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# FairPoint Communications, Inc.

## *Investor Presentation*

September 2011

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# Agenda



- I. Company Overview
- II. Growth Opportunity
- III. Recent Results

# FairPoint is positioned for success

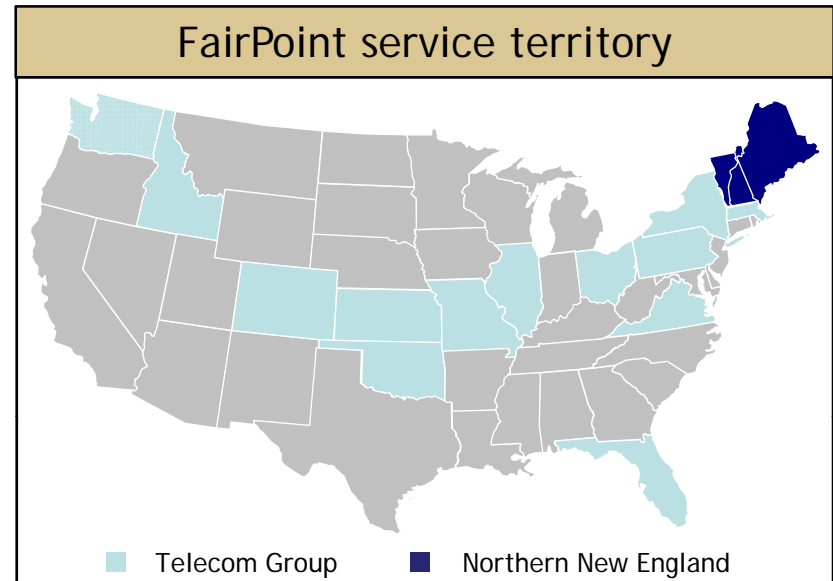


- Leveraging core strengths for growth in revenue, EBITDAR and free cash flow
  - Geographic scope and ubiquitous network in northern New England (ME, NH, VT)
  - Next generation, IP-based technologies
  - Organic revenue growth opportunities given low market share
  - Stable RLEC business in legacy FairPoint markets (“Telecom Group”)
- Operational improvements allow for acceleration of cost reduction initiatives
  - High-speed data subscriber growth accelerated in 2Q11 to 5.4% year-over-year
  - Voice access line loss slowed in 2Q11 to 9.3% year-over-year
  - Recently announced workforce reduction of approximately 400 employees, expected to result in approximately \$34 million of annualized operating savings in 2012
- Experienced management team with fresh focus
  - Aligned to capture revenue growth opportunities and improve operations
  - Focused on enhanced service and responsiveness
- Simplified and right-sized capital structure
  - Total debt of \$1.0 billion, liquidity of \$76 million as of June 30, 2011
  - Listed with NASDAQ: FRP

# Company Overview at 2Q11



- Operate in 18 states with approximately 1.4 million access line equivalents (“ALEs”)<sup>1</sup>
  - ~80% of ALEs in northern New England, ~20% in Telecom Group
- Northern New England: 3-statewide footprint with ubiquitous network presence
  - NNE averages 25% high-speed data penetration<sup>2</sup>
- Telecom Group: 30 rural LECs in 18 states with lower competitive profile
  - TG averages 45% high-speed data penetration<sup>2</sup>
- FairPoint offers an array of services across its footprint including voice, high-speed data, video and high-capacity bandwidth products
- Extensive capital investment on next generation network in NNE markets
  - Broadband available to ~85% of our customers in NNE, more than 90% in TG
- Over \$1Bn in annual revenue and approximately 4,000 employees<sup>4</sup>



**Access line equivalents**

<i>as of June 30, 2011</i>	Northern New England	Telecom Group	Total
Switched access lines:			
Residential	541,814	138,375	680,189
Business	268,533	49,051	317,584
Wholesale <sup>3</sup>	82,231	NM	82,231
Total switched access lines	892,578	187,426	1,080,004
High-speed data	220,561	84,594	305,155
Total access line equivalents	1,113,139	272,020	1,385,159



