

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

**Form 10-K**

(Mark One)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2014

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from        to

Commission file number 001-32408

**FairPoint Communications, Inc.**

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

13-3725229  
(I.R.S. Employer  
Identification No.)

521 East Morehead Street, Suite 500  
Charlotte, North Carolina  
(Address of principal executive offices)

28202  
(Zip Code)

Registrant's telephone number, including area code:  
(704) 344-8150

**Securities registered pursuant to Section 12(b) of the Act:**

Title of each class	Name of exchange on which registered
Common Stock, par value \$0.01 per share	The Nasdaq Stock Market LLC (Nasdaq Capital Market)

**Securities registered pursuant to Section 12(g) of the Act:**

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input type="checkbox"/>

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

The aggregate market value of the common stock of the registrant held by non-affiliates of the registrant as of June 30, 2014 (based on the closing price of \$13.97 per share) was \$362,046,436.

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes ☒ No ☐

As of February 27, 2015, there were 26,864,658 shares of the registrant's common stock, par value \$0.01 per share, outstanding.

Documents incorporated by reference: Part III of this annual report on Form 10-K incorporates information by reference from the registrant's definitive proxy statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended, within 120 days after the close of the registrant's fiscal year.

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**FAIRPOINT COMMUNICATIONS, INC.**  
**ANNUAL REPORT ON FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2014**

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## CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Some statements in this Annual Report on Form 10-K for the fiscal year ended December 31, 2014 (this "Annual Report") are known as "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). These forward-looking statements include, but are not limited to, statements about our plans, objectives, expectations and intentions and other statements contained in this Annual Report that are not historical facts. When used in this Annual Report, the words "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates," "should", "could", "may" 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 factors discussed under "Item 1A. Risk Factors" and other parts of this Annual Report and the factors set forth below:

- future performance generally and our share price as a result thereof;
- restrictions imposed by the agreements governing our indebtedness;
- our ability to satisfy certain financial covenants included in the agreements governing our indebtedness;
- financing sources and availability, and future interest expense;
- our ability to repay or refinance our indebtedness;
- our ability to fund substantial capital expenditures;
- anticipated business development activities and future capital expenditures;
- the effects of regulation, including changes in federal and state regulatory policies, procedures and mechanisms including but not limited to the availability and levels of regulatory support payments, and the remaining restrictions and obligations imposed by federal and state regulators as a condition to the approval of the Merger (as defined hereinafter) and the Plan (as defined hereinafter);
- adverse changes in economic and industry conditions, and any resulting financial or operational impact, in the markets we serve;
- labor matters, including workforce levels, our workforce reduction initiatives, labor negotiations and any work stoppages relating thereto, and any resulting financial or operational impact;
- material technological developments and changes in the communications industry, including declines in access lines and disruption of our third party suppliers' provisioning of critical products or services;
- change in preference and use by customers of alternative technologies;
- the effects of competition on our business and market share;
- our ability to overcome changes to or pressure on pricing and their impact on our profitability;
- intellectual property infringement claims by third parties;
- failure of, or attack on, our information technology infrastructure;
- risks related to our reported financial information and operating results;
- availability of net operating loss ("NOL") carryforwards to offset anticipated tax liabilities;
- the impact of changes in assumptions on our ability to meet obligations to our company-sponsored qualified pension plans and post-retirement healthcare plans;
- the impact of lump sum payments related to accrued vested benefits under our company-sponsored qualified pension plans on future pension contributions;
- the effects of severe weather events, such as hurricanes, storms, tornadoes and floods, terrorist attacks, cyber-attacks or other natural or man-made disasters; and
- changes in accounting assumptions that regulatory agencies, including the Securities and Exchange Commission (the "SEC"), may require or that result from changes in the accounting rules or their application, which could result in an impact on earnings.

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 on which this Annual Report was filed with the SEC. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, changes in our expectations or otherwise, except as required by law. However, your attention is directed to any further disclosures made on related subjects in our subsequent reports filed with the SEC on Forms 10-K, 10-Q and 8-K.

## PART I

### ITEM 1. BUSINESS

*Except as otherwise required by the context, references in this Annual Report to:*

- *"FairPoint Communications" refers to FairPoint Communications, Inc., excluding its subsidiaries.*
- *"FairPoint", the "Company", "we", "us" or "our" refer to the combined business of FairPoint Communications, Inc. and all of its subsidiaries after giving effect to the merger on March 31, 2008 with Northern New England Spinco Inc. ("Spinco"), a subsidiary of Verizon Communications Inc. ("Verizon"), which transaction is referred to herein as the "Merger".*
- *"Northern New England operations" refers to the local exchange business acquired from Verizon and certain of its subsidiaries after giving effect to the Merger.*
- *"Telecom Group" refers to FairPoint, exclusive of our acquired Northern New England operations.*
- *"Verizon New England" refers to the local exchange business of Verizon New England Inc. in Maine, New Hampshire and Vermont and the customers of Verizon and its subsidiaries' (other than Cellco Partnership) related long distance and Internet service provider business in those states prior to the Merger.*
- *"Predecessor Company" refers to the Company during all periods as of and preceding the Effective Date (as defined herein).*

#### **Our Business**

We are a leading provider of advanced communications services to business, wholesale and residential customers within our service territories. We offer our customers a suite of advanced data services such as Ethernet, high capacity data transport and other IP-based services over our Next Generation Network (as defined herein), in addition to Internet access, high-speed data ("HSD") and local and long distance voice services. Our service territory spans 17 states where we are the incumbent communications provider primarily serving rural communities and small urban markets. Many of our local exchange carriers ("LECs") have served their respective communities for more than 80 years. We operate with approximately 1.1 million access line equivalents, including approximately 322,000 broadband subscribers, in service as of December 31, 2014.

We own and operate an extensive next-generation fiber network with more than 16,000 miles of fiber optic cable (the "Next Generation Network") in Maine, New Hampshire and Vermont, giving us capacity to support more HSD services and extend our fiber reach into more communities across the region. The IP/Multiple Protocol Label Switched ("IP/MPLS") network architecture of our Next Generation Network allows us to provide Ethernet, transport and other IP-based services with the highest level of reliability at a lower cost of service. This fiber network also supplies critical infrastructure for wireless carriers serving the region as their bandwidth needs increase, driven by mobile data from smartphones, tablets and other wireless devices. As of December 31, 2014, we provide cellular transport, also known as backhaul, through over 1,700 mobile Ethernet backhaul connections. We have fiber connectivity to more than 1,200 cellular telecommunications towers in our service footprint.

We were incorporated in Delaware in 1991 and grew through acquisitions. In March 2008, we completed the acquisition of the Northern New England operations from Verizon through the Merger. This acquisition significantly expanded our geographic platform in Maine, New Hampshire and Vermont increasing our access line density.

#### **Transformation of our Business**

We have transformed our network and are aligning our communications services to meet changing customer preferences and communications requirements. Over the past few years, we have made significant capital investments in our Next Generation Network to expand our business service offerings to meet the growing data needs of our business customers and to increase broadband speeds and capacity in our consumer markets. We have also focused our sales and marketing efforts on these advanced data solutions. Specifically, we built and launched high capacity Ethernet services to allow us to meet the capacity needs of our business customers as well as supply high capacity infrastructure to our wholesale customers.

Business and wholesale customers have a growing demand for bandwidth and are converting from services such as Asynchronous Transfer Mode ("ATM") and Frame Relay and dedicated transport using T-1s to Ethernet-based products. Businesses are also looking to take advantage of the flexibility of voice services via Voice over Internet Protocol ("VoIP"). Residential customer trends have shown an increasing adoption and demand for higher speed broadband services while traditional voice services are giving way to wireless and alternative carriers. Our plan is to continue to add advanced data products and services that meet our business and wholesale customers' needs while providing HSD options, attractive pricing features and appealing bundle offers that help retain our residential customer base.

We have been successful in meeting the needs of our wireless carrier customers through our Fiber to the Tower ("FTTT") initiative. We have seen an increase in fiber backhaul from wireless carriers since late 2010 and now have over 1,200 cell towers served with fiber. Our extensive fiber network of more than 16,000 miles of fiber optic cable in Maine, New Hampshire and Vermont is a competitive advantage in delivering FTTT services.

We believe recent regulatory reforms in Maine, New Hampshire and Vermont will serve to promote fair competition among communication services providers in that region. We continue to believe that there is a significant organic growth opportunity within these business markets given our extensive fiber network and IP-based product suite combined with our relatively low business market share in these areas.

## **Generation of Revenue**

We offer a broad portfolio of services to meet the communications and technology needs of our customers, including bundling of services designed to simplify our customers' purchasing and management processes. Our basic offerings are outlined below.

See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Item 8. Financial Statements and Supplementary Data" included elsewhere in this Annual Report for more information regarding our revenue sources and financial results, respectively.

### ***Data and Internet Services***

We believe data and Internet services are the cornerstone of our growth strategy for our business customers who require more advanced data solutions and our wholesale customers who experience capacity demands from their end users for higher speed services. We offer an extensive array of high capacity data services including: optical, Ethernet, IP services, Ethernet virtual circuit technology for cellular backhaul and private line special access services. We work with large businesses and carriers to deliver network capacity to meet their specific needs, including migrating networks from time division multiplexing to Ethernet-based high capacity circuits. We have recently expanded our portfolio to include Hosted PBX (Primary Branch Exchange) service over our Ethernet network. This service provides a cloud based voice offering for business customers. The service leverages our softswitch platform and uses a set of approved vendors for on-site hardware and maintenance support. Hosted PBX service allows us to continue to expand the services we offer to business customers, while leveraging our Ethernet network.

We offer internet access to both consumer and business customers through a variety of technologies leveraging both copper and fiber infrastructure, including digital subscriber line ("DSL"), dedicated fiber and lit buildings throughout our footprint. Certain of these services provide speeds up to 1 gigabit per second. In select markets, we also offer cable modem internet service, "Fiber to the Home" and wireless internet access.

Our data center rack space services offer businesses and public entities a physically secure, reliable location equipped with network connections to manage off-site disaster recovery, computing, storage and other IT equipment. FairPoint customer data centers are strictly controlled, secured environments with the necessary power, cooling and connectivity resiliency to provide customer business continuity. These data centers enable organizations to quickly and cost-effectively scale and consolidate their IT systems to meet demand without incurring construction or excess staffing costs while maintaining control over management of both equipment and data.

### ***Voice Services***

**Local Calling Services.** Local calling services enable the local customer to originate and receive an unlimited number of calls within a defined "exchange" area. Local calling services include basic local lines and local private lines. We provide local calling services to residential and business customers, generally for a fixed monthly charge and service charges for special calling features. In a LEC's territory, the amount that we can charge a customer for local service is generally determined by proceedings involving the appropriate state regulatory authorities.

