampshire prior to closing  
16 on the transaction in Vermont. In the alternative FairPoint and Verizon  
17 should be required to obtain specific Board approval to close the Vermont  
18 portion of the acquisition without closing the Maine and New Hampshire  
19 portions.
- 20 • FairPoint should adopt Verizon's ICAs with all competitors and other carriers  
21 to provide interconnection with all neighboring systems in the same manner as  
22 Verizon. FairPoint should be required to clearly communicate all the  
23 requirements for interconnection to all other carriers which interconnect in



1 any way with Verizon in Vermont. FairPoint should compensate the owners  
2 of neighboring systems or other carriers, which must make any modifications  
3 to systems to interconnect with FairPoint as opposed to Verizon in Vermont,  
4 for the costs of such modifications. No changes to the interconnection  
5 arrangements should be made until the interconnecting carrier has provided  
6 FairPoint written notification that it is prepared for the change.

- 7 • FairPoint should not be permitted to change any aspects of the tariffs, pricing  
8 or terms and conditions associated with intrastate access and other  
9 interconnection services. If FairPoint must change the tariffs, pricing or terms  
10 and conditions in any way, FairPoint should be required to compensate the  
11 impacted customers for any system modifications associated with the change.  
12 The Board can review this requirement as part of the analysis of the terms of  
13 the ARP in 2010.
- 14 • Through 2010 FairPoint and Verizon should price individual customer  
15 intrastate Special Access services as though the services were being provided  
16 by FairPoint and Verizon collectively. In other words, the volume should be  
17 based on circuits or services provided by both FairPoint and Verizon in the  
18 same manner as prior to the acquisition when Verizon was the sole provider.  
19 Customers should continue to get the benefit of the volume and term  
20 arrangement in place for access services with Verizon prior to the Acquisition.
- 21 • FairPoint should adopt the Verizon ARP for its acquired Vermont operations.  
22 At a minimum FairPoint should be required to meet the pricing, broadband  
23 and service quality commitments made by Verizon in the ARP.

- 1                   • If FairPoint fails to meet any of the broadband deployment or service quality  
2 requirements of the ARP or the Amended SQRP, it should be required to  
3 freeze dividend or other payments by the acquired Verizon Vermont property  
4 to the FairPoint Parent Company.
- 5                   • Prior to closing the transaction and becoming the operator of the Verizon  
6 Vermont properties, FairPoint should have contingency plans in place to  
7 address the potential risks associated with the system conversion process. (In  
8 his testimony Mr. Mills addresses specific potential contingencies.)
- 9                   • FairPoint should appoint a senior level person with responsibility for  
10 communicating with the Board and Department. This person should be  
11 located in Vermont to be readily accessible by the Board and Department.
- 12                  • The Board should adopt the Section 271 “competitive checklist” for FairPoint  
13 in Vermont and require FairPoint to certify its OSS in a similar manner as  
14 Verizon did at the time of receiving Section 271 Approval.
- 15                  • FairPoint must commit to not seek a rural or “2%” exemption in Vermont and  
16 adopt all of the other Section 251 and 252 requirements which applied to  
17 Verizon.
- 18                  • Verizon should identify all bundles and packages provided jointly by the  
19 Verizon Vermont wireline operations being transferred to FairPoint and any  
20 other Verizon entity. FairPoint should be required to implement bundles or  
21 packages with the same terms, conditions and pricing as Verizon in Vermont  
22 regardless of whether FairPoint is acquiring the Verizon affiliated operations  
23 or not. This condition should apply to existing customers and any new

1 customers requesting the same bundle or package until the Board approves  
2 appropriate tariffs to change the bundles or packages in any way.  
3 • FairPoint and competitors should not be able to use the process for adopting  
4 or obtaining the required ICAs to renegotiate any aspect of an existing ICA.  
5

6 These recommendations address the findings outlined in my testimony. Since the  
7 Economic Development Report is not complete, I am uncertain whether any additional  
8 recommendations in this area may ultimately be required. In addition, recommendations  
9 associated with other criteria are outlined in other witnesses' testimonies.  
10

11 **L. CONCLUSION**

12 **Q. Does this conclude your Direct Testimony?**

13 **A. Yes.**  
14

Morningstar<sup>®</sup> Document Research<sup>SM</sup>

# Form S-4/A

FAIRPOINT COMMUNICATIONS INC - FRCMQ

Filed: July 10, 2007 (period: )

Pre-effective amendment to an S-4 filing

## RISK FACTORS

*You should carefully consider the following risks, together with the other information contained in this proxy statement/prospectus and the annexes hereto. The risks described below are not the only risks facing FairPoint and the combined company. Additional risks and uncertainties not currently known or that are currently deemed to be immaterial may also materially and adversely affect the combined company's business operations or the price of the combined company's common stock following completion of the merger.*

### *Risks Relating to the Spin-Off and the Merger*

**The calculation of the merger consideration will not be adjusted in the event the value of the business or assets of Spinco declines before the merger is completed. As a result, at the time FairPoint stockholders vote on the merger, they will not know what the value of FairPoint common stock will be following completion of the merger.**

The calculation of the number of shares of FairPoint common stock to be issued to Verizon stockholders pursuant to the merger agreement will not be adjusted in the event the value of the Spinco business declines, including as a result of the continuing loss of access lines. If the value of this business declines after FairPoint stockholders approve the merger proposal, the market price of the common stock of the combined company following completion of the merger may be less than FairPoint stockholders anticipated when they voted to approve the merger proposal. While FairPoint will not be required to consummate the merger upon the occurrence of any event or circumstance that has, or would reasonably be expected to have, a material adverse effect on Spinco (as defined in the merger agreement), neither Verizon nor FairPoint will be permitted to terminate the merger agreement or resolicit the vote of FairPoint stockholders because of any changes in the value of the Spinco business that do not rise to the level of a material adverse effect on Spinco (as defined in the merger agreement) or the market price of FairPoint's common stock. In addition, FairPoint will be required to consummate the merger whether or not the committed financing described under "Financing of the Combined Company" is available as of the closing of the merger. If FairPoint needs to obtain alternative financing, there can be no assurance that it will be available on comparable terms or at all.

### **The integration of FairPoint's and Spinco's businesses may not be successful.**

The acquisition of the Spinco business is the largest and most significant acquisition FairPoint has undertaken. FairPoint's management will be required to devote a significant amount of time and attention to the process of integrating the operations of FairPoint's business and Spinco's business, which will decrease the time they will have to service existing customers, attract new customers and develop new services or strategies. Due to, among other things, the size and complexity of the Northern New England business and the activities required to separate Spinco's operations from Verizon's, FairPoint may be unable to integrate the Spinco business into its operations in an efficient, timely and effective manner. FairPoint's inability to complete this integration successfully could have a material adverse effect on the combined company's business, financial condition and results of operations.

All of the risks associated with the integration process could be exacerbated by the fact that FairPoint may not have a sufficient number of employees to integrate FairPoint's and Spinco's businesses or to operate the combined company's business. Furthermore, Spinco offers services that FairPoint has no experience in providing, the most significant of which are competitive local exchange carrier wholesale services. FairPoint's failure or inability to hire or retain employees with the requisite skills and knowledge to run the combined business, may have a material adverse effect on FairPoint's business. The inability of FairPoint's management to manage the integration process effectively, or any significant interruption of business activities as a result of the integration process, could have a material adverse effect on the combined company's business, financial condition and results of operations.

In addition, if the combined company continues to require services from Verizon under the transition services agreement after the one-year anniversary of the closing of the merger, the fees payable by the combined company to Verizon pursuant to the transition services agreement will increase significantly, which could have a material adverse effect on the combined company's business, financial condition and results of operations. The aggregate fees expected to be payable by the combined company under the transition services agreement for the six-month period following the merger will be approximately \$132.9 million. However, if the combined company requires twelve months of transition services following the merger, the aggregate fees expected to be payable will be approximately \$226.9 million.

**The integration of FairPoint's and Spinco's businesses may present significant systems integration risks, including risks associated with the ability to integrate Spinco's customer sales, service and support operations into FairPoint's customer care, service delivery and network monitoring and maintenance platforms.**

In order to operate as the combined company, FairPoint will be required to identify, acquire or develop, test, implement, maintain and manage systems and processes which provide the functionality currently performed for the Northern New England business by over 600 systems of Verizon. Of these Verizon systems, approximately one third relate to customer sales, service and support. Another third of the Verizon systems support network monitoring and related field operations. The remaining Verizon systems enable finance, payroll, logistics and other administrative activities. Over 80% of the information systems used in support of the Northern New England business are Verizon proprietary systems.