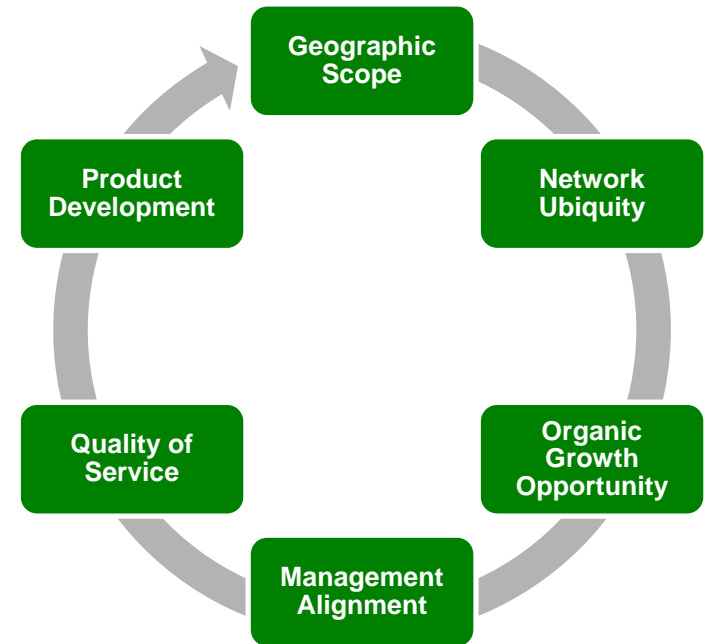
(1) Switched access lines plus high-speed data subscribers  
 (2) High-speed data subscribers as % of switched access lines  
 (3) UNE-P and Resale lines. Excludes UNE-L and Special Access circuits  
 (4) Before Sept 2011 announced workforce reduction. Collective bargaining agreements with CWA and IBEW cover approximately 2,500 employees including ~230 temporary workers

# Organic Revenue Growth Opportunities



## Northern New England: Network + Service

- Geographic scope and network ubiquity are significant advantage, especially to major, enterprise and wholesale customers
- NNE markets offer organic growth and market share “win-back” opportunities
- Management aligned to unique characteristics of each customer segment
- Quality of Service (“QoS”) and rapid response as competitive advantages
- Next-generation products that speak to SMBs, enterprise and wholesale customers



## Telecom Group: Leverage stable platform

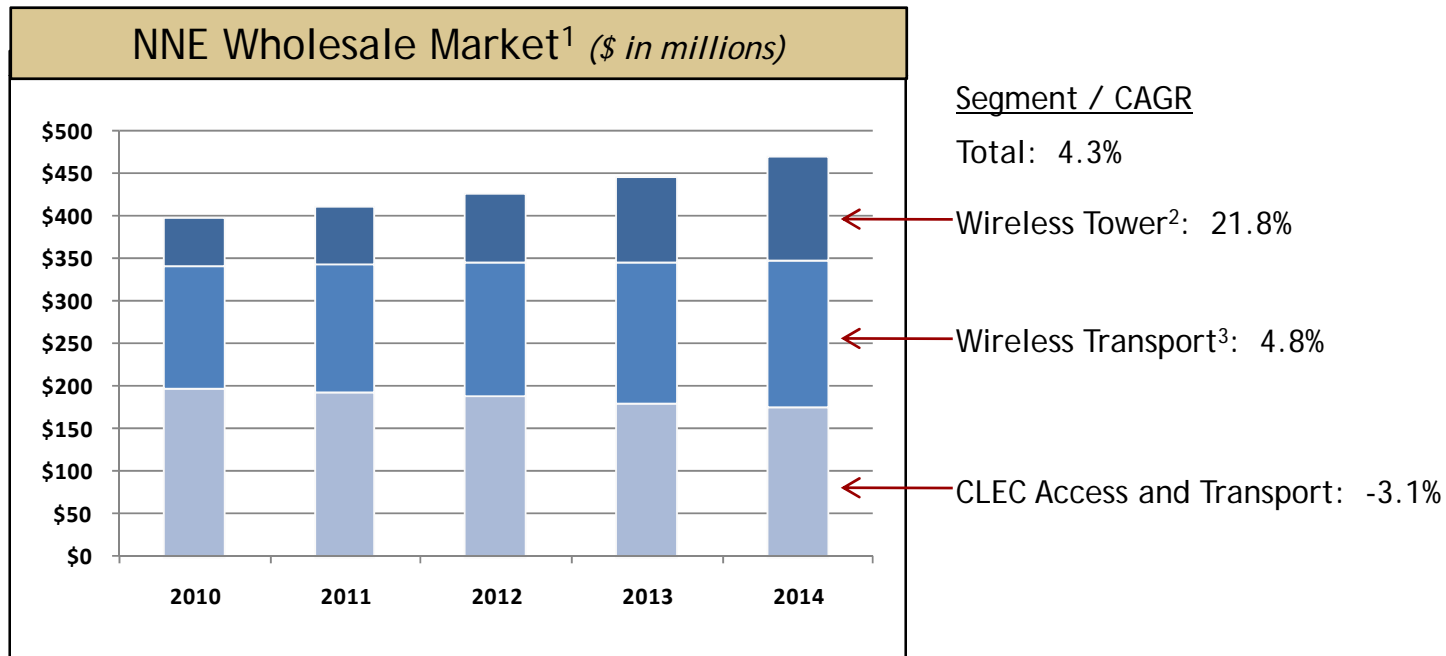
- Maintain the market share advantage with attractive bundles and excellent QoS
- Hone new products and processes before exporting to NNE markets
- Strategic capital investment to enhance the local network and optimize regulated revenue streams