**Long Distance Services.** We offer dedicated long distance services within our service areas on our network and through resale agreements with national interexchange carriers. In addition, through our wholly-owned subsidiary, FairPoint Carrier Services, Inc., we offer wholesale long distance services to communications providers that are not affiliated with us.

**High-Cost Loop Funding.** We receive Connect America Fund ("CAF") Phase I frozen support (formerly Universal Service Fund ("USF") high-cost support) subsidies to supplement the amount of local service revenue received by us to ensure that basic local service rates for customers in high-cost areas are consistent with rates charged in lower cost areas, as described below in "Regulatory and Legislative Environment".

## **Access**

**Network Transport Services.** We offer network transport services to wholesale customers for their use in connecting end users to the interexchange networks of the wholesale customer. These network transport services include special access services, which are primarily DS-1 and DS-3 services, and high speed digital services, which are primarily Ethernet-based services provisioned over fiber and copper facilities.

**Network Switched Access Service.** Network switched access service enables long distance companies to utilize our local network to originate or terminate intrastate and interstate communications. Network switched access charges relate to long distance, or toll calls, that typically involve more than one company in the provision of telephone service, as well as to the termination of interexchange private line services. Since toll calls and private line services are generally billed to the customer originating the call or ordering the private line service, a mechanism is required to compensate each company providing services relating to the service. This mechanism is the access charge and we bill access charges to long distance companies and other customers for the use of our facilities to access the customer, as described below. Network switched access compensation is subject to the Federal Communications Commission ("FCC") CAF/intercarrier compensation ("ICC") Order (referred to hereafter as the "CAF/ICC Order"), as described in "Regulatory and Legislative Environment." Under the new rules, network switched access revenues are expected to continue to decline, but on a more predictable basis with fewer disputes.

**Interstate Access Charges.** We generate interstate access revenue when an interstate long distance call is originated by a customer in one of our exchanges to a customer in another state, or when such a call is terminated to a customer in one of our exchanges. We also generate interstate access revenue when an interexchange carrier orders special access to connect interexchange private line services, such as HSD services, to a customer in one of our local exchanges. We bill interstate access charges in the same manner as we bill intrastate access charges as described below; however, interstate access charges are regulated and approved by the FCC instead of the state regulatory authority.

**Intrastate Access Charges.** We generate intrastate access revenue when an intrastate long distance call involving an interexchange carrier is originated by a customer in one of our exchanges to a customer in another exchange in the same state, or when such a call is terminated to a customer in one of our local exchanges. We also generate intrastate access revenue when an interexchange carrier orders special access to connect interexchange private line services, such as HSD services, to a customer in one of our local exchanges. The interexchange carrier pays us an intrastate access fee for either terminating or originating the communication. We bill access charges relating to such service through our carrier access billing system and receive the access payment from the interexchange carrier. Access charges for intrastate services are regulated and approved by the state regulatory authority and are also subject to the rate transitions ordered by the FCC in its CAF/ICC order.

## **Other Services**

We seek to capitalize on our LECs' local presence and network infrastructure by offering enhanced services to customers, including directory services, video and special purpose projects, among others.

**Directory Services.** Through our local telephone companies, we publish telephone directories in some of our locations. These directories provide white page listings, yellow page listings and community information listings. We contract with leading industry providers to assist in the sale of advertising and the compilation of information, as well as the production, publication and distribution of these directories. We do not publish directories in our northern New England markets and do not receive any portion of the directory advertising associated with the directories in those markets.

**Video.** In certain of our markets, we offer video services to our customers by reselling DirecTV content and providing cable and IP television video-over-DSL.

**Value Added Services.** In targeted markets, we offer additional value added and convenience-based services for our customers, including power utility offerings through a marketing arrangement and conference calling services for business and residential customers, among others. We are continually working to build stronger relationships with our customers as their needs evolve.

**Special Purpose Projects.** Upon request from customers, we provide project-based implementation support services. These services are provided on a time and materials basis at the customer location as part of a larger FairPoint solution. This capability allows us to better serve our customers and assist in filling resource gaps they may encounter when implementing new communications plans.

## Our Markets

Most of our 32 LECs operate as the incumbent local exchange carrier ("ILEC") in each of their respective markets with business, wholesale and residential customers in addition to broadband subscribers. The following chart identifies the number of access line equivalents and percentage thereof by customer type as of December 31, 2014 and 2013:

Access Line Equivalents by Type	December 31, 2014		December 31, 2013	
Residential	467,561	41.5%	527,890	43.7%
Business	283,490	25.2%	291,836	24.2%
Wholesale	54,195	4.8%	59,859	4.9%
<b>Total voice access lines</b>	<b>805,246</b>	<b>71.5%</b>	<b>879,585</b>	<b>72.8%</b>
Broadband subscribers	321,624	28.5%	329,766	27.2%
<b>Total access line equivalents <sup>(1)</sup></b>	<b>1,126,870</b>	<b>100.0%</b>	<b>1,209,351</b>	<b>100.0%</b>

Our operations are primarily focused in rural and small urban markets and are geographically concentrated in the northeastern United States. The following chart identifies the number of access line equivalents and percentage thereof by state as of December 31, 2014 and 2013:

Access Line Equivalents by State	December 31, 2014		December 31, 2013	
Maine	386,351	34.3%	424,345	35.1%
New Hampshire	323,859	28.7%	347,900	28.8%
Vermont	242,414	21.5%	254,931	21.1%
Florida	42,341	3.8%	44,155	3.7%
New York	40,510	3.6%	42,162	3.5%
Washington	35,432	3.1%	37,552	3.1%
Missouri	11,882	1.1%	12,650	1.0%
Ohio	11,263	1.0%	11,634	1.1%
Virginia	7,881	0.7%	8,049	0.7%
Kansas	5,769	0.5%	5,994	0.5%
Pennsylvania	5,177	0.5%	5,322	0.4%
Illinois	4,675	0.4%	4,971	0.4%
Oklahoma	3,720	0.3%	3,837	0.3%
Colorado	2,753	0.2%	2,914	0.3%
Other states <sup>(1)</sup>	2,843	0.3%	2,935	0.3%
<b>Total access line equivalents</b>	<b>1,126,870</b>	<b>100.0%</b>	<b>1,209,351</b>	<b>100.0%</b>

(1) Includes Massachusetts, Georgia and Alabama.

## Sales and Marketing

FairPoint Communications owns and operates a fiber-core Ethernet network for delivery of advanced data, voice and video technologies to businesses, public and private institutions, consumers, wireless companies and wholesale re-sellers. With more than 16,000 miles of fiber optic cable and 84% of our central offices enabled for Ethernet services, FairPoint offers the largest such network in northern New England. Combined with our copper network, our infrastructure reaches more than 95% of businesses in Maine, New Hampshire and Vermont. By investing in a dense, high-performing, scalable network, FairPoint has bandwidth and transport capacity to support enhanced applications, including the next generation of mobile and cloud-based communications, such as small cell wireless backhaul technology, VoIP, data storage, managed services and disaster recovery. Our marketing approach emphasizes the benefits of our advanced network while utilizing customer-oriented, locally-focused messages that resonate by community and by customer segment.

Our focus on individual communities stems from the expertise of more than 3,000 employees who work and live in the markets where we provide service, as well as our belief that many customers in our territory prefer to do business locally. We view our visible local presence as a competitive differentiator because it enables a prompt and locally relevant approach to opportunities and challenges in sales and service, operations, and marketing. As a result, we often leverage the heritage of the LECs in our service areas and the brand recognition our long history of service provides.



We tailor our marketing offers, messaging and tactics to be effective and efficient for each customer audience using both call center and direct sales channels. Residential customers, who make up the largest part of our customer base, are directed to customer sales and service call centers based in the markets we serve. As we seek continued growth in business services, we leverage local call centers for sales and service efficiency among our small-office and home-office clientele, as well as a direct sales force that is trained to develop advanced, customized voice and data solutions. The direct sales force that focuses on small and medium businesses dedicates representatives to exclusive geographic territories and encourages involvement in the local business community during and after hours. The direct sales force focused on large and enterprise business utilizes both a geographic territory assignment and a named account program. The government, education and wholesale teams utilize a named account approach, focusing on specific new and existing customers within their annual sales plans.

We maintain teams of local sales support staff and experienced sales engineers who can design the right solution for each organization and guide new customers during the pre- and post-sales process. Support teams are customized based on account size and product set, and dedicated representatives are on call to answer questions, troubleshoot if necessary, and serve as a conduit to much broader resources, options and support, including our in-market Network Operations Center. We also place an emphasis on customer satisfaction and retention, with certain representatives focused on maintaining existing customer relationships.

### **Information Technology and Support Systems**

We have a customer-focused approach to information technology ("IT") which allows for efficient business operations and supports revenue growth. Our approach is to simplify and standardize processes in order to optimize the benefits of our back-office and operation support systems. Specifically, our "simplify and optimize" initiative targets the reduction of redundant and manual processes to reduce cycle times, improve efficiency and deliver enhanced customer service.

Our back-office and operations support systems are a combination of integrated off-the-shelf packages that have been customized to support our operations. Our Northern New England operations carrier access billing and our Telecom Group billing operations are supported by outsourced third-party platforms.

Our systems are supported by a combination of employees and contractors. Our internal IT group supports data center operations, data network operations, internal help desk, desktop support and phases of the systems development life cycle. We use professional services firms for the majority of software development and maintenance.

### **Network Architecture and Technology**

Rapid and significant changes in technology continue in the communications industry. Our success depends, in part, on our ability to anticipate and adapt to technological changes. With this in mind, we continue to evolve and expand our advanced Next Generation Network in our Northern New England operations. The Next Generation Network is an IP/MPLS network operating on a fiber transport infrastructure that has more than 16,000 miles of fiber optic cable. This network is the largest IP/MPLS based network in northern New England. We have made significant investments in our fiber optic network to expand our business service offerings to meet the growing needs of our customers and to increase broadband speeds and capacity in our consumer markets. We expect to continue to invest in expanding the reach of our fiber network to connect directly to customers' premises, cellular towers and data centers. We monitor the Next Generation Network utilization and augment capacity as needed to avoid network problems. We believe this network architecture will enable us to efficiently respond to these technological changes.

Next Generation Network transport systems in our Northern New England operations and our Telecom Group are a combination of Synchronous Optical Network, Dense Wave Division Multiplexing and Ethernet transport capable of satisfying customer demand for high speed bandwidth transport services. This system supports advanced services, including carrier Ethernet services and legacy data products, such as Frame Relay and ATM, facilitating delivery of advanced services as demand warrants.

