



[www.FairPoint.com](http://www.FairPoint.com)

---

# Company Presentation

August 2013

# Safe Harbor Statement



The information contained herein is current only as of the date hereof; however, unless otherwise indicated, financial information contained herein is as of June 30, 2013. The business, prospects, financial condition or performance of FairPoint Communications, Inc. ("FairPoint") and its subsidiaries described herein may have changed since that date. FairPoint does not intend to update or otherwise revise the information contained herein. FairPoint makes no representation or warranty, express or implied, as to the completeness of the information contained herein.

Market data used throughout this presentation is based on surveys and studies conducted by third parties, as well as industry and general publications. FairPoint has no obligation (express or implied) to update any or all of the information or to advise you of any changes; nor does FairPoint make any express or implied warranties or representations as to the completeness or accuracy nor does it accept responsibility for errors.

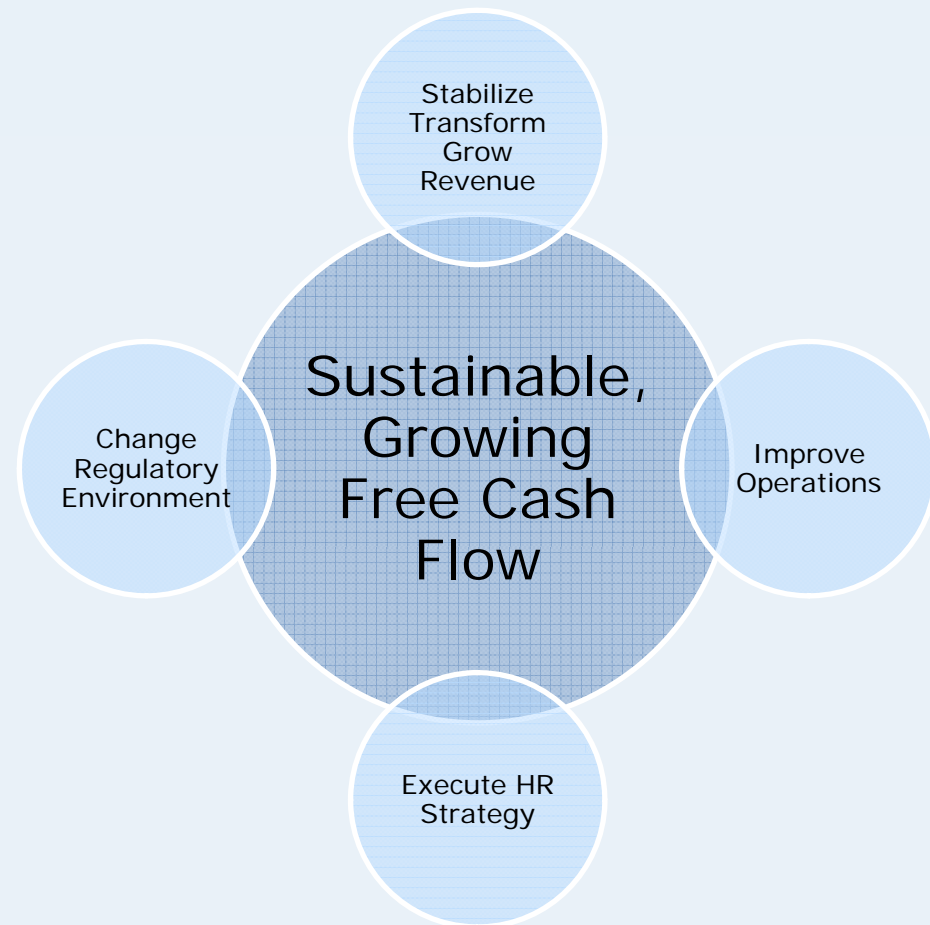
Some statements herein are known as "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements include, but are not limited to, statements about our plans, objectives, expectations and intentions and other statements contained herein that are not historical facts. When used herein, the words "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates" and similar expressions are generally intended to identify forward-looking statements. Because these forward looking statements involve known and unknown risks and uncertainties, there are important factors that could cause actual results, events or developments to differ materially from those expressed or implied by these forward-looking statements, including our plans, objectives, expectations and intentions and other factors. You should not place undue reliance on such forward-looking statements, which are based on the information currently available to us and speak only as of the date hereof. FairPoint does not undertake any obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Throughout this presentation, reference is made to Adjusted EBITDA and Unlevered Free Cash Flow and adjustments to GAAP and non-GAAP measures to exclude the effect of special items. Management believes that Adjusted EBITDA provides a useful measure of operational and financial performance and removes variability related to pension contributions and payments for other post-employment benefits and that Unlevered Free Cash Flow may be useful to investors in assessing the Company's ability to generate cash and meet its debt service requirements. The maintenance covenants contained in the Company's credit facility are based on Adjusted EBITDA. In addition, management believes that the adjustments to GAAP and non-GAAP measures to exclude the effect of special items may be useful to investors in understanding period-to-period operating performance and in identifying historical and prospective trends.