# Organic Revenue Growth in Wholesale



FairPoint commissioned a market share and demand study for its NNE markets

- FairPoint maintains a majority share in the wholesale market<sup>1</sup>
- Organic growth opportunities fueled by mobile broadband demands
- We are investing in new products and technologies to capture growth potential



Sources: SNL Kagan, In-Stat, US Census, InfoUSA, Altman Vilandrie & Company

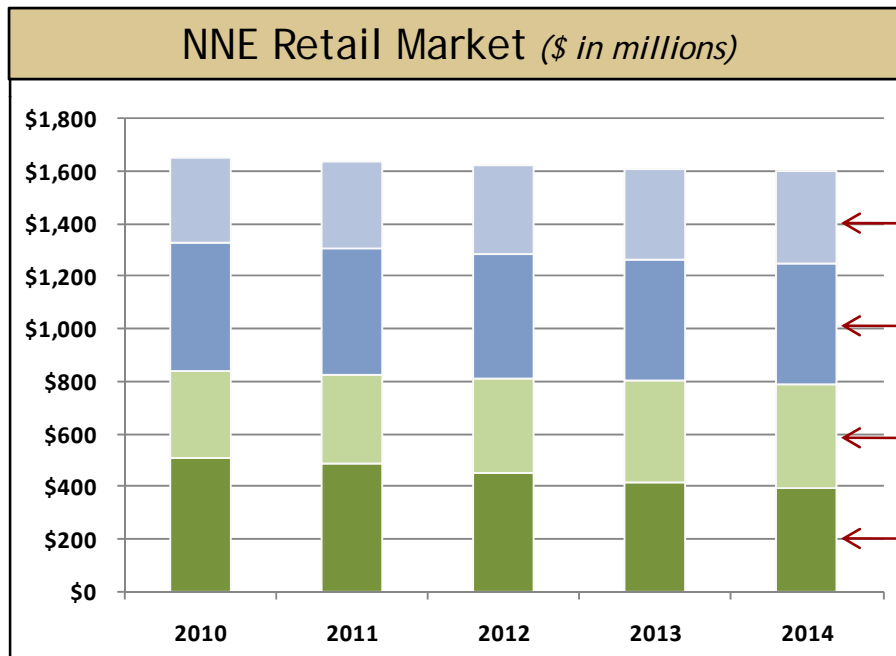


(1) Wholesale as defined by traditional products and technologies like switched access and special access circuits (DS1s, DS3s, SONET, etc.)  
(2) Wireless tower refers to transport between towers and aggregation sites  
(3) Wireless transport refers to transport between aggregation sites

# Win-back Opportunities



- Overall retail wireline market is expected to decline gradually
- FairPoint's non-dominant market share provides significant win-back opportunities
  - 2010 retail business market share estimated to be 26% (data and voice)
  - 2010 retail residential market share estimated to be 39% (data and voice)



Segment / CAGR / 2010 FRP Market Share Est.