In our LEC markets, DSL-enabled access technology has been deployed to provide significant broadband capacity to our customers. As of December 31, 2014, all of our central offices are capable of providing broadband services through DSL technology, cable modem and/or wireless broadband.

Our LEC network consists of 93 host central offices and 412 remote central offices, all with digital switches. Approximately 99% of our central offices are served by fiber optic facilities, which we own. The primary interconnection with other incumbent carriers is also fiber optic. Our outside plant consists of both fiber optic and copper distribution networks.

### **Competition**

The telecommunications industry is comprised of companies involved in the transmission of voice, data and video communications over various media and through various types of technologies. The competitive environment continues to intensify as consumers and businesses are provided more options for a variety of services, pricing and service quality. Presently, there are

four predominant types of local telephone service providers, or carriers, in the telecommunications industry: ILECs, CLECs, cable companies and wireless carriers. ILECs, which the majority of our 32 LECs operate as, were the traditional monopoly providers of the local telephone service prior to the passage of the Telecommunications Act of 1996 (the "1996 Act"). A CLEC is a competitor to local telephone companies that has been granted permission by a state regulatory commission to offer local telephone service in an area already served by an ILEC. CLECs typically offer voice and data services to their customers. Cable companies are the traditional video distribution providers in the market and are now selling packages of voice and data services along with their video services. Wireless competitors also have a significant presence in most markets, offering local and long distance voice services, along with mobile data offerings. As a result, competition in local exchange service areas for voice and data services has increased and is expected to continue to increase from these competitors.

Overall, we face intense competition from a variety of sources for our voice and data services in most of the areas we now serve, many of whom have greater resources and access to capital, and we expect that such competition will continue to intensify in the future. This competition has had an adverse impact on our access lines, broadband subscribers and revenues.

Regulations and technology change quickly in the communications industry, and these changes have historically had, and are expected to continue in the future to have, a significant impact on competitive dynamics. For instance, the ubiquity of wireless networks, coupled with technology changes, such as VoIP and data-driven devices (e.g., smartphones and computer tablets), is creating increased competition and technology substitution, a trend we expect will continue for the foreseeable future. Public monies in the form of stimulus funds to build broadband networks are also providing a new source of competition for us. In addition, many of our competitors have access to larger workforces or have substantially greater name-brand recognition and financial, technological and other resources than we do. Moreover, some of our competitors, including wireline, wireless and cable, have formed and may continue to form strategic alliances to offer bundled services in our service areas.

We estimate that, as of December 31, 2014, most of the customers that we serve have access to voice, network transport, video services and Internet services through a cable company. In addition, increasingly, both CLECs and cable companies have begun to penetrate the market for high capacity circuits for large businesses and carriers, including interexchange and wireless providers.

In addition, in most of our service areas, we face competition from wireless carriers for voice and mobile data services. A large portion of households in the United States have moved to a wireless only model. Wireless carriers, particularly those that provide unlimited wireless service plans with no additional fees for long distance, offer customers a substitution service for our access lines and are becoming an increasing threat to our local voice line business. In addition, wireless companies continue to expand their high-speed Internet offerings, which has resulted in more intense competition for our high-speed Internet customers. Additionally, traditional wireline applications, such as home security systems, are now moving to IP-based models, leveraging an Internet connection in place of a traditional phone line. Although there are unique benefits of our wireline phone service, such as land lines remaining active in the event of a home power outage, we expect continued migration to IP-based and wireless voice services.

We are actively addressing our competitive environment with a multi-faceted approach to increase our market share. This approach is comprised of acquisition programs and new product introductions, retention programs, win-back and upsell initiatives.

Our relatively low current market share provides us the opportunity to both win-back business customers who have left for another carrier as well as acquire new business. In order to better address the needs of our customers and prospects, we segment them across specific channels. Our focus for residential customers is to drive increasing penetration of high speed data customers. We are upgrading our access infrastructure to provide higher speed internet access services via high capacity copper and fiber facilities to more customers and communities each year. We are focusing on promotional programs that allow us to differentiate from cable operators, including price lock and multi-year discount programs. We believe bundled services continue to provide value to customers and, as such, we package our services in a range of price points.

In the business and government segments, our Next Generation Network with more than 16,000 miles of fiber allows us to deliver Ethernet and fiber based data services typically ranging from 1 megabit per second to 1 gigabit per second. Along with our high capacity data services, we offer competitively priced voice services through VoIP or time division multiplexing ("TDM"). Our three contiguous state footprint in northern New England, allows businesses with multi-state locations to work with one local vendor. Our geographic coverage and extensive fiber network is an attractive feature for our wholesale customers, such as wireless carriers seeking cell tower backhaul services, and national carriers seeking middle and last mile solutions.

We have a multi-channel retention team, responsible for developing and executing customer retention programs across all areas of FairPoint. Our save desk team has been enhanced to retain disconnecting customers. In addition, we have initiated proactive programs to address customers coming off of promotions and term contracts. Through early intervention, we expect to reduce churn and retain customers longer.

See "Regulatory and Legislative Environment" herein and "Item 1A. Risk Factors" included elsewhere in this Annual Report for more information regarding the competition that we face.

## Employees

As of December 31, 2014, we employed a total of 3,052 employees, 1,914 of whom were covered by 13 collective bargaining agreements. As of December 31, 2014, 122 of our employees were covered by 6 collective bargaining agreements that expire during 2015. Our agreements with the International Brotherhood of Electrical Workers ("IBEW") and the Communications Workers of America ("CWA") in northern New England covering approximately 1,700 employees in the aggregate expired on August 2, 2014. Between August 2, 2014 and October 16, 2014 we were operating without contracts with these two labor unions and on October 17, 2014 the two labor unions initiated a work stoppage. On February 22, 2015, the membership of both labor unions ratified their respective collective bargaining agreements with us that expire in August 2018 and employees returned to work on February 25, 2015.

## Intellectual Property

We believe we own or have the right to use all of the intellectual property that is necessary for the operation of our business as we currently conduct it.

## Emergence from Chapter 11 Proceedings

On October 26, 2009 (the "Petition Date"), we filed voluntary petitions for relief under chapter 11 of title 11 ("Chapter 11") of the United States Code (the "Bankruptcy Code") in the United States Bankruptcy Court for the Southern District of New York (the "Bankruptcy Court"). These cases were jointly administered under the caption *In re FairPoint Communications, Inc.*, Case No. 09-16335 (each a "Chapter 11 Case", and collectively, the "Chapter 11 Cases"). On January 24, 2011 (the "Effective Date"), we substantially consummated our reorganization through a series of transactions contemplated by our Third Amended Joint Plan of Reorganization Under Chapter 11 of the Bankruptcy Code (as confirmed by the Bankruptcy Court, the "Plan").

The Plan provided for, among other things:

- (i) the cancellation and extinguishment on the Effective Date of all our equity interests outstanding on or prior to the Effective Date, including but not limited to all outstanding shares of our common stock, par value \$0.01 per share, options and contractual or other rights to acquire any equity interests,
- (ii) the issuance of shares of our new common stock, par value \$0.01 per share, and the issuance of warrants to purchase shares of our common stock to holders of certain claims in connection with a warrant agreement that we entered into with The Bank of New York Mellon, as the warrant agent, on the Effective Date, in accordance with the Plan,
- (iii) the satisfaction of claims associated with
  - (a) the credit agreement dated as of March 31, 2008, by and among FairPoint Communications, Spinco, Bank of America, N.A., as syndication agent, Morgan Stanley Senior Funding, Inc. and Deutsche Bank Securities Inc., as co-documentation agents, and Lehman Commercial Paper Inc., as administrative agent, and the lenders party thereto (as amended, supplemented, or otherwise modified from time to time, the "Pre-Petition Credit Facility"),
  - (b) the 13-1/8% senior notes due April 1, 2018 (the "Old 13-1/8% Notes"), which were issued pursuant to the indenture, dated as of March 31, 2008, by and between Spinco and U.S. Bank National Association, as amended, and
  - (c) the 13-1/8% senior notes due April 2, 2018 (the "New 13-1/8% Notes" and, together with the Old 13-1/8% notes, the "Pre-Petition Notes"), which were issued pursuant to the indenture, dated as of July 29, 2009, by and between, FairPoint Communications and U.S. Bank National Association, and
- (iv) the termination by its conversion into the Old Revolving Facility (as defined below) of the Debtor-in-Possession Credit Agreement, dated as of October 27, 2009 (as amended, the "DIP Credit Agreement").

Our common stock began trading on The Nasdaq Stock Market LLC (the "NASDAQ") on January 25, 2011. In addition, on the Effective Date, FairPoint Communications and FairPoint Logistics, Inc. (collectively, the "Old Credit Agreement Borrowers") entered into a \$1,075.0 million senior secured credit facility with a syndicate of lenders and Bank of America, N.A., as the administrative agent for the lenders, arranged by Banc of America Securities LLC (the "Old Credit Agreement"), comprised of a \$75.0 million revolving facility (the "Old Revolving Facility") and a \$1.0 billion term loan facility (the "Old Term Loan", and together with the Old Revolving Facility, the "Old Credit Agreement Loans"). We refinanced the Old Credit Agreement Loans on February 14, 2013. For more information about this refinancing, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Debt—February 2013 Refinancing" included elsewhere in this Annual Report.

In connection with the Chapter 11 Cases, we also negotiated with representatives of the state regulatory authorities in Maine, New Hampshire and Vermont and agreed to regulatory settlements with respect to (i) certain regulatory approvals relating to the

Chapter 11 Cases and the Plan and (ii) certain modifications to the requirements imposed by state regulatory authorities as a condition to approval of the Merger (each a "Merger Order", and collectively, the "Merger Orders"). For more information regarding these regulatory settlements, see "Regulatory and Legislative Environment—State Regulation—Regulatory Conditions to the Merger, as Modified in Connection with the Plan" herein.

The Bankruptcy Court has entered final decrees closing all of the Company's bankruptcy cases due to such cases being administered.

## **Regulatory and Legislative Environment**

We are generally subject to common carrier regulation primarily by federal and state governmental agencies. At the federal level, the FCC generally exercises jurisdiction over communications common carriers, such as FairPoint, to the extent those carriers provide, originate or terminate interstate or international telecommunications. State regulatory commissions generally exercise jurisdiction over common carriers to the extent those carriers provide, originate or terminate intrastate telecommunications. In addition, pursuant to the 1996 Act, which amended the Communications Act of 1934 (as amended, the "Communications Act"), state and federal regulators share responsibility for implementing and enforcing the domestic pro-competitive policies introduced by that legislation.

We are required to comply with the Communications Act, which requires, among other things, that telecommunications carriers offer telecommunications services at just and reasonable rates and on terms and conditions that are not unreasonably discriminatory. The Communications Act contains requirements intended to promote competition in the provision of local services and lead to deregulation as markets become more competitive.