We provide guidance as to certain financial information herein, which consists of forward-looking statements. Our guidance is not prepared with a view toward compliance with the published guidelines of the American Institute of Certified Public Accountants, and neither our independent registered public accounting firm nor any other independent expert or outside party compiles or examines the guidance and, accordingly, no such person expresses any opinion or any other form of assurance with respect thereto. Guidance is based upon a number of assumptions and estimates that, while presented with numerical specificity, are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control and are based upon specific assumptions with respect to future business decisions, some of which will change. We generally state possible outcomes as high and low ranges which are intended to provide a sensitivity analysis as variables are changed but are not intended to represent our actual results which could fall outside of the suggested ranges. The principal reason that we release this data is to provide a basis for our management to discuss our business outlook with analysts and investors. Notwithstanding this, we do not accept any responsibility for any projections or reports published by any such outside analysts or investors. Guidance is necessarily speculative in nature, and it can be expected that some or all of the assumptions or the guidance furnished by us will not materialize or will vary significantly from actual results. Accordingly, our guidance is only an estimate of what management believes is realizable as of the date hereof. Actual results may vary from the guidance and the variations may be material. Investors should also recognize that the reliability of any forecasted financial data diminishes the farther in the future that the data is forecast. In light of the foregoing, investors are urged to put the guidance in context and not to place undue reliance on it. Any inability to successfully implement our operating strategy or the occurrence of any of the events or circumstances discussed therein could result in the actual operating results being different than the guidance, and such differences may be material.

# Investment Highlights

- FairPoint is well positioned to grow free cash flow sustainably
- The Company is executing its 'four-pillar' strategy designed to deliver sustainable free cash flow growth
- Sustainable free cash flow growth is the best way to increase shareholder value

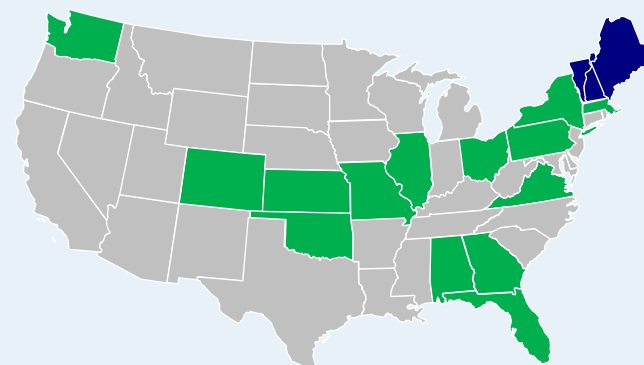


# Company Snapshot



- 2Q13 Revenue of \$234.5M, 1H13 Revenue of \$470M and 3,255 employees
- Operates in 17 states with over 1.2M access line equivalents<sup>(1)</sup>
  - 80% former Verizon wireline business in Maine, New Hampshire and Vermont (“NNE”)
  - 20% pre-merger FairPoint in rural communities in 17 states, including ME, NH and VT (“Telecom Group”)
- **NNE:**
  - Incumbent wireline provider with extensive “enterprise class” network and scale in three contiguous states
  - 15,000+ fiber route mile network offering IP/Ethernet services to attract sustainable revenues
  - Significant organic growth opportunity, especially in business market
  - ~90% broadband availability; 33% penetration<sup>(2)</sup>
- **Telecom Group:**
  - Consistent, substantial cash flow generation
  - Local presence and workforce; less competition
  - ~90% broadband availability; 53% penetration
  - Closed sale of Idaho property for 6x EBITDA in 1Q13