Total: -0.8% / 33%

Biz Wireline Data: 2.6% / 16%

Biz Wireline Voice: -1.9% / 33%

Res Wireline Data: 4.9% / 17%

Res Wireline Voice: -6.4% / 53%

26% share

39% share

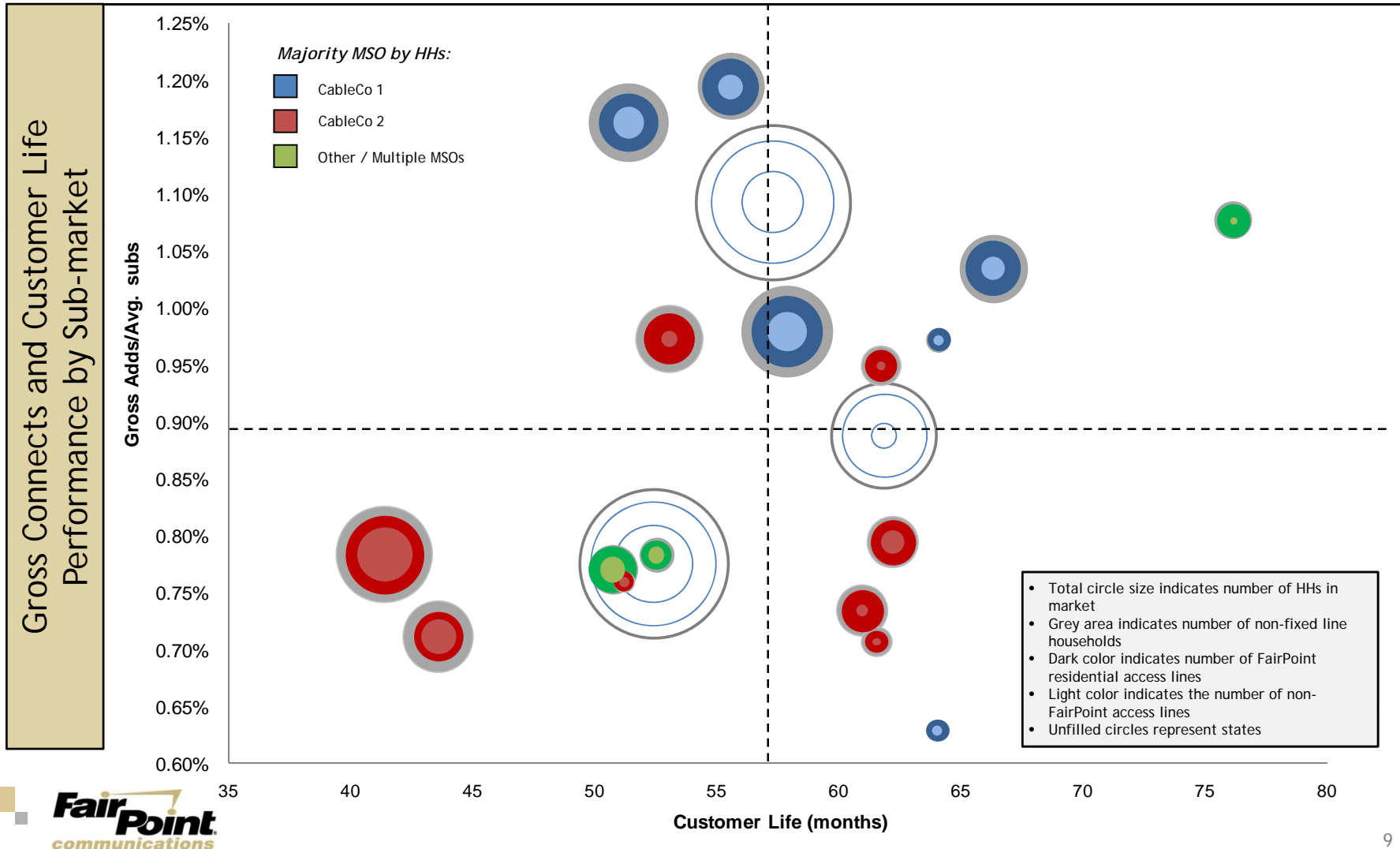
Sources: SNL Kagan, In-Stat, US Census, InfoUSA, Altman Vilandrie & Company



# Targeted, Community-based Residential Marketing



A targeted, community-by-community approach to marketing and product development enhances the value to customers, reduces churn and increases customer longevity



# Aligned to Capture Revenue Opportunities



Revenue Segment	Wholesale	Government & Education	Business & Residential	Telecom Group
Opportunity	<ul style="list-style-type: none"> <li>•Fiber to the tower (“FTTT”)</li> <li>•Special access / high-capacity</li> </ul>	Increasing bandwidth needs	Organic growth in SMB & targeted community-based marketing in Residential	Leverage scale and scope of enterprise; Increase attention
Advantages	Market Ubiquity	Market Ubiquity	VantagePoint Network	Dominant presence; Low competition
Approach/Strategy	<ul style="list-style-type: none"> <li>•Network reliability</li> <li>•FTTT build-out</li> </ul>	<ul style="list-style-type: none"> <li>•Maintain market share</li> <li>•Take advantage of ubiquitous network</li> <li>•Network reliability</li> </ul>	<u>Business:</u> <ul style="list-style-type: none"> <li>• “Win-back” customers</li> </ul> <u>Residential:</u> <ul style="list-style-type: none"> <li>• “Defend” market share</li> <li>• Broadband availability</li> </ul>	<ul style="list-style-type: none"> <li>•Understanding of local markets</li> <li>•Local presence</li> <li>•Product development platform</li> </ul>