FairPoint has entered into a master services agreement with an independent consulting firm to assist in the identification and integration of systems to be deployed following the merger. The collective experience and knowledge of FairPoint, the consulting firm (during the term of the master services agreement) and Verizon (during the pre-closing period and the period of the transition services agreement) will be essential to the success of the integration. The parties' inability or failure to implement successfully their plans and procedures or the insufficiency of those plans and procedures could result in failure of or delays in the merger integration and could adversely impact the combined company's business, results of operations and financial condition. This could require the combined company to acquire and deploy additional systems, extend the transition services agreement and pay increasing monthly fees under the transition services agreement.

The failure of any of the combined company's systems could result in its inability to adequately bill and provide service to its customers or meet its financial and regulatory reporting obligations. FairPoint is in the process of converting all of its companies to a single outsourced billing platform. FairPoint expects this conversion will be completed by the middle of 2007. FairPoint is investigating whether and to what extent certain modules of the outsourced billing and operational support services platforms will be used by the combined company. At the completion of this project, FairPoint expects to have a single integrated billing platform, which it expects to be able to use after the merger for billing and support of all of its customers. The failure of any of the combined company's billing and operational support services systems could have a material adverse effect on the combined company's business, financial condition and results of operations. FairPoint is also implementing new systems to provide for and meet financial and regulatory reporting obligations. A failure of these systems may result in the combined company not being able to meet its financial and regulatory reporting obligations.

**The combined company may not realize the anticipated synergies, cost savings and growth opportunities from the merger.**

The success of the merger will depend, in part, on the ability of Spinco and FairPoint to realize the anticipated synergies, cost savings and growth opportunities from integrating FairPoint's and Spinco's

businesses. The combined company's success in realizing these synergies, cost savings and growth opportunities, and the timing of this realization, depends on the successful integration of Spincos and FairPoint's businesses and operations. Even if the combined company is able to integrate the FairPoint and Spincos business operations successfully, this integration may not result in the realization of the full benefits of synergies, cost savings and growth opportunities that FairPoint currently expects from this integration within the anticipated time frame or at all. For example, FairPoint may be unable to eliminate duplicative costs, or the benefits from the merger may be offset by costs incurred or delays in integrating the companies.

**After the close of the transaction, sales of FairPoint common stock may negatively affect its market price.**

The market price of FairPoint common stock could decline as a result of sales of a large number of shares of FairPoint common stock in the market after the completion of the merger or the perception that these sales could occur. These sales, or the possibility that these sales may occur, may also make it more difficult for the combined company to obtain additional capital by selling equity securities in the future at a time and at a price that it deems appropriate.

Immediately after the merger, prior to the elimination of fractional shares, Verizon stockholders will collectively hold approximately 60% of FairPoint's common stock on a fully diluted basis (excluding treasury stock, certain specified options, restricted stock units, restricted units and certain restricted shares outstanding as of the date of the merger agreement). Currently, Verizon's common stock is included in index funds and exchange-traded funds tied to the Dow Jones Industrial Average and the Standard & Poor's 500 Index. Because FairPoint is not expected to be included in these indices at the time of the merger and may not meet the investing guidelines of certain institutional investors that may be required to maintain portfolios reflecting these indices, these index funds, exchange-traded funds and institutional investors may be required to sell FairPoint common stock that they receive in the merger. These sales may negatively affect the combined company's common stock price.

**If the assets transferred to Spincos by Verizon are insufficient to operate the combined company's business, it could adversely affect the combined company's business, financial condition and results of operations.**

Pursuant to the distribution agreement, the Verizon Group will contribute to Spincos (i) specified assets and liabilities associated with the local exchange business of Verizon New England in Maine, New Hampshire and Vermont, and (ii) the customers of the Verizon Group's related long distance and Internet service provider businesses in those states. See "The Distribution Agreement—Preliminary Transactions." The contributed assets may not be sufficient to operate the combined company's business. Accordingly, the combined company may have to use assets or resources from FairPoint's existing business or acquire additional assets in order to operate the Spincos business, which could adversely affect the combined company's business, financial condition and results of operations.

Pursuant to the distribution agreement, the combined company has certain rights to cause Verizon to transfer to it any assets required to be transferred to Spincos under that agreement which were not transferred as required. If Verizon were unable or unwilling to transfer those assets to the combined company, or Verizon and the combined company were to disagree about whether those assets were required to be transferred to Spincos under the distribution agreement, the combined company might not be able to obtain those assets or similar assets from others.

**The combined company's business, financial condition and results of operations may be adversely affected following the merger if it is not able to replace certain contracts which will not be assigned to Spinco.**

Certain contracts, including supply contracts and interconnection agreements used in the Northern New England business, will not be assigned to Spinco by Verizon. Accordingly, the combined company will have to obtain new agreements for the goods and services covered by these supplier and interconnection agreements in order to operate the Spinco business following the merger. There can be no assurance that FairPoint will be able to replace the supplier and interconnection agreements on terms favorable to it or at all. FairPoint's failure to enter into new agreements prior to the closing of the merger may have a material adverse impact on the combined company's business, financial condition and results of operations following the merger.

In addition, certain wholesale, large business, Internet service provider and other customer contracts which are required to be assigned to Spinco by Verizon require the consent of the customer party to the contract to effect this assignment. Verizon and the combined company may be unable to obtain these consents on terms favorable to the combined company or at all, which could have a material adverse impact on the combined company's business, financial condition and results of operations following the merger.

**FairPoint's or the combined company's spending in excess of the budgeted amounts on infrastructure and network systems integration and planning related to the merger could adversely affect FairPoint's or the combined company's business, financial condition and results of operations.**

The combined company expects to spend approximately \$200 million on infrastructure and network systems integration and planning in connection with the merger, approximately \$95 million to \$110 million of which will be incurred by FairPoint prior to the closing of the merger, and up to \$40 million of which will be reimbursed by Verizon. Under certain circumstances, in the event the merger is not completed, FairPoint will be required to repay Verizon amounts it reimbursed to FairPoint in excess of \$20 million. FairPoint's or the combined company's spending in excess of the budgeted amounts on transition and other costs could adversely affect FairPoint's (or, following the merger, the combined company's) business, financial condition and results of operations.

**Regulatory agencies may delay approval of the spin-off and the merger, or approve them in a manner that may diminish the anticipated benefits of the merger.**

Completion of the spin-off and the merger is conditioned upon the receipt of certain government consents, approvals, orders and authorizations. See "The Merger Agreement—Conditions to the Completion of the Merger." While FairPoint and Verizon intend to pursue vigorously all required governmental approvals and do not know of any reason why they would not be able to obtain the necessary approvals in a timely manner, the requirement to receive these approvals before the spin-off and merger could delay the completion of the spin-off and merger, possibly for a significant period of time after FairPoint stockholders have approved the merger proposal at the annual meeting. Any delay in the completion of the spin-off and the merger could diminish anticipated benefits of the spin-off and the merger or result in additional transaction costs, loss of revenue or other effects associated with uncertainty about the transaction. Any uncertainty over the ability of the companies to complete the spin-off and the merger could make it more difficult for FairPoint to retain key employees or to pursue particular business strategies. In addition, until the spin-off and the merger are completed, the attention of FairPoint management may be diverted from ongoing business concerns and regular business responsibilities to the extent management is focused on obtaining regulatory approvals.

Further, these governmental agencies may attempt to condition their approval of the spin-off and the merger on the imposition of conditions that could have an adverse effect on the combined company's business, financial condition and results of operations. In addition, the Federal



Communications Commission may approve the transfer and assignment of various licenses and authorizations but deny FairPoint's separate request that it be permitted to operate its existing local exchange business under "rate of return" regulation, rather than convert that business to the "price cap" regulation regime that currently applies to the local wireline operations of the Northern New England business. Price cap regulation would trigger additional obligations for FairPoint.

**The merger agreement contains provisions that may discourage other companies from trying to acquire FairPoint.**

The merger agreement contains provisions that may discourage a third party from submitting a business combination proposal to FairPoint prior to the closing of the merger that might result in greater value to FairPoint stockholders than the merger. The merger agreement generally prohibits FairPoint from soliciting any acquisition proposal. In addition, if the merger agreement is terminated by FairPoint or Verizon in circumstances that obligate FairPoint to pay a termination fee and to reimburse transaction expenses to Verizon, FairPoint's financial condition may be adversely affected as a result of the payment of the termination fee and transaction expenses, which might deter third parties from proposing alternative business combination proposals.