The FCC's CAF/ICC Order (as defined herein and sometimes referred to in the industry as the "Transformation Order") modified regulation for us beginning January 1, 2012. Effective January 1, 2012, the FCC eliminated the rural/non-rural distinction among ILECs and treats ILECs as either price cap or rate-of-return. Effective January 1, 2012, all of our ILECs are treated as price cap companies for CAF purposes, including the Telecom Group rate-of-return companies. However, the Telecom Group rate-of-return companies continue to be treated as rate-of-return for regulation of interstate switched and special access services. In addition, the FCC has preempted certain state regulation over our ILECs, including capping all state originating and terminating switched access charges and reducing terminating state switched access charges beginning July 1, 2012, in a two-year transition to make state switched access charges equal to interstate switched access charges. Starting July 1, 2014, all terminating usage rates have begun to transition to zero over the following four to seven years. As usage rates decrease under the FCC transition rules, resulting in decreased intercarrier compensation, carriers are allowed to increase end user access recovery charges to offset a substantial portion of the revenue losses, as described more fully below.

### ***Overview of FCC CAF/ICC Order to Reform Universal Service and Intercarrier Compensation***

On March 16, 2010, the FCC submitted the National Broadband Plan ("NBP") to the United States Congress. The NBP is a plan to bring high-speed Internet services to the entire country, including remote and high-cost areas. In accordance with the NBP, the FCC commenced several rulemakings that concern, among other things, reforming high-cost and low-income programs to promote universal service to make those funds more efficient while promoting broadband communications in areas that otherwise would be unserved and to address changes to interstate access charges and other forms of ICC.

On November 18, 2011, the FCC released its comprehensive landmark order to modify the nationwide system of universal support and the ICC system (the "CAF/ICC Order"). In this order, the FCC replaced all existing USF for price cap carriers with its CAF. The intent of CAF is to bring high-speed affordable broadband services to all Americans. The CAF/ICC Order fundamentally reforms the ICC process that governs how communications companies bill one another for exchanging traffic, gradually phasing down these charges.

In conjunction with the CAF/ICC Order, the FCC adopted a Notice of Proposed Rulemaking to deal with related matters, including but not limited to: (i) the actual cost model to be adopted for CAF Phase II funding, (ii) treatment of originating access charges, (iii) modifications to CAF for rate-of-return ILECs, (iv) development of CAF Phase II for mobility, (v) CAF Phase II competitive bidding rules, (vi) remote areas funding and (vii) IP to IP interconnection issues. In its Order released December 18, 2014, the FCC has stated its intention to extend its offer of CAF Phase II support to price cap carriers in early 2015 and to implement the CAF Phase II program for price cap carriers during 2015. It has finalized a cost model and has issued competitive bidding guidelines. It is not known how these rules may impact us.

**CAF Phase I and Phase II Support.** Pursuant to the CAF/ICC Order, beginning in 2012, we started receiving monthly CAF Phase I frozen support, which is based on and equal to all forms of USF high-cost support we received during 2011. This support is considered transitional funding while the FCC is developing its CAF Phase II program. FCC rules require that if we continue receiving CAF Phase I frozen support beyond 2012, which we have, we will have specific broadband spending obligations starting in 2013. According to the FCC rules, in 2013, we were required to spend, and did spend, one-third of the frozen support to "build

and operate broadband-capable networks used to offer the provider's own retail broadband service in areas substantially unserved by an unsubsidized competitor." We received CAF Phase I frozen support in 2014 and our spending obligation has increased to two-thirds. Should we continue to receive CAF Phase I frozen support in 2015 as well, this spending obligation will increase to 100%. In February of 2013, we filed a petition with the FCC for a partial waiver of the spending obligations. On October 30, 2013, the FCC issued an order denying FairPoint's petition, but clarifying the spending rules in a manner that effectively provided the relief we requested by allowing us to certify to the spending obligation at the holding company level. The effect of this clarification continued into 2014 and is expected to continue in future years. Pursuant to a Further Notice of Proposed Rulemaking released on June 10, 2014, the FCC has requested comment on how frozen support will be handled in states where the price cap carrier does not exercise its right of first refusal on CAF Phase II support. We do not yet know whether FairPoint will exercise its right of first refusal for CAF Phase II support or how frozen support will be impacted if FairPoint does not accept CAF Phase II support in one or more states. Whether the change from CAF frozen support to CAF Phase II support occurs during 2015, or to what extent it occurs during 2015, is uncertain. We currently do not expect the transition from CAF Phase I frozen support to CAF Phase II funding to have a material impact on revenue in 2015.

In addition, pursuant to the revised CAF programs, during 2012, we were offered \$4.8 million of one-time funding under the FCC's CAF Phase I incremental support program. Under this program, we can use some or all of this support subject to certain restrictions. We notified the FCC that we accepted \$2.0 million of CAF Phase I incremental support funding, which is primarily being used in Vermont. On September 10, 2012, we filed a petition with the FCC asking it to waive its rules to allow us to use the remaining \$2.8 million of CAF Phase I incremental support funding to bring high-speed broadband services to 697 customer locations in the state of Maine. This petition was withdrawn on August 27, 2013 in response to the FCC making the unused 2012 funding available in the second round of support offered in the 2013 CAF program. On May 22, 2013, the FCC filed the Report and Order in WC Docket 10-90, which offered the second round of support under the FCC's CAF Phase I incremental support program. We were offered \$4.8 million, with the opportunity to oversubscribe to the funding. Additional funding was available in this program to the extent other price cap carriers declined their full amount and because the FCC made an additional \$185.0 million available to price cap carriers for this round of support. On August 20, 2013, we applied for \$3.3 million from the FCC's CAF Phase I incremental support program and were awarded only \$2.9 million due to challenges filed against some of the locations by competing carriers.

The FCC has announced its intent to offer CAF Phase II funding to price cap ILECs early in 2015 and has adopted rules determining the obligations associated with receipt of such support. The amount of CAF funding that will be available to us has not been determined. We will have 120 days from the time of the offer to determine whether to accept the CAF II support, on a state by state basis. We risk significant reductions in the amount of CAF Phase II funding that will be made available to us compared to current CAF Phase I frozen support. The specific obligations that will be associated with future CAF funding include the obligation to serve a specified number of locations in specified census blocks; to provide broadband service to those locations with speeds of 10 megabits per second down and 1 megabit per second up; to achieve latency of less than 100 milliseconds; to provide data of at least 100 gigabytes per month; and to offer pricing reasonably comparable to pricing in urban areas. FairPoint has not determined whether it will accept any or all of the offered CAF Phase II support. For any states where FairPoint declines CAF Phase II support, it will continue to receive CAF Phase I frozen support until such time as the FCC conducts a Competitive Bidding Process. The FCC intends to conduct the competitive bidding process during 2016 and has determined that price cap carriers declining CAF Phase II support can participate in the competitive bidding process along with any other interested "Eligible Telecommunications Carriers" ("ETC"). The FCC has not yet adopted final rules governing the competitive bidding process.

**FCC Rules for ICC Process.** The CAF/ICC Order reformed rules associated with local, state toll and interstate toll traffic exchanged among communications carriers including ILECs, CLECs, cable companies, wireless carriers and VoIP providers. The revised rules, the majority of which were effective beginning July 1, 2012, establish separate rules for price cap carriers and rate-of-return carriers. Although the FCC order treats our rate-of-return carriers (including companies operating under average schedules) as price cap carriers for CAF funding, it treats them as rate-of-return carriers for purposes of ICC reform. For both price cap and rate-of-return carriers, the FCC established a multi-year transition of terminating traffic compensation to "bill and keep", or zero compensation. For both price cap and rate-of-return carriers, the FCC required carriers to establish fiscal year 2011 ("FY2011") baseline compensation, which was the amount of relevant compensation billed during the period beginning October 1, 2010 and ending September 30, 2011, and collected by March 31, 2012. This FY2011 revenue was used as a starting point for revenue for the transitional period, which is six years for price cap operations and nine years for rate-of-return operations. For each FairPoint ILEC, the FY2011 baseline revenue is reduced by a specified percent during each year of the transition, resulting in a target revenue for each tariff year. At the same time, the FCC rules require reductions in ICC rates for specified services and jurisdictions. As the recoverable revenue declines and the rates decline, any target revenue which will not be covered by ICC revenue can be recovered, in part, from end users through an access recovery charge ("ARC"). Price cap ILECs are permitted to implement monthly end user ARCs with five annual increases of no more than \$0.50 for residential/single-line business consumers, for a total monthly ARC of no more than \$2.50 in the fifth year; and no more than \$1.00 (per month) per line for multi-line business customers, for a total of \$5.00 (per month) per line in the fifth year; provided that: (1) any such residential increases would not result in regulated residential end user rates that exceed the \$30.00 residential rate ceiling; and (2) any multi-line business customer's total subscriber

line charge ("SLC") plus ARC does not exceed \$12.20. Rate-of-return ILECs are permitted to implement monthly end user ARCs with six annual increases of no more than \$0.50 (per month) for residential/single-line business consumers, for a total ARC of no more than \$3.00 in the sixth year; and no more than \$1.00 (per month) per line for multi-line business customers for a total of \$6.00 (per month) per line in the sixth year, provided that: (1) such increases would not result in regulated residential end user rates that exceed the \$30.00 Residential Rate Ceiling; and (2) any multi-line business customer's total SLC plus ARC does not exceed \$12.20. We began billing the ARC charges for our price cap and rate of return companies in July 2012 as outlined by the rules above. If the combination of ICC and ARC revenue is not sufficient to cover the targeted revenue, then additional funding will be provided by the CAF in certain circumstances, though there is no guarantee that the ILEC will be made whole.

#### ***Vermont Incentive Regulation Plan***

Effective April 1, 2011, we entered into an Incentive Regulation Plan ("IRP") governing our Vermont service territory within our northern New England operations. The IRP includes a 2011-2015 Amended Retail Service Quality Plan ("RSQP"), which significantly reduced FairPoint's exposure to retail service quality index ("SQI") penalties from \$10.5 million to \$1.65 million. As of March 31, 2013, the RSQP and related automatic SQI penalties were eliminated in Vermont based upon our achievement of certain retail service metrics. We believe the IRP has allowed our Northern New England operations' retail rates in Vermont to compete with those competitive carriers under a relatively level regulatory scheme, while preserving certain regulatory protections for consumers in areas where competition may not be adequate. The IRP was initially scheduled to expire on December 31, 2014, so, in order to maintain favorable regulatory treatment, which includes pricing flexibility, reduced regulatory oversight, elimination of automatic service quality penalties and more flexible rate filing options, FairPoint, with the support of the Vermont Department of Public Service ("VDPS"), filed with the Vermont Public Service Board ("VPSB") for a new IRP to begin January 1, 2015. However, the VPSB determined that it will review service quality issues in a separate docket before adopting the new IRP. As a result, FairPoint filed for, and the VPSB approved, an extension of the IRP until after the service quality investigation.