# Combining Network, Service and Products

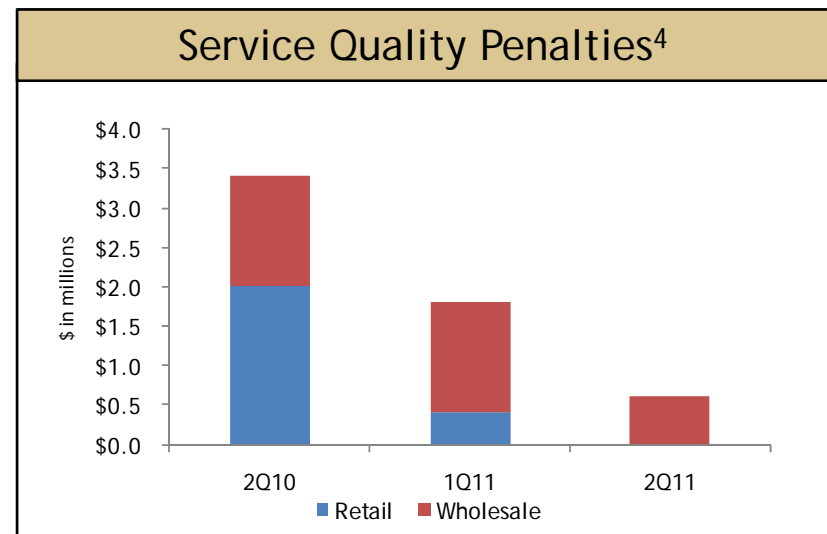
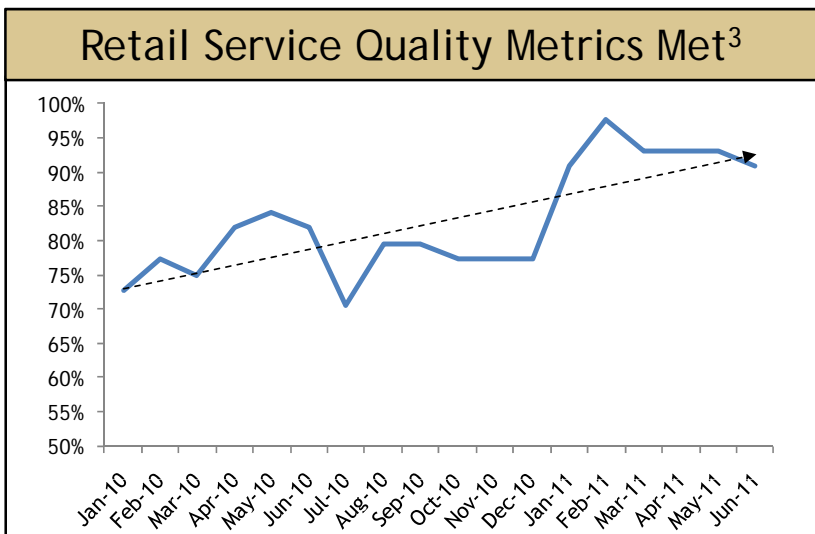
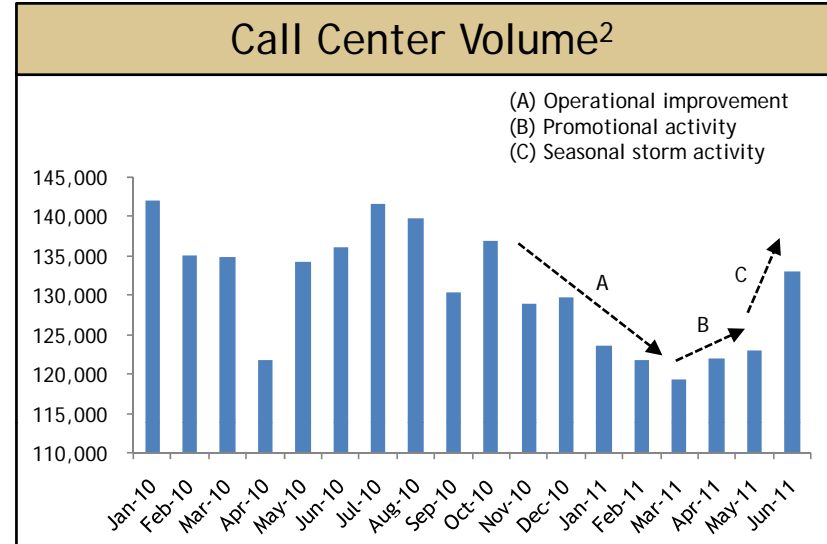
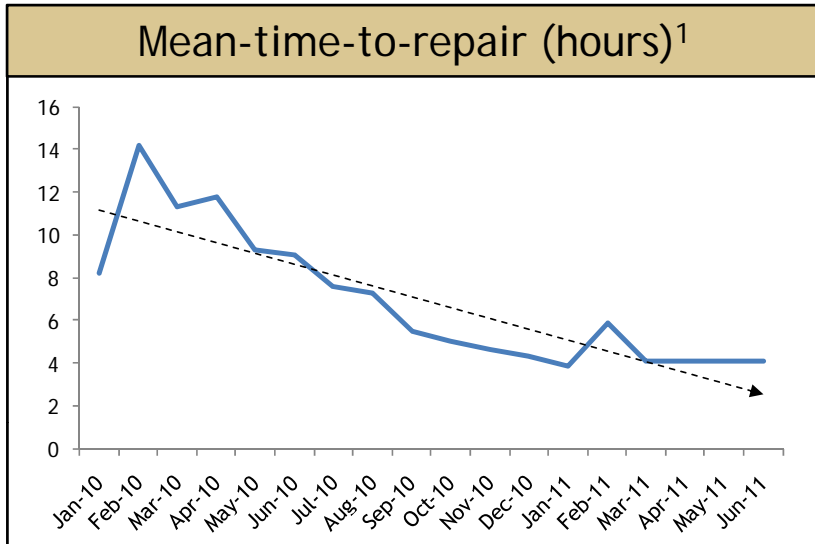