**Failure to complete the merger could adversely impact the market price of FairPoint's common stock as well as FairPoint's business, financial condition and results of operations.**

If the merger is not completed for any reason, the price of FairPoint's common stock may decline to the extent that the market price of FairPoint's common stock reflects positive market assumptions that the spin-off and the merger will be completed and the related benefits will be realized. FairPoint may also be subject to additional risks if the merger is not completed, including:

- the requirement in the merger agreement that, under certain circumstances, FairPoint pay Verizon a termination fee of \$23 million and reimburse Verizon for certain out-of-pocket costs (not to exceed \$7.5 million) as well as the requirement in the transition services agreement that FairPoint reimburse Verizon for certain amounts incurred by Verizon pursuant to that agreement (which may exceed the amounts payable to Verizon by FairPoint under the merger agreement);

- FairPoint's expenditure of approximately \$95 million to \$110 million on infrastructure and network systems integration and planning (of which up to \$20 million will be reimbursed by Verizon regardless of whether the merger is completed) prior to the consummation of the merger; a significant portion of this amount will be spent on assets and services which are not useful in FairPoint's existing business because FairPoint already has adequate infrastructure and systems in place for its existing business;

- substantial costs related to the merger, such as legal, accounting, filing, financial advisory and financial printing fees, which must be paid regardless of whether the merger is completed; and

- potential disruption to the business of FairPoint and distraction of its workforce and management team.

**If the spin-off does not constitute a tax-free spin-off under section 355 of the Internal Revenue Code, or the merger does not constitute a tax-free reorganization under section 368(a) of the Internal Revenue Code, including as a result of actions taken in connection with the spin-off or the merger or as a result of subsequent acquisitions of stock of Verizon or stock of FairPoint, then Verizon, FairPoint or Verizon stockholders may be responsible for payment of substantial United States federal income taxes.**

The spin-off and merger are conditioned upon Verizon's receipt of a private letter ruling from the Internal Revenue Service to the effect that the spin-off, including (i) the contribution of specified assets and liabilities associated with the local exchange business of Verizon New England in Maine, New Hampshire and Vermont, and the customers of the Verizon Group's related long distance and Internet

service provider businesses in those states, to Spinco, (ii) the receipt by the Verizon Group of the Spinco securities and the special cash payment and (iii) the exchange by the Verizon Group of the Spinco securities for Verizon Group debt, will qualify as tax-free to Verizon, Spinco and the Verizon stockholders for United States federal income tax purposes under Section 355 and related provisions of the Internal Revenue Code, referred to as the Code. Although a private letter ruling from the Internal Revenue Service generally is binding on the Internal Revenue Service, if the factual representations or assumptions made in the letter ruling request are untrue or incomplete in any material respect, then Verizon and FairPoint will not be able to rely on the ruling.

The spin-off and merger are also conditioned upon the receipt by Verizon of an opinion of Debevoise & Plimpton LLP, counsel to Verizon, to the effect that the spin-off will be tax-free to Verizon, Spinco and the stockholders of Verizon under Section 355 and other related provisions of the Code. The opinion will rely on the Internal Revenue Service letter ruling as to matters covered by the ruling. Lastly, the spin-off and the merger are conditioned on Verizon's receipt of an opinion of Debevoise & Plimpton LLP and FairPoint's receipt of an opinion of Paul, Hastings, Janofsky & Walker LLP, counsel to FairPoint, each to the effect that the merger will be treated as a tax-free reorganization within the meaning of Section 368(a) of the Code. All of these opinions will be based on, among other things, current law and certain representations and assumptions as to factual matters made by Verizon, Spinco and FairPoint. Any change in currently applicable law, which may or may not be retroactive, or the failure of any factual representation or assumption to be true, correct and complete in all material respects, could adversely affect the conclusions reached by counsel in their respective opinions. The opinions will not be binding on the Internal Revenue Service or the courts, and the Internal Revenue Service or the courts may not agree with the opinions.

The spin-off would become taxable to Verizon pursuant to Section 355(e) of the Code if 50% or more of the shares of either Verizon common stock or Spinco common stock (including common stock of FairPoint, as successor to Spinco) were acquired, directly or indirectly, as part of a plan or series of related transactions that included the spin-off. Because Verizon stockholders will own more than 50% of the combined company's common stock following the merger, the merger, standing alone, will not cause the spin-off to be taxable to Verizon under Section 355(e). However, if the Internal Revenue Service were to determine that other acquisitions of Verizon common stock or FairPoint common stock, either before or after the spin-off and the merger, were part of a plan or series of related transactions that included the spin-off, this determination could result in the recognition of gain by Verizon under Section 355(e). In that case, the gain recognized by Verizon likely would be substantial. In connection with the request for the Internal Revenue Service private letter rulings and the opinion of Verizon's counsel, Verizon will represent that the spin-off is not part of any such plan or series of related transactions.

In certain circumstances, under the tax sharing agreement, the combined company would be required to indemnify Verizon against tax-related losses to Verizon that arise as a result of a disqualifying action taken by FairPoint or its subsidiaries after the distribution (including for two years after the spin-off (i) entering into any agreement, understanding or arrangement or engaging in any substantial negotiations with respect to any transaction involving the acquisition or issuance of FairPoint stock, (ii) repurchasing any shares of FairPoint stock, except to the extent consistent with guidance issued by the Internal Revenue Service, (iii) ceasing or permitting certain subsidiaries to cease the active conduct of the Spinco business and (iv) voluntarily dissolving, liquidating, merging or consolidating with any other person unless FairPoint is the survivor of the merger or consolidation, except in accordance with the restrictions in the tax sharing agreement) or a breach of certain representations and covenants. See "Risk Factors—Risks Relating to the Spin-Off and the Merger—The combined company may be affected by significant restrictions following the merger with respect to certain actions that could jeopardize the tax-free status of the spin-off and the merger" and "Additional Agreements Between FairPoint, Verizon and Their Affiliates—Tax Sharing Agreement." If Verizon were to recognize a gain on the spin-off for reasons not related to a disqualifying action or breach by FairPoint, Verizon would not be entitled to be indemnified under the tax sharing agreement.

See "Material United States Federal Income Tax Consequences of the Spin-Off and the Merger."

The combined company may be affected by significant restrictions following the merger with respect to certain actions that could jeopardize the tax-free status of the spin-off or the merger.

The tax sharing agreement restricts FairPoint from taking certain actions that could cause the spin-off to be taxable to Verizon under Section 355(e) or otherwise jeopardize the tax-free status of the spin-off or the merger, which the tax sharing agreement refers to as disqualifying actions, including:

- generally, for two years after the spin-off, taking, or permitting any of its subsidiaries to take, an action that might be a disqualifying action;

- for two years after the spin-off, entering into any agreement, understanding or arrangement or engaging in any substantial negotiations with respect to any transaction involving the acquisition or issuance of FairPoint capital stock, or options to acquire or other rights in respect of FairPoint capital stock unless, generally, the shares are issued to qualifying FairPoint employees or retirement plans, each in accordance with "safe harbors" under regulations issued by the Internal Revenue Service;

- for two years after the spin-off, repurchasing FairPoint capital stock, except to the extent consistent with guidance issued by the Internal Revenue Service;

- for two years after the spin-off, permitting certain wholly owned subsidiaries that were wholly owned subsidiaries of Spinco at the time of the spin-off to cease the active conduct of the Spinco business to the extent it was conducted immediately prior to the spin-off; and

- for two years after the spin-off, voluntarily dissolving, liquidating, merging or consolidating with any other person, unless FairPoint is the survivor of the merger or consolidation and the transaction otherwise complies with the restrictions in the tax sharing agreement.

Nevertheless, the combined company will be permitted to take any of the actions described above in the event that it obtains Verizon's consent, or an opinion of counsel or a supplemental Internal Revenue Service ruling to the effect that the disqualifying action will not affect the tax-free status of the spin-off and the merger. To the extent that the tax-free status of the transactions is lost because of a disqualifying action taken by the combined company or any of its subsidiaries after the distribution date, whether or not the required consent, opinion or ruling was obtained, the combined company generally would be required to indemnify, defend and hold harmless Verizon and its subsidiaries (or any successor to any of them) from and against any resulting tax-related losses incurred by Verizon.

Because of these restrictions, the combined company may be limited in the amount of capital stock that it can issue to make acquisitions or raise additional capital in the two years subsequent to the spin-off and merger. Also, FairPoint's indemnity obligation to Verizon might discourage, delay or prevent a change of control during this two-year period that stockholders of the combined company may consider favorable. See "The Merger Agreement," "Additional Agreements Between FairPoint, Verizon and Their Affiliates—Tax Sharing Agreement," and "Material United States Federal Income Tax Consequences of the Spin-Off and the Merger."