#### ***Legislation for Maine and New Hampshire***

During the middle of 2012, legislation was enacted into law in both Maine and New Hampshire, which decreased the scope of retail telecommunications regulation for us, eliminating many of the state-specific Merger conditions and providing us with increased ability to compete in the Maine and New Hampshire telecommunications marketplace.

Effective August 10, 2012, the New Hampshire legislature enacted Chapter 177 (known as Senate Bill 48) ("SB 48") in its Session Laws of 2012. SB 48 created a new class of telecommunications carriers known as "excepted local exchange carriers" ("ELECs") and our Northern New England operations qualify as an ELEC in New Hampshire. SB 48 essentially leveled the regulatory scheme imposed upon New Hampshire telecommunications carriers and states that the New Hampshire Public Utilities Commission ("NHPUC") has no authority to impose or enforce any obligation on a specific ELEC that also is not applicable to all other ELECs in New Hampshire except with respect to:

- (i) Obligations that arise pursuant to the Communications Act, as amended;
- (ii) Obligations imposed on our Northern New England operations that arose prior to February 1, 2011 that relate to the availability of broadband services, soft disconnect processes and capital expenditure commitments within New Hampshire;
- (iii) Obligations that relate to the provision of services to CLECs, interexchange carriers and wireless carriers, regardless of technology; or
- (iv) Certain obligations related to telephone poles and carrier of last resort responsibilities.

In New Hampshire, beginning with the August 10, 2012 effective date of SB 48, our exposure to annual SQI penalties was eliminated (from \$12.5 million to zero) and we have pricing discretion with respect to existing and new retail telecommunications services other than basic local exchange service and certain services provided to customers who qualify for the federal lifeline discount.

On April 12, 2012, Maine Governor Paul LePage signed Public Law 2011, Chapter 623 (also known as P.L. 2011, c.623) (the "Maine Deregulation Legislation") into law. The Maine Deregulation Legislation significantly deregulates retail telecommunications service offerings and reduces regulation applicable to ILECs, such as our Northern New England operations. The legislation eliminated regulatory oversight on all retail services other than the basic exchange service defined in Maine as Provider of Last Resort ("POLR") service and significantly reduced FairPoint's maximum exposure to SQI penalties, and reduced the number of reportable retail metrics.

Under the Maine Deregulation Legislation, our maximum exposure to annual SQI penalties, beginning with Maine's fiscal year ending July 31, 2013, decreased from \$12.5 million to \$2.0 million. From August 1, 2013 until July 31, 2014, we were not subject to automatic SQI penalties. On June 26, 2014, the Maine Public Utilities Commission ("MPUC") adopted a final rule



(Chapter 201), establishing new POLR SQI standards and reporting requirements, which began August 1, 2014. Under Chapter 201, the MPUC may open an investigation into the failure to meet any of the established standards and has the authority to impose penalties of up to \$500,000 per standard. On January 13, 2015, the MPUC issued a Notice of Investigation to review our service quality in Maine.

During the year ended December 31, 2014 there were no SQI penalties. However, during the years ended December 31, 2013 and 2012, voice services revenues increased by \$0.1 million and decreased by \$0.2 million, respectively, due to SQI penalties.

The MPUC issued a show cause order on March 19, 2013 (the "Show Cause Order"), which required us to show cause by written comments filed by April 5, 2013, stating: (1) why the MPUC should not establish August 14, 2013 and April 14, 2014 as the deadlines for the remainder of our broadband build-out obligations which the Show Cause Order described as 85% and 87%, respectively, in Maine; and (2) why the MPUC should not require us to prepare and file, by April 30, 2013, a detailed engineering plan for the remaining portions of our build-out project. The Show Cause Order also required us to file, by April 5, 2013, a detailed report cataloging the number and percentage of addressable lines as of February 28, 2013. On August 14, 2013, the MPUC issued an Order Approving a Stipulation between Northern New England Telephone Operations LLC and the Office of the Maine Public Advocate (the "stipulation order"). In exchange for the termination of the show cause proceeding, the stipulation order required us to achieve, in Maine, 85% broadband addressability by August 14, 2013 and 87% by April 14, 2014. In calculating these percentages, there was no speed requirement for lines served by the legacy Asynchronous Transfer Mode ("ATM") network. Additionally, we are required to (1) contribute \$100,000 to ConnectME upon completion of the broadband commitment (which contribution was made on April 14, 2014); and (2) spend an additional \$11 million during the period from January 1, 2014 to December 31, 2016 on broadband facilities and services that benefit small businesses and residences in Maine. The money may be spent in our sole discretion although the expenditure must include 30 central office overlays. Central office overlays are defined as the addition of equipment to an existing central office that will enable customers served by that central office with loop lengths of up to 22,000 feet from that central office and who purchase our internet service to have the ability to access our Ethernet-based internet service. Additionally, we made a good faith effort to obtain CAF Phase I incremental funding for Maine in the amount corresponding to a broadband expenditure by us of \$2.8 million, which was expected to result in CAF funding of approximately \$1.0 million, but for which we actually received \$0.9 million. Northern New England Telephone Operations LLC advised the MPUC on August 14, 2013 of the achievement of 85% broadband addressability by August 14, 2013 and advised the MPUC on April 11, 2014 of the achievement of 87% broadband addressability by April 14, 2014.

During 2014, FairPoint filed a rate case with the Maine PUC seeking increases in rates for POLR (Provider of Last Resort) customers and seeking Maine Universal Service Fund (MUSF) support for unrecovered costs associated with FairPoint's obligation to provide POLR service to high cost areas. The MPUC allowed for increases to the end user POLR rates, but denied MUSF support for FairPoint.

#### ***Access Charges***

Our local exchange subsidiaries receive compensation from long distance telecommunications providers for the use of our subsidiaries' network to originate and terminate state and interstate interexchange traffic. With respect to interstate traffic, the FCC regulates the prices we may charge for this purpose, referred to as access charges, as a combination of flat monthly charges paid by end users, usage sensitive charges paid by long distance carriers and recurring monthly charges for use of dedicated facilities paid by long distance carriers. Intrastate access charges are regulated by the state commissions. The amount of access charge revenue that we will receive is subject to change. The FCC has adopted, in its CAF/ICC Order, a plan to resolve certain billing disputes related to ICC and to transition all terminating state and interstate ICC to zero over a six or nine year period for price cap and rate-of-return companies, respectively.

The FCC's CAF/ICC Order significantly changes the existing rates for access charges, which, combined with the increase in competition, have generally caused the aggregate amount of switched access charges paid by long distance carriers to decrease over time. The FCC, in a separate proceeding, is considering whether to modify price cap rules as they apply to special access and whether to restrict some of the pricing flexibility enjoyed by price cap ILECs, which includes some of our Northern New England operations. We cannot predict what changes, if any, the FCC may eventually adopt and the effect that any of these changes may have on our business.

#### ***Universal Service Regulation***

***Universal Service Fund Support.*** USF disbursements were distributed only to carriers that were designated as ETCs by a state regulatory commission. All of our LECs were designated as ETCs. As previously described, the FCC has replaced the legacy USF high-cost programs with its CAF programs.

We benefit indirectly from support to low-income users under the Lifeline and Linkup universal service programs. Effective April 1, 2012, the Linkup program was eliminated for all low-income subscribers except for Native Americans. Linkup is a program which pays 50% of the non-recurring charges, not to exceed \$30.00 per month, associated with establishment of local

telecommunications service. Also effective April 1, 2012, there were major reforms to the Lifeline program. Prior to the changes, Lifeline credits were based on four tiers of support. The first three tiers of federal support were replaced by a flat credit of \$9.25 per month. The fourth tier, which relates to Native Americans, is unchanged. In addition, the FCC established revised eligibility criteria effective April 1, 2012. The revised eligibility criteria established in 2012 resulted in a reduction in lines eligible for Lifeline credits. The FCC order required the Universal Service Administration Company to establish a national database by the end of 2013 which is used to eliminate duplicate funding. The elimination of duplicate support could result in fewer customers choosing us for Lifeline service, with the potential that a portion of our Lifeline customers may prefer to use other carriers for this service.

**Universal Service Contributions.** Federal universal service programs are currently funded through a surcharge on interstate and international end user telecommunications revenues. Declining long distance revenues, the popularity of service bundles that include local and long distance services, and the growth in size of the fund, due primarily to increased funding to competitive ETCs, all prompted the FCC to consider alternative means for collecting this funding. As an interim step, the FCC has ordered that providers of certain VoIP services must contribute to federal universal service funding. The FCC also increased the percentage of revenues subject to federal universal service contribution obligations that wireless providers may use as their methodology for funding universal service. We cannot predict whether the FCC or Congress will require modification to any of the universal contribution rules, or the ultimate impact that any such modification might have on us or our customers.

### ***Local Service Competition***

The 1996 Act provides, in general, for the removal of barriers to market entry in order to promote competition in the provision of local telecommunications and information services. As a result, competition in our local exchange service areas will continue to increase from CLECs, wireless providers, cable companies, Internet service providers, electric companies and other providers of network services. Many of these competitors have a significant market presence and brand recognition, which could lead to more competition and a greater challenge to our future revenue growth.

Under the 1996 Act, all LECs, including both ILECs and CLECs, are required to: (i) allow others to resell their services, (ii) ensure that customers can keep their telephone numbers when changing carriers, referred to as local number portability, (iii) ensure that competitors' customers can use the same number of digits when dialing and receive nondiscriminatory access to telephone numbers, operator service, directory assistance and directory listing, (iv) ensure competitive access to telephone poles, ducts, conduits and rights of way and (v) compensate competitors for the cost of completing calls to competitors' customers from the other carrier's customers.

In addition to these obligations, ILECs are subject to additional requirements to: (i) interconnect their facilities and equipment with any requesting telecommunications carrier at any technically feasible point, (ii) unbundle and provide nondiscriminatory access to certain network elements, referred to as unbundled network elements ("UNEs"), including some types of local loops and transport facilities, at regulated rates and on nondiscriminatory terms and conditions, to competing carriers that would be "impaired" without them, (iii) offer their retail services for resale at wholesale rates, (iv) provide reasonable notice of changes in the information necessary for transmission and routing of services over the ILEC's facilities or in the information necessary for interoperability and (v) provide, at rates, terms and conditions that are just, reasonable and nondiscriminatory, for the physical co-location of equipment necessary for interconnection or access to UNEs at the ILEC's premises. Competitors are required to compensate the ILEC for the cost of providing these services.