## Service Territory



■ Telecom Group ■ Northern New England

## Access Line Equivalents

as of June 30, 2013	NNE	Telecom Group <sup>(3)</sup>	Total
Switched access lines:			
Residential	440,904	115,680	556,584
Business	249,135	45,048	294,183
Wholesale	61,911	NM	61,911
Total switched access lines	751,950	160,728	912,678
Broadband Subscribers	247,230	85,390	332,620
Total access line equivalents	999,180	246,118	1,245,298

(1) Switched access lines plus broadband subscribers as of June 30, 2013  
 (2) Broadband subscribers as a percentage of switched access lines  
 (3) Approximately 20% of Telecom Group is located in ME, NH and VT

# Executing on our Strategy



## Improve Operations



2011 Focus

Complex project management, including FTTT

Improved service quality

Enhanced service quality after 12% reduction in force in 2011

## Change Regulatory Environment



2012 Focus

Level playing field

Legislation in Maine and New Hampshire; Vermont IRP

FCC ICC/USF reform

## Transform & Grow Revenue



2013 Focus

Revenue stabilization period entered in 2013

Significant increase in sales bookings

Major long-term contracts leveraging fiber assets

## Execute HR Strategy



2014 Negotiation

IBEW 2011 Force Adjustment Process (FAP)

CWA 2012 FAP executed in 30 days

Enhanced competencies in labor relations and learning & development

# Leveraging Network with Outstanding Project Management



Assure quality and delivery through best in class complex project management

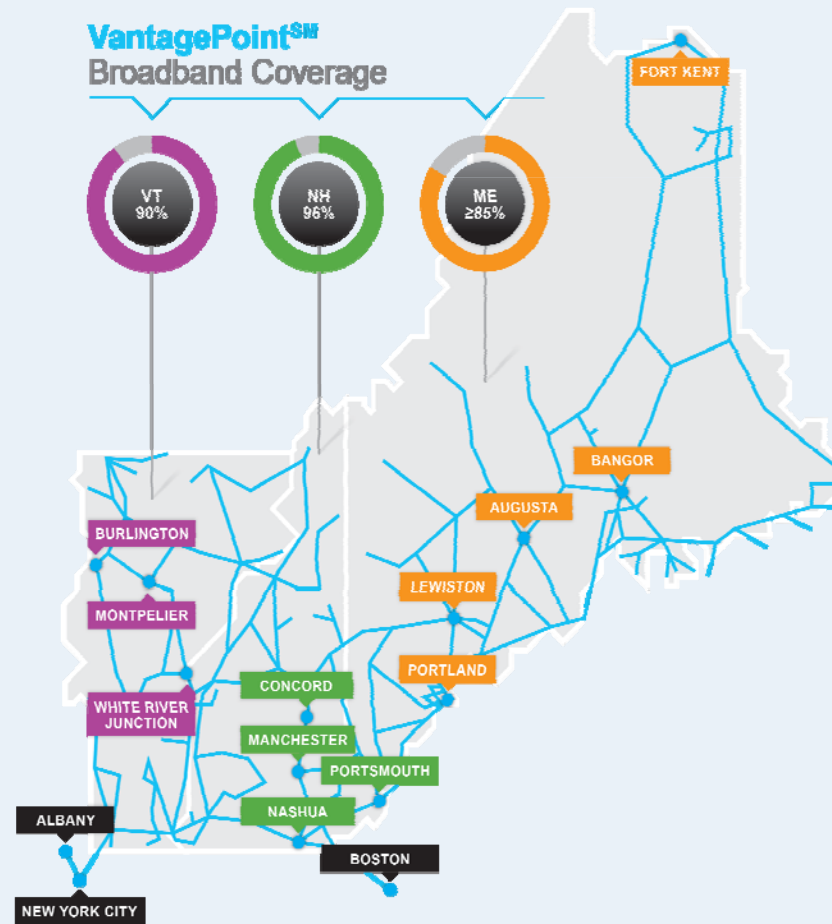
## Key 2013 Initiatives

- Fiber-to-the-Tower initiative
  - Over 1,100 Ethernet cellular connections
  - Projects based on contracted services
  - Targeting over 1,300 Ethernet cellular connections in 2013
  