**Investors holding shares of FairPoint's common stock immediately prior to the merger will, in the aggregate, have a significantly reduced ownership and voting interest after the merger and will exercise less influence over management.**

After the merger's completion, FairPoint stockholders will, in the aggregate, own a significantly smaller percentage of the combined company than they will own of FairPoint immediately prior to the merger. Following completion of the merger and prior to the elimination of fractional shares, FairPoint stockholders immediately prior to the merger collectively will own approximately 40% of the combined company on a fully-diluted basis (excluding treasury stock, certain specified options, restricted stock units, restricted units and certain restricted shares outstanding as of the date of the

merger agreement). Consequently, FairPoint stockholders, collectively, will be able to exercise less influence over the management and policies of the combined company than they could exercise over the management and policies of FairPoint immediately prior to the merger. In particular, Verizon will have the right to initially designate up to six of the nine members of the board of directors of the combined company (provided that Verizon will designate only five directors if David L. Hauser is elected at the annual meeting and continues to serve as a director at the effective time of the merger).

*Risks Related to the Combined Company's Business Following the Merger*

**FairPoint and Spinco provide services to customers over access lines, and if the combined company loses access lines, its business, financial condition and results of operations may be adversely affected.**

FairPoint's business and Spinco's business generate revenue primarily by delivering voice and data services over access lines. FairPoint and Spinco have both experienced net voice access line losses in the past few years. FairPoint experienced a 14.6% decline in number of access lines (adjusted for acquisitions and divestitures) for the period from January 1, 2002 through March 31, 2007 and a 3.8% decline for the period from April 1, 2006 through March 31, 2007. The Northern New England business experienced a 23.1% decline in number of access lines for the period from January 1, 2002 through March 31, 2007 and a 6.8% decline for the period from April 1, 2006 through March 31, 2007. These losses resulted mainly from competition and use of alternate technologies and, to a lesser degree, challenging economic conditions and the offering of DSL services, which prompts some customers to cancel second line service. FairPoint's 2006 revenues from switched access lines comprised approximately 82% of its total 2006 revenues, down from 90% in 2002. FairPoint's revenues from switched access lines have declined by 1.4% from fiscal 2002 to fiscal 2006, while the number of access lines has declined by 14.6% excluding acquisitions. The Northern New England business's 2006 revenues from switched access lines comprised nearly 80% of total 2006 revenues, down from 84% in 2002. Since 2002, the Northern New England business's revenues from switched access lines have declined by 10.9%, while the number of switched access lines has declined by 18.7%. Over this period, the Northern New England business has been able to increase pricing for switched access line service and has also sold more ancillary services (including high speed data), partially offsetting the decline in revenues from the lower number of switched access lines.

Following the merger, the combined company may experience net access line losses. The combined company's inability to retain access lines could adversely affect its business, financial condition and results of operations.

**The combined company will be subject to competition that may adversely impact its business, financial condition and results of operations.**

As an incumbent carrier, FairPoint historically has experienced little competition in its rural telephone company markets; however, many of the competitive threats now confronting large regulated telephone companies, such as competition from cable television providers, will be more prevalent in the small urban markets which the combined company will serve following the merger. Regulation and technological innovation change quickly in the communications industry, and changes in these factors historically have had, and may in the future have, a significant impact on competitive dynamics. In most of its rural markets, FairPoint faces competition from wireless technology, which may increase as wireless technology improves. FairPoint also faces, and the combined company may face, increasing competition from cable television operators. The combined company may face additional competition from new market entrants, such as providers of wireless broadband, voice over Internet protocol, referred to as VoIP, satellite communications and electric utilities. The Internet services market is also highly competitive, and FairPoint expects that this competition will intensify. Many of FairPoint's competitors (who will also be competitors of the combined company) have brand recognition, offer

online content services and have financial, personnel, marketing and other resources that are significantly greater than those of FairPoint and may be greater than those of the combined company. Verizon has informed FairPoint of its current intention to compete with the combined company by continuing to provide the following services in the northern New England areas in which the combined company will operate:

- the offering of long distance services and prepaid card services and the resale of local exchange service;

- the offering of products and services to business and government customers other than as the incumbent local exchange carrier, including but not limited to carrier services, data customer premises equipment and software, structured cabling, call center solutions and the products and services formerly offered by MCI, Inc.; and

- the offering of wireless voice, wireless data and other wireless services.

The combined company will offer local exchange and long distance services in Maine, New Hampshire and Vermont and will compete with Verizon to provide these services. To the extent that the combined company offers services to businesses and government customers in these states, it will also compete directly with Verizon. Although Verizon could compete with the combined company in the offering of long distance services to residences and small businesses, Verizon does not actively market the sale of these services to residences and small businesses in Maine, New Hampshire and Vermont, other than through the Northern New England business. If the combined company enters into an agreement with Verizon or another wireless services provider to be a mobile virtual network operator, referred to as MVNO, it will compete with Verizon to provide wireless services in those areas where the Northern New England business and Cellco currently operate. See "Additional Agreements Between FairPoint, Verizon and Their Affiliates—MVNO Agreement."

In addition, consolidation and strategic alliances within the communications industry or the development of new technologies could affect the combined company's competitive position. FairPoint cannot predict the number of competitors that will emerge, particularly in light of possible regulatory or legislative actions that could facilitate or impede market entry, but increased competition from existing and new entities could have a material adverse effect on the combined company's business, financial condition and results of operations.

Competition may lead to loss of revenues and profitability as a result of numerous factors, including:

- loss of customers;

- reduced network usage by existing customers who may use alternative providers for long distance and data services;

- reductions in the service prices that may be necessary to meet competition; and

- increases in marketing expenditures and discount and promotional campaigns.

In addition, the combined company's provision of long distance service will be subject to a highly competitive market served by large nationwide carriers that enjoy brand name recognition.

**The combined company may not be able to successfully integrate new technologies, respond effectively to customer requirements or provide new services.**

Rapid and significant changes in technology and frequent new service introductions occur frequently in the communications industry and industry standards evolve continually. FairPoint cannot predict the effect of these changes on the combined company's competitive position, profitability or

industry. Technological developments may reduce the competitiveness of the combined company's networks and require unbudgeted upgrades or the procurement of additional products that could be expensive and time consuming. In addition, new products and services arising out of technological developments may reduce the attractiveness of its services. If the combined company fails to adapt successfully to technological changes or obsolescence or fails to obtain access to important new technologies, it could lose customers and be limited in its ability to attract new customers and sell new services to the existing customers of FairPoint and the Northern New England business. The combined company's ability to respond to new technological developments may be diminished or delayed while its management devotes significant effort and resources to integrating FairPoint's business and Spinco's business.

**The geographic concentration of the combined company's operations in Maine, New Hampshire and Vermont following the merger will make its business susceptible to local economic and regulatory conditions, and an economic downturn, recession or unfavorable regulatory action in any of those states may adversely affect the combined company's business, financial condition and results of operations.**

FairPoint currently operates 31 different rural local exchange carriers in 18 states. No single state accounted for more than 22% of FairPoint's access line equivalents as of March 31, 2007, which limited FairPoint's exposure to competition, local economic downturns and state regulatory changes. Following the merger, Fairpoint expects that 88% of the combined company's access line equivalents will be located in Maine, New Hampshire and Vermont. As a result of this geographic concentration, the combined company's financial results will depend significantly upon economic conditions in these markets. A deterioration or recession in any of these markets could result in a decrease in demand for the combined company's services and resulting loss of access lines which could have a material adverse effect on the combined company's business, financial condition and results of operations.

In addition, if state regulators in Maine, New Hampshire or Vermont were to take action that was adverse to the combined company's operations in those states, the combined company could suffer greater harm from that action by state regulators than it would from action in other states because of the concentration of its operations in those states following the merger.

**To operate and expand its business, service its indebtedness and complete future acquisitions, the combined company will require a significant amount of cash. The combined company's ability to generate cash will depend on many factors beyond its control. The combined company may not generate sufficient funds from operations to pay dividends with respect to shares of its common stock, to repay or refinance its indebtedness at maturity or otherwise, or to consummate future acquisitions.**

A significant amount of the combined company's cash flow from operations will be dedicated to capital expenditures and debt service. In addition, FairPoint currently expects that the combined company will distribute a significant portion of its cash flow to its stockholders in the form of quarterly dividends. As a result, the combined company may not retain a sufficient amount of cash to finance growth opportunities, including acquisitions, or may be required to devote additional cash to unanticipated capital expenditures or to fund its operations.