Our Northern New England operations are subject to all of the above requirements. In addition, our non-rural operations are subject to additional unbundling obligations that apply only to Bell Operating Companies. In contrast to the unbundling obligations that apply generally to ILECs, these Bell Operating Company-specific requirements mandate access to certain facilities (such as certain types of local loops and inter-office transport and local circuit switching) even where other carriers would not be "impaired" without them.

Our Telecom Group rural operations are exempt from the additional ILEC requirements until the applicable rural carrier receives a bona fide request for these additional services and the applicable state authority determines that the request is not unduly economically burdensome, is technically feasible and is consistent with the universal service objectives set forth in the 1996 Act. This exemption is effective for all of the Telecom Group operations, except in Florida where the legislature has determined that all ILECs are required to provide the additional services as prescribed in the 1996 Act. Loss of a rural exemption by one or more of the Telecom Group operating companies could be achieved if the state commission grants such a petition filed by a competitor. Loss of the rural exemption would potentially expose the operation to additional local competition.

### ***Long Distance Operations***

The FCC has required that ILECs that provide interstate long distance services originating from their local exchange service territories must do so in accordance with "non-structural separation" rules. These rules have required that our long distance affiliates (i) maintain separate books of account, (ii) not own transmission or switching facilities jointly with the local exchange affiliate



and (iii) acquire any services from their affiliated LEC at tariffed rates, terms and conditions. Our northern New England operations, which are Bell Operating Companies, are subject to a different set of rules allowing them to offer both long distance and local exchange services in the regions where they operate as Bell Operating Companies, subject to certain conditions with which we comply. Not all of our competitors must comply with these requirements. Therefore, these requirements may put us at a competitive disadvantage in the interstate long distance market.

#### ***Other Obligations under Federal Law***

We are subject to a number of other statutory and regulatory obligations at the federal level. For example, the Communications Assistance for Law Enforcement Act ("CALEA") requires telecommunications carriers to modify equipment, facilities and services to allow for authorized electronic surveillance based on either industry or FCC standards. Under CALEA and other federal laws, we may be required to provide law enforcement officials with call records, content or call identifying information, pursuant to an appropriate warrant or subpoena.

The FCC limits how carriers may use or disclose customer proprietary network information ("CPNI") and specifies what carriers must do to safeguard CPNI provided to third parties. Congress, as well as some state legislatures, has enacted legislation to criminalize the unauthorized sale of call detail records and to further restrict the manner in which carriers make such information available.

In addition, if we seek in the future to acquire companies that hold FCC authorizations, in most instances we will be required to seek approval from the FCC prior to completing those acquisitions. The FCC has broad authority to condition, modify, cancel, terminate or revoke operating authority for failure to comply with applicable federal laws or rules, regulations and policies of the FCC. Fines or other penalties also may be imposed for such violations.

#### ***Broadband and Internet Regulation***

The FCC rules have historically permitted broadband Internet access service to be provided by FairPoint as a non-telecommunications service (i.e., an "information service") not subject to tariffing or rate or entry regulation. This classification generally treats broadband Internet access services offered by LECs, cable service providers and wireless competitors on an equal regulatory footing.

A Verizon petition asking the FCC to forbear from applying common carrier regulation to certain other broadband services sold by LECs primarily to larger business customers was deemed granted by operation of law on March 19, 2006 when the FCC did not deny the petition by the statutory deadline. The U.S. Court of Appeals for the District of Columbia Circuit has rejected a challenge to that outcome. The forbearance deemed granted to Verizon has been extended to our Northern New England operations by the FCC in its order approving the Merger. In October 2007, the FCC stated its intention to define more precisely the scope of forbearance obtained by Verizon, but it has not yet done so. On October 4, 2011, tw telecom, inc. filed a petition with the FCC asking it to reverse the forbearance granted to Verizon by operation of law on March 19, 2006. Comments have been filed in this proceeding by FairPoint and other parties. A similar petition was filed by a group of competing LECs on November 2, 2012 and comments have been filed with the FCC. The FCC may issue an order on either or both of these petitions at any time. We do not know how this will be resolved or the impact it may have on the Company if the FCC should reverse, eliminate or modify the forbearance granted to Verizon in 2006.

The FCC has imposed particular regulatory obligations on IP-based telephony. It has concluded that interconnected VoIP providers must comply with CALEA; provide enhanced 911 emergency calling capabilities; comply with certain disability access requirements; comply with the FCC's rules protecting the privacy of customer information; provide local number portability; and pay regulatory fees. The FCC has preempted some state regulation of VoIP.

Recently there have also been discussions among policy makers concerning "net neutrality." The FCC released a statement of net neutrality principles favoring customer choice of content and services available over broadband networks. It has adopted open Internet access rules applicable to all broadband Internet access providers. On January 14, 2014, the DC Circuit Court of Appeals (the "DC Court") vacated portions of the FCC's December 21, 2010 Report and Order in the Manner of Preserving the Open Internet (GN Docket 09-191) (the "Open Internet Order"). In its decision, the DC Court vacated the FCC's anti-blocking and anti-discrimination rule related to Internet Service Providers, finding the FCC had failed to explain the basis of its authority in the Open Internet Order.

The FCC adopted new regulations governing "Broadband Internet Access Services" at its February 26, 2015 Open Meeting. Based on the information released about the yet-to-be released Order, "broadband Internet access service" will now be classified as a "telecommunications service" under Title II of the Communications Act. The Order prohibits "unjust and unreasonable practices" by broadband and Internet access providers. The Order prohibits broadband Internet access providers from blocking access to legal content, applications, services and non-harmful devices. It prohibits broadband Internet access providers from impairing or degrading lawful Internet traffic on the basis of content, applications, services or non-harmful devices. It also prohibits

broadband Internet access providers from favoring some lawful Internet traffic over other lawful traffic in exchange for consideration and from prioritizing their own content or services over those of unaffiliated entities. Other than paid prioritization which is prohibited, broadband Internet access providers are allowed to engage in reasonable network management practices. Broadband services that do not flow over the public Internet are exempt from these rules.

The Order allows consumer complaints for broadband services to be brought to the FCC under Title II of the Communications Act. The Title II classification could bolster universal service support for broadband services by classifying broadband services as telecommunications services and therefore subject to universal service fees assessed on telecommunications services.

We cannot predict what impact, if any, new rules may have on our business, financial condition, results of operations, liquidity or the market price of our outstanding securities or if Congress will enact legislation otherwise addressing net neutrality issues.

### ***State Regulation***

The local service rates and intrastate access charges of substantially all of our telephone subsidiaries are regulated by state regulatory commissions which typically have the power to grant and revoke authority for authorizing companies to provide communications services. In some states, our intrastate long distance rates are also subject to state regulation. States typically regulate local service quality, billing practices and other aspects of our business as well. As described above, intrastate access charges are subject to the transition plan established in the recent CAF/ICC Order.

Most state commissions have traditionally regulated LEC pricing through cost-based rate-of-return regulation. In recent years, however, state legislatures and regulatory commissions in most of the states in which our telephone companies operate have either reduced the regulation of LECs or have announced their intention to do so and we expect this trend will continue. Such relief may take the form of mandatory deregulation of particular services or rates; or it may consist of optional alternative forms of regulation ("AFOR"), which may involve price caps or other flexible pricing arrangements. Some of these deregulatory measures are described in greater detail below. We believe that some AFOR plans allow us to offer new and competitive services faster than under the traditional regulatory regimes.

The following summary addresses significant regulatory actions by regulatory agencies in Maine, New Hampshire and Vermont that have affected or are expected to affect our Northern New England operations:

***Regulatory Conditions to the Merger, as Modified in Connection with the Plan.*** As required by the Plan, as a condition precedent to the effectiveness of the Plan, we were required to obtain certain regulatory approvals, including approvals from the public utility commissions in Maine and New Hampshire and the VPSB. In connection with the Chapter 11 Cases, we negotiated with representatives of the state regulatory authorities in Maine, New Hampshire and Vermont with respect to (i) certain regulatory approvals relating to the Chapter 11 Cases and the Plan and (ii) certain changes impacting the Merger Orders. We agreed to regulatory settlements with the representatives for each of Maine, New Hampshire and Vermont regarding modification of each state's Merger Order (each a "Regulatory Settlement", and collectively, the "Regulatory Settlements") which were then approved by the regulatory authorities in those states. The Regulatory Settlements addressed service quality issues, broadband build-out requirements and certain other financial and management commitments. The commitments agreed to in these proceedings have, for the most part, been completed, are nearly completed, or are no longer applicable.

***New Hampshire Regulatory Settlement.*** On July 7, 2010, the NHPUC provided its approvals for New Hampshire, including the Regulatory Settlement for New Hampshire (the "New Hampshire Regulatory Settlement"). Among other requirements, the New Hampshire Regulatory Settlement imposed obligations on us related to, among other things, retail service quality, broadband expansion, capital expenditure commitments and various management commitments. Nearly all of these obligations were eliminated statutorily during fiscal year 2012 upon the New Hampshire legislature's enactment of SB 48. See "Regulatory and Legislative Environment—Legislation for Maine and New Hampshire" herein for more information on SB 48.

With respect to our broadband expansion obligations, in conjunction with the Merger, we agreed to adhere to the broadband coverage commitments prescribed in the NHPUC's Order No. 24,823 in Docket DT 07-011; however, the final broadband build-out commitments were extended to March 31, 2013. In an order dated January 29, 2013, NHPUC approved our proposal to utilize certain SQI penalties incurred during fiscal years 2009 and 2010 for further broadband expansion and to extend the broadband build-out commitment deadline to December 31, 2013. Northern New England Telephone Operations LLC advised the NHPUC of the achievement of the broadband build-out commitment by December 31, 2013 on January 21, 2014.

***Maine Regulatory Settlement.*** On July 6, 2010, the MPUC provided its approvals for Maine, including the Regulatory Settlement for Maine (the "Maine Regulatory Settlement"). Among other requirements, the Maine Regulatory Settlement imposed obligations on us related to, among other things, retail service quality, broadband expansion and various management commitments. Several of these requirements were eliminated statutorily during 2012 upon the enactment of the Maine Deregulation Legislation or expired in August 2013 concurrent with the expiration of our AFOR in Maine. See "Regulatory and Legislative Environment—Legislation for Maine and New Hampshire" herein for more information on the Maine Deregulation Legislation.