- Next Generation E-911 service
  - Fiber and next generation 911 service to 26 Public Service Answering Points in Maine well underway
  
- New England Telehealth Consortium
  - Fiber connection delivered to over 125 healthcare institutions
  - Targeting fiber connections to over 400 healthcare providers

# Next-Generation Network

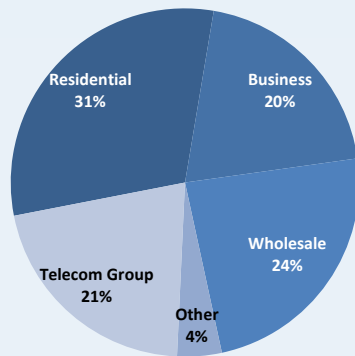
Enterprise Class fiber network designed to meet growing demand of business customers

- Over 15,000 fiber route miles
- Over 721,000 fiber strand miles
- Scalable 400G DWDM Network
- Over 350 central offices
- From over 1,100 to over 1,300 FTTT Ethernet cellular connections by year end
- Over \$195 million invested
- Easy access facilitated through New York and Boston

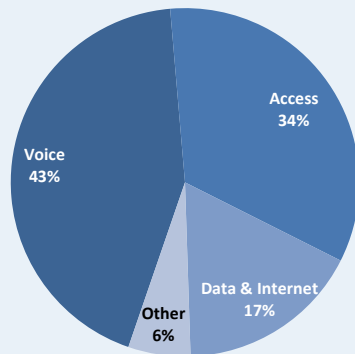


# Revenue: Stabilize, Transform and Grow

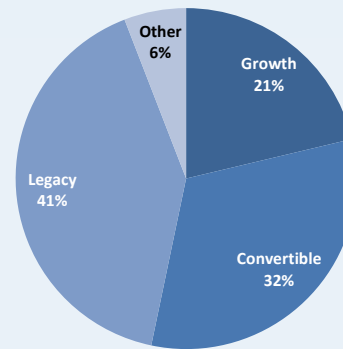
by Customer Segment <sup>(1)</sup>



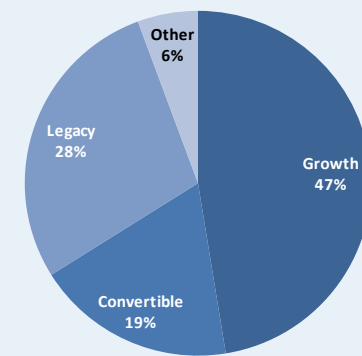
by Product Type <sup>(1)(2)</sup>



by Strategic Category <sup>(1)</sup>



5-Year Outlook



- **Growth** revenues are comprised of products such as:
  - Retail Ethernet
  - Wholesale Ethernet
  - Broadband and FTTT
- **Convertible** revenues are moving from older technologies like:
  - Business voice
  - Centrex
  - ATM/Frame Relay
- **Legacy** revenues are in managed decline and comprised of:
  - Residential voice
  - Switched access

- Sales and marketing efforts focused on driving acceleration of **Growth** products
- Proactive re-termining and up-selling designed to reduce revenue churn as **Convertible** customers switch from TDM to IP/Ethernet
- Retention efforts structured to slow churn in **Legacy** category

Entered period of revenue stabilization in 2Q13

(1) 2Q13 revenue of \$234.5 million

(2) Access includes switched access and special access, which includes wholesale Ethernet services like fiber-to-the-tower



# Revenue Strategy

- **Focus:** Growth-oriented, sustainable high-margin revenues
- **Service:** “Enterprise Class” Ethernet and data-centric services enabled by extensive fiber network
- **Target:** Three contiguous state footprint for regional, wholesale and local customers in NNE

## Next Generation Network

- Network (NNE) engineered for “Enterprise Class” customers to support latest VantagePoint<sup>SM</sup> high-speed data services
- 15K fiber route miles connecting over 350 Central Offices
- 2.1 million high-speed Internet qualified loops, including over 1.3 million qualified ADSL-2+ loops and over 100K fiber-to-the-premise passings
- Latest generation IP/MPLS network core and over 400G DWDM optical transport