- **Network reach and IP-based services support organic revenue growth opportunities**
  - Over 1 million fiber strand miles on over 12,000 route miles
  - Designed and deployed with 400G dense wave division multiplexing (“DWDM”) capabilities; Multiprotocol Label Switching (“MPLS”) design
  - 350 central offices with inter-office fiber capacity
- **Sales successes enabled by network and service**
  - Maine Schools and Libraries network: 650 locations delivering 21G of bandwidth capacity averaging 66Mb per location on 16,000 Ethernet ports turned up over a variety of network elements (fiber, copper, bonded DS1)
  - Fiber-to-the-tower: announced initial build to over half of 1,600 towers served in NNE. Fiber placed to over 400 towers as of June 30, 2011
  - Regional businesses: banks and hospitals seeking single source solution in NNE
  - Expanding broadband network: broadband service available to approximately 85% of northern New England customers and more than 90% of Telecom Group customers
- **Product development will drive future sales**
  - SMB bundle
  - Very-high speed data (over fiber)<sup>1</sup>
  - Carrier Ethernet Service



(1) FairPoint acquired over 120,000 homes and businesses served with fiber-to-the-premise during the northern New England acquisition (former Verizon FiOS territory)

# Operational and Quality Metrics are Improving

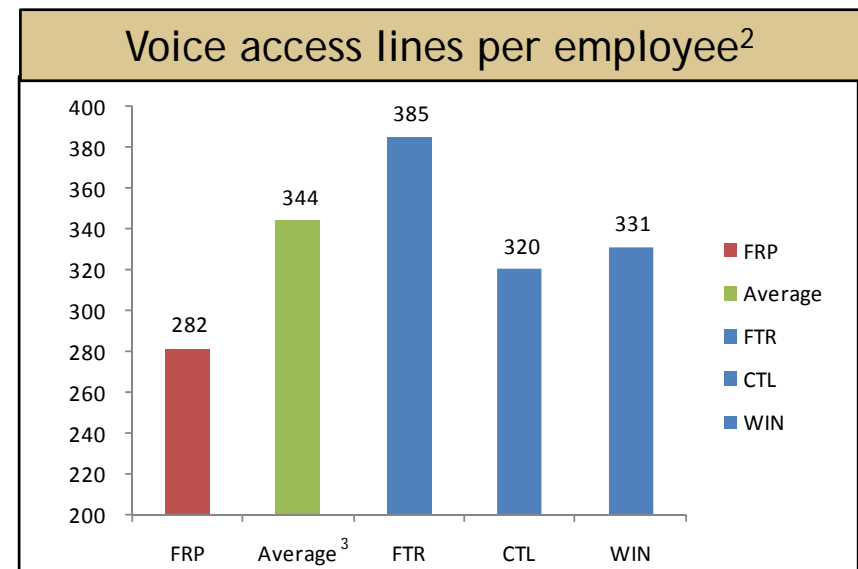
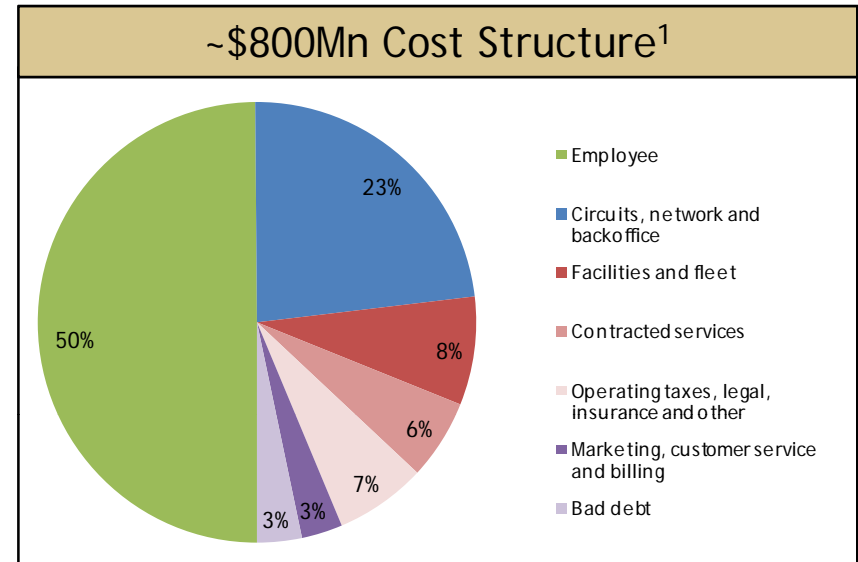