The combined company's ability to make payments on its indebtedness will depend on its ability to generate cash flow from operations in the future. This ability, to a certain extent, will be subject to general economic, financial, competitive, legislative, regulatory and other factors that will be beyond the combined company's control. The combined company's business may not generate sufficient cash flow from operations, or the combined company may not be able to borrow sufficient funds, to service its indebtedness, to make payments of principal at maturity or to fund its other liquidity needs.

The combined company may also be forced to raise additional capital or sell assets and, if it is forced to pursue any of these options after the merger under distressed conditions, its business and the value of its common stock could be adversely affected. In addition, these alternatives may not be available to the combined company when needed or on satisfactory terms due to prevailing market conditions, a decline in the combined company's business, legislative and regulatory factors or restrictions contained in the agreements governing its indebtedness.

**The combined company's stockholders may not receive the level of dividends provided for in the dividend policy FairPoint's board of directors has adopted or any dividends at all.**

FairPoint's board of directors has adopted a dividend policy which reflects an intention to distribute a substantial portion of the cash generated by FairPoint's business in excess of operating needs, interest and principal payments on its indebtedness, dividends on its future senior classes of capital stock, if any, capital expenditures, taxes and future reserves, if any, as regular quarterly dividends to its stockholders. FairPoint's board of directors may, in its discretion, amend or repeal this dividend policy, before or after the merger. FairPoint's dividend policy is based upon FairPoint's directors' current assessment of its business and the environment in which it operates, and that assessment could change based on regulatory, competitive or technological developments which could, for example, increase the need for capital expenditures, or based on new growth opportunities. In addition, future dividends with respect to shares of the combined company's common stock, if any, will depend on, among other things, the combined company's cash flows, cash requirements, financial condition, contractual restrictions, provisions of applicable law and other factors that its board of directors may deem relevant. The combined company's board of directors may decrease the level of dividends provided for in the dividend policy or entirely discontinue the payment of dividends. FairPoint's current credit facility contains significant restrictions on its ability to make dividend payments, and the terms of the combined company's future indebtedness are expected to contain similar restrictions. The combined company may not generate sufficient cash from continuing operations in the future, or have sufficient surplus or net profits under Delaware law, to pay dividends on its common stock in accordance with the dividend policy. The reduction or elimination of dividends may negatively affect the market price of the combined company's common stock.

**If the combined company has insufficient cash flow to cover the expected dividend payments under its dividend policy due to costs associated with the merger or other factors, it will be required to reduce or eliminate dividends or, to the extent permitted under the agreements governing its indebtedness, fund a portion of its dividends with additional borrowings.**

If the combined company does not have sufficient cash to fund dividend payments, it would either reduce or eliminate dividends or, to the extent it was permitted to do so under the agreements governing its indebtedness, fund a portion of its dividends with borrowings or from other sources. If the combined company were to use borrowings to fund dividends, it would have less cash available for future dividends and other purposes, which could negatively impact its business, financial condition and results of operations.

Prior to the closing of the merger, FairPoint expects to spend approximately \$95 million to \$110 million on infrastructure and network systems integration and planning in connection with the transactions, of which Verizon will reimburse up to \$40 million. These expenditures will reduce the amount of cash available to pay dividends.

**The combined company's substantial indebtedness could restrict its ability to pay dividends on its common stock and have an adverse impact on its financing options and liquidity position.**

After the merger, the combined company will have a significant amount of indebtedness. This substantial indebtedness could have important adverse consequences to the holders of the combined company's common stock, including:

- limiting the combined company's ability to pay dividends on its common stock or make payments in connection with its other obligations, including under its credit facility;
- limiting the combined company's ability in the future to obtain additional financing for working capital, capital expenditures or acquisitions;
- causing the combined company to be unable to refinance its indebtedness on terms acceptable to it or at all;
- limiting the combined company's flexibility in planning for, or reacting to, changes in its business and the communications industry generally;
- requiring a significant portion of the combined company's cash flow from operations to be dedicated to the payment of interest and, to a lesser extent, principal on its indebtedness, thereby reducing funds available for future operations, dividends on its common stock, capital expenditures or acquisitions;
- making the combined company more vulnerable to economic and industry downturns and conditions, including increases in interest rates; and
- placing the combined company at a competitive disadvantage to its competitors that have less indebtedness.

Subject to the covenants expected to be included in the agreements governing the combined company's indebtedness, the combined company may be able to incur additional indebtedness. Any additional indebtedness that the combined company incurs would exacerbate the risks described above.

Borrowings under the combined company's new credit facility will bear interest at variable interest rates. Accordingly, if any of the base reference interest rates for the borrowings under the new credit facility increase, the combined company's interest expense will increase, which could negatively affect the combined company's ability to pay dividends on its common stock or repay or refinance its indebtedness. FairPoint will seek to enter into interest rate swap agreements which will effectively convert a significant portion of the combined company's variable rate interest exposure to fixed rates. If these swap agreements are in force, a significant portion of the combined company's indebtedness will effectively bear interest at fixed rates rather than variable rates. After these interest rate swap agreements expire, the combined company's annual debt service obligations with respect to borrowings under the new credit facility will vary unless the combined company enters into new interest rate swap agreements or purchases an interest rate cap or other form of interest rate hedge. However, the combined company may not be able to enter into new interest rate swap agreements or purchase an interest rate cap or other form of interest rate hedge on acceptable terms, which could negatively affect the combined company's ability to pay dividends on its common stock or repay or refinance its indebtedness.



**FairPoint Communications, Inc. is a holding company and relies on dividends, interest and other payments, advances and transfers of funds from its operating subsidiaries and investments to meet its debt service and other obligations.**

FairPoint Communications, Inc. is a holding company and both before and after the merger will conduct all of its operations through its operating subsidiaries. FairPoint Communications, Inc. currently has no significant assets other than equity interests in its subsidiaries. As a result, FairPoint Communications, Inc. currently relies, and will continue to rely after the merger, on dividends and other payments or distributions from its operating subsidiaries to pay dividends with respect to its common stock and to meet its debt service obligations. The ability of FairPoint Communications, Inc.'s subsidiaries to pay dividends or make other payments or distributions to FairPoint Communications, Inc. will depend on their respective operating results and may be restricted by, among other things:

- the laws of their jurisdiction of organization;
- the rules and regulations of state regulatory authorities;
- agreements of those subsidiaries, including agreements governing indebtedness;
- the terms of agreements governing indebtedness of those subsidiaries; and
- regulatory orders.

FairPoint Communications, Inc.'s operating subsidiaries have no obligation, contingent or otherwise, to make funds available to FairPoint Communications, Inc., whether in the form of loans, dividends or other distributions.

It is expected that the combined company's new credit facility and other agreements governing its indebtedness will contain covenants that will limit its business flexibility by imposing operating and financial restrictions on its operations and the payment of dividends.

It is expected that covenants in the combined company's new credit facility and other agreements governing its indebtedness will impose significant operating and financial restrictions on the combined company. These restrictions will prohibit or limit, among other things:

- the incurrence of additional indebtedness and the issuance by the combined company's subsidiaries of preferred stock;
- the payment of dividends on, and purchases or redemptions of, capital stock;
- making any of a number of other restricted payments, including investments;
- the creation of liens;
- the ability of each of the combined company's subsidiaries to guarantee indebtedness;
- specified sales of assets;
- the creation of encumbrances or restrictions on the ability of the combined company's subsidiaries to distribute and advance funds or transfer assets to the combined company or any other subsidiary;
- specified transactions with affiliates;
- sale and leaseback transactions;
- the combined company's ability to enter lines of business outside the communications business; and
- certain consolidations and mergers and sales or transfers of assets by or involving the combined company.

The new credit facility is also expected to contain covenants which require the combined company to maintain specified financial ratios and satisfy financial condition tests, including a maximum total leverage ratio and a minimum interest coverage ratio.