## Enhanced Data Products

- Focus on data-centric products such as Ethernet, fiber-to-the-tower and Broadband
- Easy access to NNE through out-of-territory service connections in New York and Boston
- Matching growing customer bandwidth demands with next-generation products
- Reliability, redundancy and service quality are competitive advantages

## Focused and Driven Sales Culture

- Improved sales recruiting process, sales activity model and best-in-class practices
- Focused go-to-market strategy based on customer, product and sales verticals
- Key wins across the Business, Wholesale and Government / Education markets
- Target key segments (e.g. Enterprise, SMB) that are expected to have high take-up

**Significant Growth Opportunities in NNE Business Market (23% Market Share)**

# Enhanced Data Products

## Broadband Opportunity

- Opportunity to meaningfully increase broadband penetration in ME, NH and VT
- Continue to increase speeds and reach and respond to competitive offerings
  - Increased in-footprint broadband availability from ~60% to ~90% over the past 5 years
  - Low penetration in 7Mb+ is significant growth opportunity

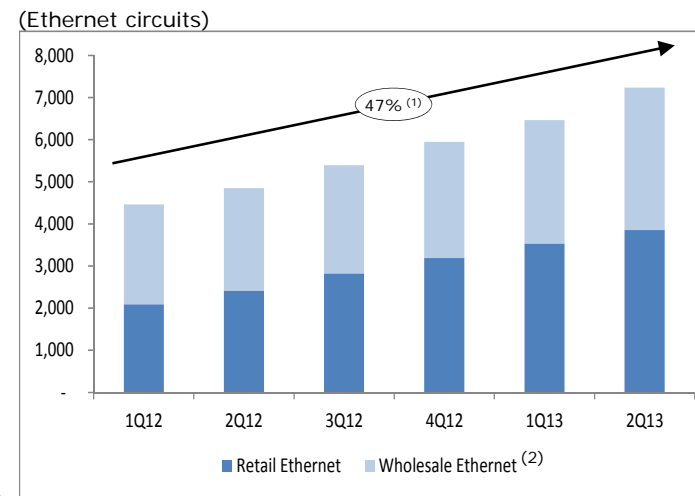
### Opportunity for 7Mb+ Data Products

Max Speed	Current Subs	Total Qualified Loops	% Penetration
<=1.5Mb	0.1M	0.3M	20%
3Mb	0.1M	0.5M	20%
7Mb	0.1M	0.5M	10%
15Mb	0.0M	0.7M	2%
30Mb	0.0M	0.1M	8%
<b>Total</b>	<b>0.3M</b>	<b>2.1M</b>	<b>11%</b>

## Next-Generation Ethernet & IP Products

- Key growth products include:
  - Retail and Wholesale Ethernet (FTTT, E-DIA, E-LAN)
  - Broadband (DSL and FTTP)
  - Managed services (Hosted VoIP)
- Ethernet products increasingly important as the Company drives expansion into the business market
  - Ethernet revenue has grown 40% YoY
- IP and Ethernet products will be critical as the product mix shifts away from local voice, ATM, frame relay and switched access

### Rapid Ethernet Adoption



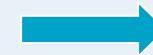
(1) CAGR of Ethernet circuit counts  
 (2) Includes FTTT customers

# Focused and Driven Sales Culture

**Instill Discipline**



**Instruct Process**



**Inspire Growth**

## Sales Segment Improvements

- ✓ Implemented "Sales Activity" model
- ✓ Integrated Salesforce.com into operations
- ✓ Established sales territories for SMB channel
- ✓ Created sales training program
- ✓ Developed branch "Playbook" for consistency
- ✓ Improved and focused sales recruiting process