- (1) For a select major customer in northern New England
- (2) Northern New England consumer, small business and repair call centers
- (3) Number of retail service quality metrics achieved as a percentage of total penalty-bearing metrics in northern New England
- (4) Excludes benefit from service quality penalty reversals related to regulatory settlements, legislative changes and true-ups

# Cost Reduction Opportunities



- Operational improvements in late 2010 and early 2011 allow FairPoint to accelerate cost reduction initiatives
- Areas of focus:
  - Cost of goods sold (access circuits)
  - Facilities and fleet (power, fuel, real estate)
  - Contracted services
  - Bad debt
  - Employee costs
- Recent Announcement:
  - Workforce reduction of approximately 400 employees
    - ~100 management
    - ~300 union<sup>4</sup>
  - Annualized employee cost savings of approximately \$34 million expected, with full benefit in 2012
  - Severance and incentive payments cost range of \$7 million to \$13 million<sup>5</sup>



(1) 1H11 annualized. Excludes restructuring and vacation accrual  
 (2) As of December 31, 2010  
 (3) Weighted average of FTR, CTL and WIN  
 (4) FairPoint is following prescribed steps in the collective bargaining agreement  
 (5) Credit agreement allows for severance add-back of \$12 million per calendar year and \$30 million aggregate for Consolidated EBITDAR purposes

# Capital Structure



As of June 30, 2011:

- Generated \$3 million of FCF in 157 days post-emergence
- Liquidity of \$76 million
  - \$13 million unrestricted cash
  - \$63 million revolver (net of LCs)
- Leverage of 3.87x vs. 4.75x covenant
- Interest Coverage of 4.49x vs. 3.25x covenant
- Capex covenant:
  - 2011 = \$200 million
  - 2012 = \$190 million
  - 2013 = \$170 million
  - 2014 = \$150 million
  - 2015 = \$150 million

## Capital Structure Summary

<i>as of June 30, 2011</i>	<i>(in millions)</i>
Cash and cash equivalents (unrestricted)	\$13
Gross debt <sup>1</sup>	\$1,000
Revolver <sup>2</sup>	\$75
<i>Amortization schedule:</i>	
2011	\$0
2012	\$10
2013	\$10
2014	\$25
2015	\$38
January 24, 2016	\$918
<i>L+450, with LIBOR floor of 200</i>	
<i>No dividends if leverage &gt; 2.0x</i>	
<i>Interest coverage and leverage covenants</i>	
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Common stock outstanding <sup>3</sup>	26.2
Warrants (7 yr, \$48.81 strike)	3.6
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Management long-term incentive	
Restricted stock <sup>4</sup>	0.5
Options <sup>5</sup>	1.0

(1) Excludes letters of credit of \$12 million and capital lease obligations of \$4 million

(2) Before applying letters of credit of \$12 million, which reduces revolver availability

(3) Includes management restricted stock and ~0.6 million of common stock held in reserve for certain pre-petition claims

(4) Generally vest 25% at emergence, 25% on each anniversary for three years thereafter. All restricted stock included in common stock outstanding

(5) Generally vest 25% at emergence, 25% on each anniversary for three years thereafter. Options struck at \$24.29

# Recent Operating and Financial Results



## 2Q11 highlights

- Data and Internet services revenue up 3.1% YoY on 5.4% growth in high-speed data subs
- Revenue of \$255-260 million for last 3 quarters on adjusted basis<sup>5</sup>
- Consolidated EBITDAR<sup>1</sup> \$70.5 million in 2Q11: Adjusted EBITDA up sequentially and YoY