The combined company's ability to comply with the covenants, ratios or tests expected to be contained in the agreements governing the combined company's indebtedness may be affected by events beyond the combined company's control, including prevailing economic, financial and industry conditions. A breach of any of these covenants, ratios or tests could result in a default under the agreements governing the combined company's indebtedness. FairPoint expects that the occurrence of an event of default under the new credit facility or the other agreements governing the combined company's indebtedness would prohibit the combined company from making dividend payments on its common stock. In addition, upon the occurrence of an event of default under the new credit facility or the other agreements governing the combined company's indebtedness, the lenders or holders, as the case may be, could elect to declare all amounts outstanding, together with accrued interest, to be immediately due and payable. If the combined company were to be unable to repay those amounts, the lenders under the new credit facility could proceed against the security granted to them to secure that indebtedness or the lenders or holders could commence collection or bankruptcy proceedings against the combined company. If the lenders or holders accelerate the payment of any outstanding indebtedness, the combined company's assets may not be sufficient to repay all indebtedness of the combined company that then becomes due and owing.

**Limitations on the combined company's ability to use net operating loss carryforwards, and other factors requiring the combined company to pay cash to satisfy its tax liabilities in future periods, may affect its ability to pay dividends to its stockholders.**

FairPoint's initial public offering in February 2005 resulted in an "ownership change" within the meaning of the U.S. federal income tax laws addressing net operating loss carryforwards, alternative minimum tax credits and other similar tax attributes. Moreover, the merger with Spinco will result in a further ownership change for these purposes. As a result of these ownership changes, there are specific limitations on FairPoint's ability to use its net operating loss carryforwards and other tax attributes from periods prior to the initial public offering and the merger. Although FairPoint does not expect that these limitations will materially affect FairPoint's U.S. federal and state income tax liability in the near term, it is possible in the future if the combined company were to generate taxable income in excess of the limitation on usage of net operating loss carryforwards that these limitations could limit the combined company's ability to utilize the carryforwards and, therefore, result in an increase in its U.S. federal and state income tax payments. In addition, in the future the combined company will be required to pay cash to satisfy its tax liabilities when all of its net operating loss carryforwards have been used or have expired. Limitations on the combined company's usage of net operating loss carryforwards, and other factors requiring the combined company to pay cash taxes in the future, would reduce the funds available for the payment of dividends and may require the combined company to reduce or eliminate the dividends on its common stock.

**The combined company's business, financial condition and results of operations could be adversely affected if the combined company fails to maintain satisfactory labor relations.**

Following the merger, approximately 67% of the combined company's employees will be members of unions employed under seven collective bargaining agreements. The two principal collective bargaining agreements to which Verizon is currently a party expire in August 2008. Upon the expiration of any of these collective bargaining agreements, the combined company may not be able to negotiate new agreements on favorable terms to the combined company or at all. Furthermore, the process of renegotiating the collective bargaining agreements could result in labor disputes or other difficulties and delays. These potential labor disruptions could have a material adverse effect on the combined company's results of operations and financial condition. In the event of any work stoppage or other disruption, the combined company will be required to engage third-party contractors. Labor disruptions, strikes or significant negotiated wage increases could reduce the combined company's sales or increase its costs and accordingly, could have a material adverse effect on its business, financial condition and results of operations.

Currently, both of the labor unions representing Spinco employees have objected to the merger in certain regulatory proceedings. The International Brotherhood of Electrical Workers has filed four grievances alleging that the transaction violates their collective bargaining agreements with respect to job security, benefit plans, transfer of work and hiring restrictions. The grievances seek remedies which include an order to cease and desist from the alleged prohibited actions, an order to follow the contract terms, and an order to take remedial actions. Verizon has denied any violation of the collective bargaining agreements and has asserted defenses to these grievances. The job security and transfer of work grievances have been submitted to arbitration under the labor arbitration rules of the American Arbitration Association pursuant to the parties' collective bargaining agreements. Hearings on those grievances are scheduled to begin in mid-July and conclude by the end of August. It is anticipated that hearings on the benefit plans and hiring restrictions grievances will be scheduled shortly.

**The combined company faces risks associated with acquired businesses and potential acquisitions.**

Prior to entering into the merger agreement, FairPoint grew rapidly by acquiring other businesses. Subject to restrictions in the tax sharing agreement limiting the combined company's ability to take

certain actions during the two years following the spin-off that could jeopardize the tax-free status of the spin-off or merger, FairPoint expects that a portion of its future growth will result from additional acquisitions, some of which may be material. Growth through acquisitions entails numerous risks, including:

- strain on financial, management and operational resources, including the distraction of the management team in identifying potential acquisition targets, conducting due diligence and negotiating acquisition agreements;
- difficulties in integrating the network, operations, personnel, products, technologies and financial, computer, payroll and other systems of acquired businesses;
- difficulties in enhancing customer support resources to service its existing customers and the customers of acquired businesses adequately;
- the potential loss of key employees or customers of the acquired businesses; and
- unanticipated liabilities or contingencies of acquired businesses.

The combined company may need additional capital to continue growing through acquisitions. This additional capital may be raised in the form of additional debt, which would increase the combined company's leverage and could have an adverse effect on its ability to pay dividends. The combined company may not be able to raise sufficient additional capital on terms that it considers acceptable, or at all.

The combined company may not be able to complete successfully the integration of Spinco or other businesses that FairPoint has recently acquired or successfully integrate any businesses that the combined company might acquire in the future. If the combined company fails to do so, or if the combined company does so but at greater cost than it anticipated, its business, financial condition and results of operations may be adversely affected.

**A network disruption could cause delays or interruptions of service, which could cause the combined company to lose customers.**

To be successful, the combined company will need to continue to provide its customers reliable service over its expanded network. Some of the risks to the combined company's network and infrastructure include:

- physical damage to access lines;
- wide spread power surges or outages;
- software defects in critical systems; and
- disruptions beyond the combined company's control.

Disruptions may cause interruptions in service or reduced capacity for customers, either of which could cause the combined company to lose customers and incur expenses.

**The combined company's relationships with other communications companies will be material to its operations and their financial difficulties may adversely affect its future business, financial condition and results of operations.**

The combined company will originate and terminate calls for long distance carriers and other interexchange carriers over its network. For that service, the combined company will receive payments for access charges. These payments represent a significant portion of FairPoint's current revenues and are expected to be material to the business of the combined company. If these carriers go bankrupt or experience substantial financial difficulties, the combined company's inability to then collect access charges from them could have a negative effect on the combined company's business, financial condition and results of operations.

**The combined company will depend on third parties for its provision of long distance and bandwidth services.**

The combined company's provision of long distance and bandwidth services will be dependent on underlying agreements with other carriers that will provide the combined company with transport and termination services. These agreements will be based, in part, on the combined company's estimate of future supply and demand and may contain minimum volume commitments. If the combined company overestimates demand, it may be forced to pay for services it does not need. If the combined company underestimates demand, it may need to acquire additional capacity on a short-term basis at unfavorable prices, assuming additional capacity is available. If additional capacity is not available, the combined company will not be able to meet this demand. In addition, if the combined company cannot meet any minimum volume commitments, it may be subject to underutilization charges, termination charges, or rate increases which may adversely affect its business, financial condition and results of operations.

**The combined company may not be able to maintain the necessary rights-of-way for its networks.**

The combined company will be dependent on rights-of-way and other permits from railroads, utilities, state highway authorities, local governments and transit authorities to install and maintain conduit and related communications equipment for any expansion of its networks. The combined company may need to renew current rights-of-way for its network and it may not be successful in renewing these agreements on acceptable terms or at all. Some of the combined company's agreements may be short-term, revocable at will, or subject to termination upon customary default provisions, and the combined company may not have access to existing rights-of-way after they have expired or terminated. If any of these agreements are terminated or not renewed, the combined company could be required to remove its then-existing facilities from under the streets or abandon a portion of its network. Similarly, the combined company may not be able to obtain right-of-way agreements on favorable terms, or at all, in new service areas, and, if it is unable to do so, the combined company's ability to expand its networks could be impaired.

**The combined company's success will depend on its ability to attract and retain qualified management and other personnel.**

FairPoint's success depends, and the success of the combined company will depend, upon the talents and efforts of FairPoint's senior management team. While FairPoint is not aware that any senior executive of FairPoint or the Spingo business has indicated an intention to leave the combined company as a result of the merger, none of these senior executives, with the exception of Eugene B. Johnson, FairPoint's Chairman and Chief Executive Officer, are employed pursuant to an employment agreement. Mr. Johnson is expected to continue as the Chairman and Chief Executive Officer of the combined company. Mr. Johnson's employment contract expires on December 31, 2008. The loss of any member of the combined company's senior management team, due to retirement or otherwise, and the inability to attract and retain highly qualified technical and management personnel in the future, could have a material adverse effect on the combined company's business, financial condition and results of operations.