## Marketing Enhancements

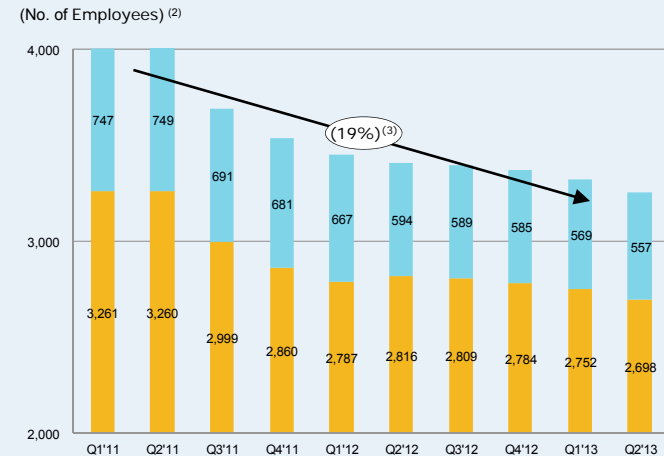
- ✓ Targeted, community-oriented marketing
- ✓ Established territories and assigned prospect lists
- ✓ Developed on-boarding and training module
- ✓ Enhanced competitive analysis
- ✓ Focused on up-selling of customer base
- ✓ Improved customer experience

**Enhanced Sales Organization with Positive Momentum  
Direct Sales Bookings are up 25% YoY**

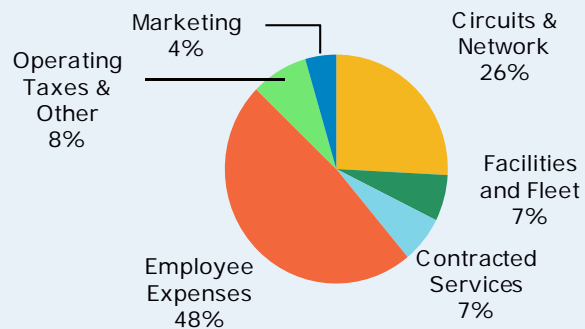
# Execute HR Strategy

- FairPoint continues to align its human resource assets with the changing telecom landscape
- 19% workforce reduction in last 2 years
- 3,255 employees as of June 30, 2013
  - 1,168 non-represented
  - 2,087 union (1,836 covered by CBAs with CWA and IBEW in NNE, which expire Aug. 2014)
- FairPoint has increased productivity and maintained service quality
  - Demonstrated improvement in key service-quality metrics despite headcount reduction
  - Increased productivity on a per-employee basis over time

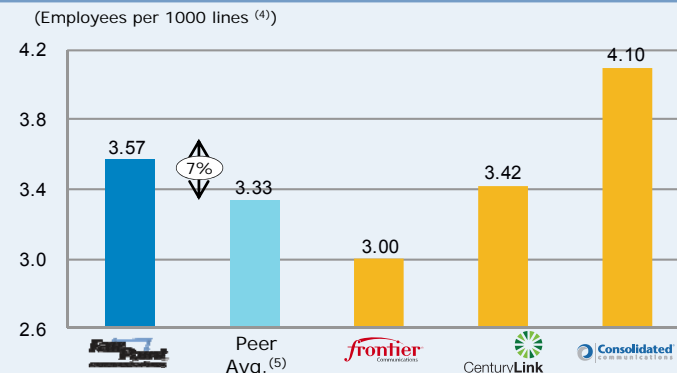
## Continuing Headcount Rationalization



## \$700M Cost Structure <sup>(1)</sup>



## Continuing Headcount Rationalization



Labor negotiations in 2014 provide opportunity to further address cost structure

(1) FY 2012 adjusted for items added back to compute Adjusted EBITDA  
 (2) NNE = Yellow, Telecom Group = Blue  
 (3) Decrease represents total change in workforce since 1Q11  
 (4) As of Dec. 31, 2012 for peers, as of June 30, 2013 for FRP  
 (5) Weighted average of FTR, CNSL and CTL

## Financial Overview

# Summary Financial Results



## Q2 and YTD 2013 Results

- Q2 Revenue of \$234.5M was only \$300k less than Q1 revenue, adjusted for the sale of the Idaho business
- Reported positive momentum in growth-oriented business and broadband products
  - Data and Internet services revenue grew 11% YoY
  - Ethernet services contributed approximately \$14M of revenue in Q2 2013 as compared to \$10M a year ago, an increase of 40% YoY
  - Broadband subscribers grew 4.2%<sup>(1)</sup> and total Ethernet circuits grew by 49% YoY
- Adjusted EBITDA<sup>(2)</sup> increased to \$66M in Q2 2013 as compared to \$64M in Q1 2013
- Unlevered Free Cash Flow<sup>(3)</sup> increased to \$35 million from \$33 million in Q1, because of lower expenses and lower capital expenditures
- Liquidity remains strong as the Q2 2013 cash balance increased to \$27M from \$17M in Q1 2013; \$75M revolver remains undrawn exclusive of letters of credit
- Reaffirmed full year Unlevered Free Cash Flow guidance of \$100-110M