<i>(\$ in millions)</i>	2Q11	1Q11	2Q10	2Q11 vs. 1Q11	2Q11 vs. 2Q10
Consolidated EBITDAR (1)	\$ 70.5	\$ 49.1	\$ 72.3	43.6%	-2.5%
One-time penalty reversal (2)	(4.0)	-	-		
Restatement items (3)	-	-	(8.3)		
Vacation accrual impact (4)	(3.2)	10.8	(3.1)		
<b>Adjusted EBITDA</b>	<b>\$ 63.3</b>	<b>\$ 59.8</b>	<b>\$ 60.9</b>	<b>5.7%</b>	<b>3.8%</b>
<i>margin</i>	<i>24.5%</i>	<i>23.5%</i>	<i>22.4%</i>		
High-speed data subscribers (000s)	305.2	297.5	289.7	2.6%	5.3%
Residential access lines (000s)	680.2	695.9	712.6	-2.3%	-4.5%
Business access lines	317.6	322.1	327.8	-1.4%	-3.1%
Wholesale access lines	82.2	84.7	87.1	-2.9%	-5.6%
Total switched access lines	1,080.0	1,102.7	1,127.5	-2.1%	-4.2%
Access line equivalents (000s)	1,385.2	1,400.2	1,417.3	-1.1%	-2.3%

(1) As defined in FairPoint's new credit facility. For a reconciliation of Net Income (Loss) to Consolidated EBITDAR, please see our year end 2010, first quarter and second quarter 2011 earnings releases furnished by FairPoint on April 5, 2011, May 16, 2011 and August 8, 2011, respectively, with the SEC on Form 8-K

(2) Reversal of penalties related to Maine legislation and other true-ups

(3) Though added back under new credit facility, the impact of the financial restatement does belong in 2Q10 for comparative purposes

(4) FairPoint accrues a full year of vacation expense each January 1<sup>st</sup>, which is then reversed throughout the year

(5) Adjusted for one-time service quality penalty reversals in 2Q11 and 4Q10 of \$4 million and \$13 million, respectively

# FairPoint Management Team



Experienced management team with fresh focus: FairPoint strengthened its senior management team in key areas, while maintaining institutional knowledge

Name	Position	Experience
Paul Sunu	Chief Executive Officer	31 years corporate and operating experience; CEO since August 2010; Former CFO of Hargray Communications and Hawaiian Telecom; Co-founder and former CFO of Madison River Communications
Ajay Sabherwal	Executive Vice President, Chief Financial Officer	23 years of experience with 18 years in telecom; Joined FairPoint in July 2010; Former CFO of Choice One Communications, Aventine Renewable Energy and Mendel Biotechnology
Kathleen McLean	Executive Vice President and Chief Revenue Officer	28 years of telecom and information technology experience; Joined FairPoint in 2010 from Verizon Partner Solutions
Ken Amburn	Executive Vice President, Operations and Engineering	42 years of telecommunications experience. Prior to joining FairPoint, served as COO of Madison River Communications
Peter Nixon	Executive Vice President, External Affairs and Operational Support	33 years experience; Former COO and SVP of Corporate Development and President of Telecom Group; Former President of C&E Telephone Corp.
Shirley Linn	Executive Vice President, General Counsel and Secretary	35 years business and securities law experience; Joined FairPoint in 2000
Greg Castle	Senior Vice President, Human Resources	Over 25 years of experience managing employee and labor relations, including VP of labor relations at Ameritech
Rose Hauser	Senior Vice President, Chief Information Officer	20 years experience in the telecom and IT; Joined FairPoint in May 2011; Prior to FairPoint, most recently served as CIO of Hawaiian Telcom. Held leadership roles at MCI, XO Comm. and Bell Atlantic
Lee Newitt	Director, Investor Relations and Corporate Development	Joined FairPoint in 2003; has held leadership roles in M&A, corporate finance and investor relations



# Conclusion: FairPoint is positioned for success



## Leveraging core strengths for growth in revenue, EBITDAR and free cash flow

- Network: geographic scope, network ubiquity, next-generation platform
- Service: enhanced service and responsiveness as competitive advantage
- Organic revenue growth opportunities: business and wholesale
- Stable RLEC business: steady cash flow, platform for product development

## Recent achievements accelerate cost reduction opportunities

- Operational improvements: service quality, data growth, slowing voice loss
- Margin expansion: revenue growth plus cost reduction

## Experienced management team

- Aligned to capture growth and improve operations