**The combined company may face significant future liabilities or compliance costs in connection with environmental and worker health and safety matters.**

The combined company's operations and properties will be subject to federal, state and local laws and regulations relating to protection of the environment, natural resources, and worker health and safety, including laws and regulations governing the management, storage and disposal of hazardous substances, materials and wastes. Under certain environmental laws, the combined company could be held liable, jointly and severally and without regard to fault, for the costs of investigating and remediating any contamination at owned or operated properties, or for contamination arising from the disposal by the combined company or its predecessors of hazardous wastes at formerly owned

properties or at third-party waste disposal sites. In addition, the combined company could be held responsible for third-party property or personal injury claims relating to any such contamination or relating to violations of environmental laws. Changes in existing laws or regulations or future acquisitions of businesses could require the combined company to incur substantial costs in the future relating to these matters.

**The combined company will be exposed to risks relating to evaluations of controls required by Section 404 of the Sarbanes-Oxley Act.**

As a public reporting company, the combined company will be required to comply with the Sarbanes-Oxley Act and the related rules and regulations of the Securities and Exchange Commission, including expanded disclosures and accelerated reporting requirements.

If management of the combined company identifies one or more material weaknesses in internal control over financial reporting in the future in accordance with the annual assessment required by the Sarbanes-Oxley Act, the combined company will be unable to assert that its internal control is effective.

In addition, the combined company will be evaluating its internal control systems with respect to the Spinco business to allow management to report on, and the combined company's independent auditors to attest to, the internal controls of the Spinco business as required by Section 404 of the Sarbanes-Oxley Act. The combined company will be performing the systems and process evaluation and testing (and any necessary remediation) required to comply with the management certification and independent registered public accounting firm attestation requirements of Section 404 of the Sarbanes-Oxley Act. While it is expected that the combined company will be able to fully implement the requirements relating to internal controls and all other aspects of Section 404 with respect to the Spinco business for the year ending December 31, 2009 (assuming that the merger is completed in 2008), the combined company may not be able to meet the deadline with respect to the completion of its evaluation, testing and remediation actions.

If the combined company is not able to implement the requirements of Section 404 with respect to the Spinco business in a timely manner or with adequate compliance (including due to the failure of the combined company to successfully complete the conversion of its various billing systems into a single integrated billing platform) or if the combined company is otherwise unable to assert that its internal control over financial reporting is effective for any fiscal year, the combined company might be subject to sanctions or investigation by regulatory authorities.

#### ***Risks Relating to the Combined Company's Regulatory Environment***

**The combined company will be subject to significant regulations that could change in a manner adverse to the combined company.**

The combined company will operate in a heavily regulated industry. Laws and regulations applicable to the combined company and its competitors may be, and have been, challenged in the courts, and could be changed by Congress or regulators. In addition, the following factors could have a significant impact on the combined company:

*Risk of loss or reduction of network access charge revenues.* A portion of the combined company's revenues will come from network access charges, which will be paid to the combined company by intrastate and interstate long distance carriers for originating and terminating calls in the regions served. This also includes universal service support payments for local switching support, long term support and interstate common line support. In recent years, several of these long distance carriers have declared bankruptcy. Future declarations of bankruptcy by a carrier that utilizes the combined company's access services could negatively affect the combined company's business, financial condition and results of operations. The amount of access charge revenues that FairPoint and the Northern New England business currently receive is based on rates set by federal and state regulatory bodies, and those rates could change after the merger. Further, from time to time federal and state regulatory

bodies conduct rate cases, "earnings" reviews, or adjustments to price cap formulas which may result in rate changes. The Federal Communications Commission has reformed and continues to reform the federal access charge system. States often mirror these federal rules in establishing intrastate access charges. In 2000 and 2001, the Federal Communications Commission reformed the system to reduce interstate access charges for price cap and rate of return carriers and to shift a portion of cost recovery, which historically has been based on minutes-of-use, to flat-rate, monthly per line charges on end-user customers rather than long distance carriers. As a result, the aggregate amount of access charges paid by long distance carriers to access providers, such as FairPoint's local exchange carriers, has decreased and may continue to decrease. Future changes in access charge rates may not be implemented on a revenue neutral basis. Furthermore, to the extent the rural local exchange carriers to be operated by the combined company become subject to competition, access charges could be paid to competing communications providers rather than to the combined company. Additionally, the access charges the combined company receives may be reduced as a result of competition from wireless, VoIP or other new technology utilization. Finally, the Federal Communications Commission is currently weighing several proposals to comprehensively reform the intercarrier compensation regime in order to create a uniform system of intercarrier payments. If any of the currently proposed reforms were adopted by the Federal Communications Commission it would likely involve significant changes in the access charge system and, if not offset by a revenue replacement mechanism, could potentially result in a significant decrease in or elimination of access charges. Decreases or losses of access charges may or may not result in offsetting increases in local, subscriber line or universal service support revenues.

*Risk of loss or reduction of Universal Service Fund support.* FairPoint and the Northern New England business currently receive, and the combined company is expected to continue to receive, Universal Service Fund revenues (and equivalent state universal service support) to support the operations in high-cost areas. Current Federal Communications Commission rules provide different methodologies for the determination of federal universal service payments to rural and non-rural telephone company areas. In general, the rules provide high-cost support to rural telephone company study areas where the company's actual costs exceed a preset nationwide benchmark level. High-cost support for non-rural telephone company areas, on the other hand, is determined by a nationwide proxy cost model. The Federal-State Joint Board on Universal Service is considering proposals to update the proxy model upon which non-rural high-cost funding is determined. These changes could reduce the Universal Service Fund revenues received by the combined company. Corresponding changes in state universal service support could likewise have a negative effect on the revenues received by the combined company.

The high-cost loop support FairPoint and the Northern New England business received and that the combined company will receive from the Universal Service Fund is based upon average cost per loop compared to the national average cost per loop benchmark. This revenue stream will fluctuate based upon the combined company's rural company average cost per loop compared to the national average cost per loop. For example, if the national average cost per loop increases and the combined company's rural company operating costs (and average cost per loop) remain constant or decrease, the payments the combined company will receive from the Universal Service Fund would decline. Conversely, if the national average cost per loop decreases and FairPoint's operating costs (and average cost per loop) remain constant or increase, the payments FairPoint receives from the Universal Service Fund would increase. The national average cost per loop in relation to FairPoint's historic average cost per loop has increased and FairPoint believes that the national average cost per loop will likely continue to increase in relation to the combined company's average cost per loop. As a result, the payments FairPoint receives from the rural Universal Service Fund have declined and the payments that the combined company will receive will likely continue to decline. In addition to the Universal Service Fund high-cost loop support, FairPoint also receives other Universal Service Fund support payments for its rural company service areas, which include local switching support, long term support, and interstate common line support that used to be included in FairPoint's interstate access charge revenues. If the

combined company's rural local exchange carriers were unable to receive support from the Universal Service Fund, or if that support was reduced, many of FairPoint's rural local exchange carriers will be unable to operate as profitably as they have historically. Moreover, if the combined company raises prices for services to offset these losses of Universal Service Fund payments, the increased pricing of its services may disadvantage it competitively in the marketplace, resulting in additional potential revenue loss.

The Northern New England business also receives federal universal service support, although at a lesser percentage of total revenue than the FairPoint rural operating companies. For the year ended December 31, 2006, the Northern New England business's non-rural properties received 2% of revenues from high-cost model support and interstate access support. The Federal Communications Commission's current rules for support to high-cost areas served by non-rural local telephone companies were previously remanded by the U.S. Court of Appeals for the Tenth Circuit, which had found that the Federal Communications Commission had not adequately justified these rules. The Federal Communications Commission has initiated a rulemaking proceeding in response to the court's remand, but its rules remain in effect pending the results of the rulemaking. Any change in the rules could have a material adverse effect on the financial condition and results of operations of the Northern New England business and the revenues to be received by the combined company.

The Telecommunications Act provides that eligible communications carriers, including competitors to rural local exchange carriers, such as wireless operators, may obtain the same per line support as the rural local exchange carriers receive if a state commission determines that granting support to competitors would be in the public interest or for other reasons. Wireless communications providers in certain of FairPoint's existing markets have obtained matching support payments from the Universal Service Fund, although this matching has not led to a loss of revenues for FairPoint's rural local exchange carriers under existing regulations. Any shift in universal service regulation, however, could have an adverse effect on the combined company's business, financial condition and results of operations.