In addition, as noted above, in exchange for the termination of the show cause proceeding, the MPUC's stipulation order required us to achieve 85% broadband addressability in Maine by August 14, 2013 and 87% by April 14, 2014. Northern New England Telephone Operations LLC advised the MPUC on August 14, 2013 of the achievement of 85% broadband addressability by August 14, 2013. We achieved the 87% broadband addressability by the April 14, 2014 deadline and notified the MPUC of the completion. In calculating these percentages, there is no speed requirement for lines served by the legacy ATM network. Additionally, we are required to (1) contribute \$100,000 to ConnectME upon completion of the broadband commitment, which we did on April 14, 2014 and (2) spend an additional \$11 million during the period from January 1, 2014 to December 31, 2016 on broadband facilities and services that benefit small businesses and residences in Maine. The money may be spent in our sole discretion although the expenditure must include 30 central office overlays. Central office overlays are defined as the addition of equipment to an existing central office that will enable customers served by that central office with loop lengths of up to 22,000 feet from that central office and who purchase our internet service to have the ability to access our Ethernet-based internet service.

*Vermont Regulatory Settlement.* On December 23, 2010, the VPSB provided its approvals in Vermont, including the Regulatory Settlement for Vermont (the "Vermont Regulatory Settlement"). Among other requirements, the Vermont Regulatory Settlement imposed obligations on us related to, among other things, broadband expansion, capital expenditure commitments and various management commitments. Many of these requirements have been satisfied or are no longer applicable.

#### **Local Government Authorizations**

We may be required to obtain from municipal authorities permits for street opening and construction or operating franchises to install and expand facilities in certain communities. If we more fully enter into video markets, municipal franchises may be required for us to operate as a cable television provider. Some of these franchises may require the payment of franchise fees. We have historically obtained municipal franchises as required. In some areas, we will not need to obtain permits or franchises because the subcontractors or electric utilities with which we will have contracts already possess the requisite authorizations to construct or expand our networks. In association with the American Recovery and Reinvestment Act of 2009 and other federal government programs, there may be an increase in our requirements associated with road move requests pursuant to new funding for roads. It is not certain whether funding will be available to us for this potential obligation.

#### **Environmental Regulations**

Like all other local telephone companies, our 32 LECs are subject to federal, state and local laws and regulations governing the use, storage, disposal of and exposure to hazardous materials, the release of pollutants into the environment and the remediation of contamination. As an owner of real property, we may be subject to environmental laws that impose liability for the entire cost of cleanup at contaminated sites, regardless of fault or the lawfulness of the activity that resulted in contamination. We believe, however, that our operations are in substantial compliance with applicable environmental laws and regulations.

#### **Other Information**

We make available free of charge on our website, [www.fairpoint.com](http://www.fairpoint.com), our reports on Forms 10-K, 10-Q and 8-K and all amendments to such reports as soon as reasonably practicable after we electronically file such material with, or furnish such material to, the SEC. Our filings with the SEC are available to the public over the Internet at the SEC's website at [www.sec.gov](http://www.sec.gov), or at the SEC's Public Reference Room located at 100 F Street, N.E., Washington, DC 20549. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the Public Reference Room.

#### **ITEM 1A. RISK FACTORS**

Any of the following risks could materially adversely affect our business, consolidated financial condition, results of operations, liquidity and/or the market price of our outstanding securities. The risks described below are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may also materially and adversely affect our business operations.

## **Risks Related to our Common Stock and Our Substantial Indebtedness**

***The price of our common stock may be volatile and may fluctuate substantially, which could negatively affect holders of our common stock.***

The market price of our common stock may fluctuate widely as a result of various factors including, but not limited to, period-to-period fluctuations in our operating results, the volume of sales of our common stock, the limited number of holders of our common stock and the resulting limited liquidity in our common stock, dilution, developments in the communications industry, the failure of securities analysts to cover our common stock, changes in financial estimates by securities analysts, short interests in our common stock, competitive factors, regulatory developments, labor disruptions, economic and other external factors, general market conditions and market conditions affecting the stock of communications companies in general. 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 our 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, which could have a material adverse impact on our business, financial condition, results of operations, liquidity and/or the market price of our common stock.

***We have substantial indebtedness which could have a negative impact on our financing options and liquidity position and prevent us from fulfilling our obligations under our indebtedness.***

As of December 31, 2014, our total gross indebtedness was approximately \$930.4 million (including approximately \$1.6 million of capital leases) and \$58.8 million was available for borrowing under the Revolving Facility, net of \$16.2 million outstanding letters of credit. Our substantial indebtedness could have important consequences including:

- making it more difficult for us to satisfy our obligations under our debt agreements;
- requiring us to dedicate a significant portion of our cash flow from operations to paying the principal of and interest on our indebtedness, thereby limiting the availability of our cash flow to fund future capital expenditures, working capital and other corporate purposes;
- limiting our ability to obtain additional financing in the future for working capital, capital expenditures or acquisitions;
- limiting the amount of dividends we could pay to our stockholders;
- limiting our ability to refinance our indebtedness on terms acceptable to us or at all;
- restricting us from making strategic acquisitions or causing us to make non-strategic divestitures;
- limiting our flexibility in planning for, or reacting to, changes in our business and the communications industry generally;
- placing us at a competitive disadvantage compared with competitors that have a less significant debt burden; and
- making us more vulnerable to economic downturns and limiting our ability to withstand competitive pressures.

Our ability to continue to fund our debt service requirements and to reduce our indebtedness may be affected by general economic, financial market, competitive, legislative and regulatory factors, among other things. An inability to fund our debt service requirements, reduce our indebtedness or satisfy debt covenant requirements could have a material adverse effect on our business, financial condition, results of operations, liquidity and/or the market price of our outstanding securities.

In addition, our borrowings under our Credit Agreement ("Credit Agreement") bear interest at a variable rate based on a British Bankers Association LIBOR rate ("LIBOR"), subject to a floor of 1.25%. We have entered into interest rate swap agreements that effectively fix the interest rate on a combined notional amount of \$170.0 million of these borrowings; however, these agreements are not effective until September 30, 2015. If the relevant LIBOR increases above the level of the floor, the interest payments on our variable rate debt will increase and adversely affect our cash flow. Conversely, while LIBOR remains below 1.25%, we may incur interest costs above market rates. While our interest rate swap agreements and any future agreements we enter into may limit our exposure to higher interest rates, these agreements may not offer complete protection from this risk.

***Despite our substantial indebtedness level, we may be able to incur significant additional amounts of debt, which could further exacerbate the risks associated with our substantial indebtedness.***

We may be able to incur substantial additional indebtedness in the future. Although the Indenture and our Credit Agreement contain restrictions on the incurrence of additional indebtedness, these restrictions are subject to a number of significant qualifications and exceptions and, under certain circumstances, the amount of indebtedness that could be incurred in compliance with these restrictions could be substantial. If new debt is added to our existing debt levels, the related risks that we now face could increase.

***To operate and expand our business, service our indebtedness and meet our other cash needs, we will require a significant amount of cash, which may not be available to us. We may not be able to generate sufficient cash to repay or refinance our indebtedness at maturity or otherwise or to fund our operations, and may be forced to take other actions to satisfy such obligations, which may not be successful.***

Our ability to make payments on, or repay or refinance, our indebtedness, to fund our operations and to fund planned capital expenditures, unanticipated capital expenditures and other cash needs will depend largely upon our financial condition and operating performance, including our ability to execute on our business plan. Our future operating performance, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors, such as any pension contributions required by the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), that are beyond our control. For example, the minimum amount of pension contributions that we are required to make, which may be substantial, are determined under ERISA.

Our ability to borrow additional amounts, including under our Revolving Facility, if necessary to meet our cash needs, will depend on our ability to remain in compliance with the covenants contained in our debt agreements. If our operating results are not adequate to meet the financial ratio tests in our debt agreements or if we are unable to generate sufficient cash to service our debt requirements, we will be required to restructure or refinance our existing indebtedness, which we may not be able to accomplish under such circumstances on commercially reasonable terms or at all. If we are unable to refinance our debt or obtain new financing under these circumstances, we may have to consider other options, including:

- sales of assets;
- reduction or delay of capital expenditures, strategic acquisitions, investments and alliances;
- obtaining additional capital; or
- negotiations with our lenders to restructure or refinance the applicable debt.

Our ability to restructure or refinance our indebtedness may depend on the condition of the capital markets and our financial condition at such time, and any such restructuring and/or refinancing may come with higher interest rates and more onerous covenants. These alternative measures may not be successful and may not permit us to meet our scheduled debt service obligations.

An inability to generate sufficient cash from operations to repay or refinance our indebtedness at maturity or otherwise or to fund our operations could have a material adverse impact on our business, financial condition, results of operations, liquidity and/or the market price of our outstanding securities.

***Our debt agreements contain restrictions that limit our flexibility in operating our business.***

The Credit Agreement and the Indenture contain various covenants that limit our ability to engage in specified types of transactions. These covenants, under certain circumstances, limit us and our restricted subsidiaries' ability to, among other things:

- incur additional indebtedness;
- pay dividends on, repurchase or make distributions in respect of our capital stock or make other restricted payments;
- make certain investments;
- sell certain assets;
- create or incur liens;
- enter into sale and leaseback transactions;
- consolidate, merge, sell or otherwise dispose of all or substantially all of our assets; and
- enter into certain transactions with our affiliates.

A breach of any of these covenants could result in a default under the Credit Agreement or the Indenture. In addition, any debt agreements we enter into in the future may further limit our ability to enter into certain types of transactions. A breach of any of these covenants could result in a default under one or more of these agreements, including as a result of cross default provisions. Such default may allow the creditors to accelerate the related debt and may result in the acceleration of any other debt to which a cross-acceleration or cross-default provision applies.

In addition, the restrictive covenants in the Credit Agreement require us to maintain specified financial ratios and to satisfy other financial condition tests. Our ability to meet those financial ratios and tests depends on our ongoing financial and operating performance, which, in turn, is subject to economic conditions and to financial, market, and competitive factors, many of which are beyond our control. See "Item 7. Management's Discussion and Analysis of Financial Conditions and Results of Operations - Liquidity and Capital Resources" included elsewhere in this Annual Report for more information regarding the Credit Agreement and the Indenture.

***FairPoint Communications is a holding company and depends upon the cash flows of its operating subsidiaries to service its indebtedness and meet its other cash flow needs.***

FairPoint Communications is a holding company and conducts no operations. Accordingly, its cash flow and its ability to make payments on, or repay or refinance, its indebtedness and to fund planned capital expenditures and other cash needs will depend largely upon the cash flows of its operating subsidiaries and the distribution of cash by those subsidiaries to it through repayment of loans, dividends, management fees or otherwise. Distributions to FairPoint Communications from its subsidiaries will depend on their respective operating results and will be subject to restrictions under, among other things:

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

FairPoint Communications' subsidiaries have no obligation, contingent or otherwise, to make funds available, whether in the form of loans, dividends or other distributions, to it. Any inability to receive distributions from its subsidiaries could have a material adverse impact on our business, financial condition, results of operations, liquidity and/or the market price of our outstanding securities.