(1) Pro forma for the sale of Idaho operations on Jan. 31, 2013

(2) Adjusted EBITDA is a non-GAAP financial measure. For a reconciliation of Net Income (Loss) to Adjusted EBITDA, see our second quarter 2013 earnings release furnished August 5, 2013 on Form 8-K

(3) Unlevered Free Cash Flow means Adjusted EBITDA minus the sum of pension contributions, OPEB payments and capital expenditures. Unlevered Free Cash Flow is a non-GAAP financial measure. For a reconciliation of Net Income (Loss) to Unlevered Free Cash Flow, see our second quarter 2013 earnings release furnished August 5, 2013 on Form 8-K

# Recent Financial Trends



## Financial Highlights

<i>(\$ in M)</i>	<b>3Q12</b>	<b>4Q12</b>	<b>1Q13</b>	<b>2Q13</b>	<b>2012</b>	<b>2013 Guidance</b>
Revenue	\$242.1	\$239.7	\$235.5 <sup>(3)</sup>	\$234.5 <sup>(3)</sup>	\$973.6	
Adjusted EBITDA <sup>(1)</sup> margin	\$69 29%	\$63 26%	\$64 27%	\$66 28%	\$278 29%	\$255 - \$265
Capital expenditures % of revenue	\$38 16%	\$49 20%	\$30 13%	\$27 12%	\$145 15%	\$135
Cash Pension & OPEB	\$8	\$1	\$1	\$4	\$21	\$20
Unlevered Free Cash Flow <sup>(2)</sup>	\$24	\$12	\$33	\$35	\$112	\$100 - \$110
Cash on hand	\$22	\$23	\$17	\$27	\$23	
Debt	\$970	\$957	\$940	\$938	\$957	

### Commentary:

- 2013 guidance takes into account the sale of Idaho on Jan. 31, 2013 (\$8M of revenue, \$5M of Adjusted EBITDA and \$1M of CapEx per year)
- Annual cash interest expense, on a pro forma basis, is expected to be \$75 to 80 million per year
- Annual mandatory debt amortization, on a pro forma basis, of \$6 million

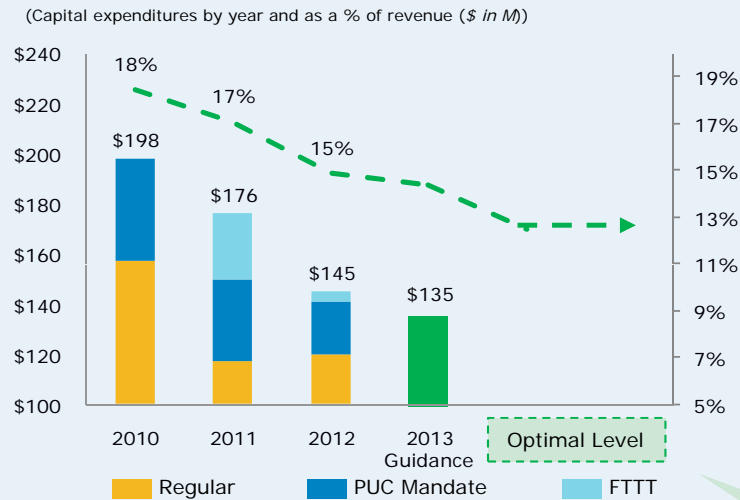
(1) Adjusted EBITDA is a non-GAAP financial measure. For a reconciliation of Net Income (Loss) to Adjusted EBITDA, see the Company's second quarter 2013 earnings release furnished August 5, 2013 on Form 8-K