The Federal Communications Commission's development of explicit universal service support for rural carriers so far has been revenue neutral to FairPoint's operations. Changes in methodology may not continue to reflect the costs incurred by the rural local exchange carriers that will be operated in the future by the combined company, and any revised methodology may not provide for the same amount of Universal Service Fund support that FairPoint's rural local exchange carriers have received in the past. In addition, several parties have raised objections to the size of the Universal Service Fund and the types of services eligible for support. A number of issues regarding the source and amount of contributions to, and eligibility for payments from, the Universal Service Fund are pending and may be addressed by the Federal Communications Commission or Congress. The outcome of any regulatory proceedings or legislative changes could affect the amount of Universal Service Fund support that the combined company receives, and could have an adverse effect on the combined company's business, financial condition and results of operations.

On February 28, 2005, the Federal Communications Commission issued a press release announcing additional requirements for the designation of competitive Eligible Telecommunications Carriers for receipt of high-cost support. In its corresponding order, released on March 17, 2005, the Federal Communications Commission adopted additional mandatory requirements for Eligible Telecommunications Carriers designation in cases where it has jurisdiction, and encouraged states that have jurisdiction to designate Eligible Telecommunications Carriers to adopt similar requirements. On May 1, 2007, the Federal-State Joint Board recommended that the Federal Communications Commission cap the support paid to competitive eligible telecommunications carriers at 2006 levels, limiting future growth in the fund. While this recommendation would not affect the support of incumbent local exchange carriers such as FairPoint, the Joint Board also is seeking further comments on changes to the basis of support and the method of awarding support to all eligible telecommunications carriers, including incumbent local exchange carriers. The Federal Communications



Commission is still considering revisions to the methodology by which contributions to the Universal Service Fund are determined. These revisions will be part of an overall rulemaking regarding Universal Service Support which will be dealt with in future proceedings.

*Risk of loss of statutory exemption from burdensome interconnection rules imposed on incumbent local exchange carriers.* The rural local exchange carriers currently operated by FairPoint are exempt from the Telecommunications Act's more burdensome requirements governing the rights of competitors to interconnect to incumbent local exchange carrier networks and to utilize discrete network elements of the incumbent's network at favorable rates. To the extent state regulators decide that it is in the public interest to extend some or all of these requirements to the combined company's rural local exchange carriers, the combined company would be required to provide unbundled network elements to competitors in its rural telephone company areas. As a result, more competitors could enter FairPoint's traditional telephone markets than are currently expected which could have a material adverse effect on the combined company's business, financial condition and results of operations.

*Risks posed by costs of regulatory compliance.* Regulations create significant compliance costs for FairPoint and are expected to continue to do so with respect to the combined company. Subsidiaries that provide intrastate services are generally subject to certification, tariff filing and other ongoing regulatory requirements by state regulators. FairPoint's interstate access services are currently provided in accordance with tariffs filed with the Federal Communications Commission. Challenges in the future to the combined company's tariffs by regulators or third parties or delays in obtaining certifications and regulatory approvals could cause the combined company to incur substantial legal and administrative expenses, and, if successful, these challenges could adversely affect the rates that the combined company is able to charge its customers.

The combined company's business also may be affected by legislation and regulation imposing new or greater obligations related to assisting law enforcement, bolstering homeland security, minimizing environmental impacts, protecting customer privacy or addressing other issues that affect the combined company's business. For example, existing provisions of the Communications Assistance for Law Enforcement Act and Federal Communications Commission regulations implementing the Communications Assistance for Law Enforcement Act require communications carriers to ensure that their equipment, facilities, and services are able to facilitate authorized electronic surveillance. FairPoint cannot predict whether or to what extent the Federal Communications Commission might modify its Communications Assistance for Law Enforcement Act rules or any other rules or what compliance with those new rules might cost. Similarly, FairPoint cannot predict whether or to what extent federal or state legislators or regulators might impose new security, environmental or other obligations on its business.

For a more thorough discussion of the regulatory issues that may affect the combined company's business, see "Description of the Business of the Combined Company—Regulatory Environment."

*Risk of losses from rate reduction.* FairPoint's local exchange companies that operate pursuant to rate of return regulation are subject to state regulatory authority over their intrastate telecommunications service rates. State review of these rates could lead to rate reductions, which in turn could have a material adverse effect on the combined company's business, financial condition and results of operations.

**Regulatory changes in the communications industry could adversely affect the combined company's business by facilitating greater competition, reducing potential revenues or raising its costs.**

The Telecommunications Act provides for significant changes and increased competition in the communications industry, including competition for local communications and long distance services. This statute and the Federal Communications Commission's implementing regulations could be submitted for judicial review or affected by future rulings of the Federal Communications Commission, thus making it difficult to predict whether the legislation will have a material adverse effect on the

combined company's business, financial condition and results of operations and its competitors. Several regulatory and judicial proceedings have concluded, are underway or may soon be commenced, that address issues affecting FairPoint's current operations and those of its competitors. FairPoint cannot predict the outcome of these developments, nor can it assure that these changes will not have a material adverse effect on the combined company or its industry.

For a more thorough discussion of the regulatory issues that may affect the combined company's business, see "Description of the Business of the Combined Company—Regulatory Environment."

***Risks Relating to Investing in or Holding the Combined Company's Common Stock***

**The price of the combined company's common stock may fluctuate substantially. Fluctuations in the combined company's common stock price after the merger could negatively affect holders of the common stock of the combined company, including Verizon stockholders receiving shares of FairPoint common stock in connection with the merger.**

The market price of the combined company's common stock may fluctuate widely as a result of various factors, such as period-to-period fluctuations in its operating results, the volume of sales of its common stock, developments in the communications industry, the failure of securities analysts to cover the common stock or changes in financial estimates by analysts, competitive factors, regulatory developments, economic and other external factors, general market conditions and market conditions affecting the stock of communications companies in particular. Communications companies have in the past experienced extreme volatility in the trading prices and volumes of their securities, which has often been unrelated to operating performance. High levels of market volatility may have a significant adverse effect on the market price of the combined company's common stock. In addition, in the past, securities class action litigation has often been instituted against companies following periods of volatility in their stock prices. This type of litigation could result in substantial costs and divert management's attention and resources.

**FairPoint's certificate of incorporation and by-laws, which will be the certificate of incorporation and by-laws of the combined company following the merger, and several other factors could limit another party's ability to acquire the combined company and deprive its investors of the opportunity to obtain a takeover premium for their securities.**

A number of provisions in FairPoint's current certificate of incorporation and by-laws make it difficult for another company to acquire FairPoint and for FairPoint stockholders to receive any related takeover premium for their securities. Because FairPoint is not amending its certificate of incorporation and by-laws in connection with the merger, these provisions will continue to apply to the combined company following the merger. For example, FairPoint's certificate of incorporation provides that certain provisions of its certificate of incorporation can only be amended by an affirmative vote of two-thirds or more in voting power of all the outstanding shares of capital stock, that stockholders generally may not act by written consent, and only stockholders representing at least 50% in voting power may request that the board of directors call a special meeting. FairPoint's certificate of incorporation provides for a classified board of directors and authorizes the issuance of preferred stock without stockholder approval and upon such terms as the board of directors may determine. The rights of the holders of shares of the combined company's common stock will be subject to, and may be adversely affected by, the rights of holders of any class or series of preferred stock that may be issued in the future. See "Description of Capital Stock of FairPoint and The Combined Company—Anti-Takeover Effects of Various Provisions of Delaware Law and FairPoint's Certificate of Incorporation and By-laws."

In addition, the tax sharing agreement may limit another party's ability to acquire the combined company. See "Additional Agreements Between FairPoint, Verizon and Their Affiliates—Tax Sharing Agreement."

**The combined company may, under certain circumstances, suspend the rights of stock ownership, the exercise of which would result in any inconsistency with, or violation of, any applicable communications law.**

FairPoint's certificate of incorporation, which will be the certificate of incorporation of the combined company following the merger, provides that so long as it holds any authorization, license, permit, order, filing or consent from the Federal Communications Commission or any state regulatory commission having jurisdiction over FairPoint, FairPoint will have the right to request certain information from its stockholders. If any stockholder from whom such information is requested fails to respond to such a request, or if the combined company concludes that the ownership of, or the existence or exercise of any rights of stock ownership with respect to, shares of the combined company's capital stock by that stockholder, could result in any inconsistency with, or violation of, any applicable communications law, the combined company may suspend those rights of stock ownership the existence or exercise of which would result in any inconsistency with, or violation of, any applicable communications law, and the combined company may exercise any appropriate remedy, at law or in equity, in any court of competent jurisdiction, against any stockholder, with a view towards obtaining such information or preventing or curing any situation which would cause an inconsistency with, or violation of, any provision of any applicable communications law.