(2) Unlevered Free Cash Flow means Adjusted EBITDA minus the sum of pension contributions, OPEB payments and capital expenditures. Unlevered Free Cash Flow is a non-GAAP financial measure. For a reconciliation of Net Income (Loss) to Unlevered Free Cash Flow, see our second quarter 2013 earnings release furnished August 5, 2013 on Form 8-K

(3) Sale of Idaho operations on Jan. 31, 2013 resulted in \$1.3M of sequential revenue decline from 4Q12 to 1Q13 and approximately \$0.6M of sequential revenue decline from 2Q13 to 1Q13

# Disciplined approach to Cap Ex

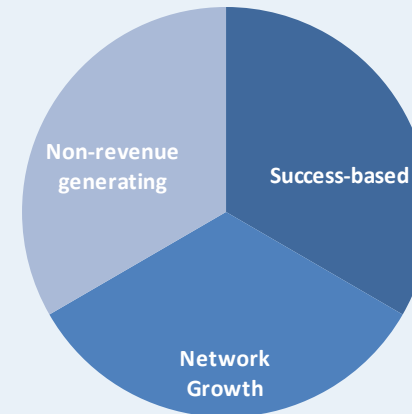
## Cap Ex Trend and Allocation



- Success-based includes spending directly attributable to sales
- Network growth includes fiber expansion, broadband buildout and speed upgrades
- Non-revenue generating includes IT, plant maintenance and cost saving projects

## Optimizing Cap Ex Levels

- Cap Ex managed through regular review of priorities and initiatives
- Cap Ex trending toward optimal level
- Cap Ex spend tends to increase in 2H due to timing of construction





# Pension and OPEB Considerations

- Pension & OPEB liabilities arise primarily from Northern New England union contracts
  - GAAP liabilities represent status quo into perpetuity and reflect continuation of past practices
- 2013 Pension contribution and OPEB payments targeted to about \$20M
- Pension and OPEB liabilities are highly sensitive to changes in the discount rate and healthcare cost trend assumptions
- 19% reduction in headcount since 2011 <sup>(2)</sup>

## Pension & OPEB GAAP Liability

(\$ in millions)	2011	2012	2Q13
<b>Pension</b>			
Plan assets	\$160.3	\$166.3	\$168.8
Projected benefit obligation	\$318.3	\$369.8	\$381.1
Key assumptions:			
Discount Rate	4.63%	4.08%	4.17%
<b>OPEB</b>			
Plan assets	\$1.0	\$0.0	\$0.0
Projected benefit obligation	\$533.2	\$621.4	\$645.4
Key assumptions:			
Discount Rate	4.66%	4.20%	4.20%
Healthcare cost trend (<65 years)	8.40%	8.10%	8.10%
Healthcare cost trend (>65 years)	8.40%	8.10%	8.10%

## Pension & OPEB Sensitivity <sup>(1)</sup>

(\$ in millions)	Pension	OPEB
Impact on liability given 1% change in the discount rate assumption	20%	23%
Impact on liability given 1% increase in healthcare cost trend assumption	N/A	\$158.2
Impact on liability given 1% decrease in healthcare cost trend assumption	N/A	(\$119.2)

**Labor negotiations in 2014 provide opportunity to address Pension & OPEB**

(1) Based upon liability at December 31, 2012  
 (2) Resulted in over \$50 million in lump sum distributions

# Strengthening Financial Profile



## Disciplined Investment for Growth

- Focused on revenue & product transformation
  - “Enterprise Class” network with 15K fiber route miles in 3 contiguous states
  - Continually developing network to meet growing and rapidly evolving needs of enterprise and wholesale customers
  - Enhanced sales organization with positive momentum
- Significant growth opportunities in NNE Business Market (currently 23% market share)

## Strengthen Balance Sheet

- Deleveraging
  - Reduced debt from \$1B to \$938M in 2 years
  - Successful refinancing in 1Q13
  - Mandatory debt amortization of \$6M per year
  - 50% excess cash flow sweep
  - Continued investment discipline
  - Sustainable, growing free cash flow
- Monetizing non-core assets at attractive valuations
  - Sale of Idaho operations for 6x EBITDA
  - \$2M gross proceeds from non-productive real estate
- Focus on cost savings leading up to labor contract renegotiations in August 2014
- Manage pension liability through prudent cash contributions