***Limitations on our ability to use NOL carryforwards, and other factors requiring us to pay cash to satisfy our tax liabilities in future periods, may affect our ability to fund our operations, make capital expenditures and repay our indebtedness.***

Effective December 31, 2011, our NOLs were substantially reduced by the recognition of gains on the discharge of certain debt pursuant to the Plan. In addition, our emergence from bankruptcy resulted in an ownership change for federal income tax purposes under Section 382 of the Internal Revenue Code of 1986, as amended (the "Code"). This followed previous ownership changes resulting from our initial public offering in February 2005, which resulted in an "ownership change" within the meaning of the United States federal income tax laws addressing NOL carryforwards, alternative minimum tax credits and other similar tax attributes. Moreover, the Merger resulted in a further ownership change for these purposes. As a result of these ownership changes, there are specific limitations on our ability to use these NOL carryforwards and other tax attributes from periods prior to our emergence from bankruptcy. Furthermore, additional limitations on the use of NOLs could arise in the future if a 50% or more change in ownership as defined under the Code were to occur. Although we do not expect that these limitations will materially affect our United States federal and state income tax liability in the near term, it is possible in the future if we were to generate taxable income in excess of the limitation on usage of NOL carryforwards that these limitations could limit our ability to utilize the carryforwards and, therefore, result in an increase in our United States federal and state income tax payments over the amount we otherwise would have, had we not experienced an ownership change. In addition, in the future we will be required to pay cash to satisfy our tax liabilities when all of our NOL carryforwards have been used or have expired. Limitations on our usage of NOL carryforwards, and other factors requiring us to pay cash taxes, would reduce the amount available to fund our operations, make capital expenditures and service our indebtedness in the future, which could have a material adverse impact on our business, financial condition, results of operations, liquidity and/or the market price of our outstanding securities.

***Concentration of ownership among stockholders may prevent new or current investors from influencing significant corporate decisions.***

Based on Schedules 13D and 13G filed by the respective holders, as of February 27, 2015, there are some institutional holders who own 5% or more of our outstanding common stock. As a result, these stockholders may be able to exercise significant control over all matters requiring stockholder approval, including the election of directors, amendment of our certificate of incorporation and approval of corporate transactions and could gain significant control over our management and policies as a result thereof.

***Future sales or the possibility of future sales of a substantial amount of our common stock may depress the price of our common stock.***

Future sales, or the availability for sale in the public market, of substantial amounts of our common stock could adversely affect the prevailing market price of our common stock and could impair our ability to raise capital through future sales of equity securities. The market price of our common stock could decline as a result of sales of a large number of shares of our common stock in the market 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 us to obtain additional capital by selling equity securities in the future at a time and at a price that we deem appropriate.

As of February 27, 2015, we had 26,864,658 shares of common stock outstanding. All such shares are freely traded except for any shares of our common stock that may be held or acquired by our directors, executive officers, employee insiders and other affiliates, as that term is defined in the Securities Act, which will be restricted securities under the Securities Act. Restricted securities may not be sold in the public market unless the sale is registered under the Securities Act or an exemption from registration is available. In addition, Angelo Gordon & Co., L.P. ("Angelo Gordon") and entities advised by Angelo Gordon have certain registration rights with respect to the common stock they hold or may acquire in the future.

We may issue shares of our common stock, or other securities, from time to time as consideration for future acquisitions and investments. In the event any such acquisition or investment is significant, the number of shares of our common stock, or the number or aggregate principal amount, as the case may be, of other securities that we may issue may in turn be significant. We may also grant registration rights covering these shares or other securities in connection with any such acquisitions and investments.

## **Risks Related to Our Business**

***We provide services to customers over access lines, and since we have been losing access lines, if our efforts to mitigate this decline and transition to alternative revenue is not successful, our business, financial condition, results of operations, liquidity and/or the market price of our outstanding securities may be materially adversely affected.***

We, along with the telecommunications industry in general, have experienced a decline in access lines and network access revenues and will be further unfavorably impacted in the long-term by the FCC's recent CAF/ICC Order on intercarrier compensation. See "Risks Relating to Our Regulatory Environment" for specific risks associated with the impact of regulatory reform. We generate revenue primarily by delivering voice and data services over access lines. During the years ended December 31, 2014 and 2013, we experienced access line equivalent loss of 6.8% and 4.8%, respectively. These losses resulted mainly from competition, including competition from bundled offerings by cable companies, the use of alternate technologies, including wireless, as well as challenging economic conditions and the offering of DSL services.

We expect to continue to experience net access line losses. Our strategy of providing broadband and advanced data services, such as Ethernet over fiber and copper plant, may not be sufficient to offset the revenue impact of continued voice access line loss. Our inability to retain access lines and successfully offset such losses with alternative revenue could adversely affect our business, financial condition, results of operations, liquidity and/or the market price of our outstanding securities.

***We provide access services to other communications companies, and if these companies were to find alternative means of providing services, become insolvent or experience substantial financial difficulties, our business, financial condition, results of operations, liquidity and/or the market price of our outstanding securities may be materially adversely affected.***

We originate and terminate calls on behalf of long distance carriers and other interexchange carriers over our network in exchange for payment of switched access charges. Interstate and intrastate access charges represented approximately 33.3% of our total revenues during the twelve months ended December 31, 2014. Terminating switched access rates are scheduled to decline under the FCC's recent CAF/ICC Order. See "Risks Relating to Our Regulatory Environment" for specific risks associated with the impact of regulatory reform. We may not be successful in offsetting these declines through regulatory replacement mechanisms or operational means. Further, should one or more of these carriers find alternative means of providing services, loss of revenues from these carriers could have a material adverse impact on our business, financial condition, results of operations, liquidity and/or the market price of our outstanding securities. In addition, should one or more of the carriers that we do business with become insolvent or experience substantial financial difficulties, our inability to timely collect access charges from them could have a material adverse impact on our business, financial condition, results of operations, liquidity and/or the market price of our outstanding securities.



***We are subject to competition that may materially adversely impact our business, financial condition, results of operations, liquidity and/or the market price of our outstanding securities.***

We face intense competition from a variety of sources for our voice, network transport and Internet services in nearly all of the areas we now serve. Regulations and technology change quickly in the communications industry and changes in these factors historically have had, and in the future may have, a significant impact on competitive dynamics. In most of our service areas, we currently face competition from wireless carriers for voice services and increasingly for Internet services. As technology and economies of scale have improved, competition from wireless carriers has increased and is expected to further increase. We also face increasing competition from wireline and cable television companies for our voice and Internet services. We estimate that most of the customers that we serve have access to voice, network transport and Internet services through a cable television company. Wireline and cable television companies have the ability to bundle their services, which has and is expected to continue to intensify the competition we face from these providers. VoIP providers, Internet service providers and satellite companies also compete with our services and such competition has increased and is expected to continue to increase in the future. In addition, many of our competitors have access to a larger workforce and have substantially greater name-brand recognition and financial, technological and other resources including, in the case of cable television providers, free advertising on their video services.

In addition, consolidation and strategic alliances within the communications industry and the development of new technologies have had and may continue to have an effect on our competitive position. We 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 our business, financial condition, results of operations, liquidity and/or the market price of our outstanding securities.

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

- loss of customers (given the likelihood that when we lose customers for local service, we will also lose them for all related services);
- reduced network usage by existing customers who may use alternative providers for voice and data services;
- reductions in the prices we charge to meet competition; and
- increases in marketing expenditures and discount and promotional campaigns to incent customers to choose our services.

***Price increases or price retention for certain products and customers may result in an acceleration of access line losses or an unanticipated decline in our growth-oriented products, which may materially adversely affect our business, financial condition, results of operations, liquidity and/or the market price of our outstanding securities.***

From time to time, we expect to implement price increases for certain products and customers. Price increases may include those resulting from regulatory direction to reduce intercarrier compensation as well as price increases to increase end user billing. Although we intend for the price increase to provide a net revenue benefit, it is possible that customers will disconnect at a faster rate than they otherwise would have, which could negate the benefit of the price increase. Additionally, a weaker economic environment can result in increased demand by our customers for price reductions at the same or better level of service. In some of our more competitive markets, we may need to offer more favorable terms to our customers for contract renewal, which could result in reduced profitability. Despite continuous efforts by our sales force to retain customers, we cannot provide assurance that we will be able to renew customers dissatisfied with our contract renewal terms.

***We 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 new service introductions occur frequently in the communications industry and industry standards evolve continually, including but not limited to a transition in the industry from primarily voice products to data services. We cannot predict the effect of these changes on our competitive position, profitability or the industry. Technological developments may reduce the competitiveness of our 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 our existing services. If we fail to adapt successfully to technological changes or obsolescence or fail to obtain access to important new technologies, we could lose customers and be limited in our ability to attract new customers and sell new services to our existing customers, which could have a material adverse impact on our business, financial condition, results of operations, liquidity and/or the market price of our outstanding securities.



***The geographic concentration of our operations in Maine, New Hampshire and Vermont make our business susceptible to local economic and regulatory conditions and consumer trends, and an economic downturn, recession or unfavorable regulatory action in any of those states may materially adversely affect our business, financial condition, results of operations, liquidity and/or the market price of our outstanding securities.***

Our service territory spans 17 states. As of December 31, 2014, we had approximately 1.1 million access line equivalents, of which approximately 85% are located in Maine, New Hampshire and Vermont (including certain of our Telecom Group service companies). As a result of this geographic concentration, our financial results will depend significantly upon economic conditions and consumer trends in these markets. From January 1, 2014 through December 31, 2014, our operations in Maine, New Hampshire and Vermont (including certain of our Telecom Group service companies) experienced a 7.2% decline in total access line equivalents in service, compared to a decline of 4.6% for the remainder of our operations during the same period. Deterioration in economic conditions in any of these markets could result in a further decrease in demand for our services and resulting loss of access line equivalents which could have a material adverse effect on our business, financial condition, results of operations, liquidity and/or the market price of our outstanding securities.

In certain areas of our service territory, the need for our services is seasonal (including either winter or summer), which may result in revenue fluctuations quarter over quarter. While we attempt to forestall seasonal disconnects or seasonal suspends, some revenue fluctuations continue to occur and once a customer disconnects or suspends, he or she may not return as a customer.

In addition, if state regulators in Maine, New Hampshire or Vermont were to take an action that is adverse to our operations in those states, we could suffer greater harm from that action by state regulators than we would from action in other states because of the concentration of our operations in those states.

***We may need to defend ourselves against claims that we infringe upon others' intellectual property rights or may need to seek third-party licenses to expand our product offerings.***

From time to time, we receive notices from third parties or are named in lawsuits filed by third parties claiming we have infringed or are infringing upon their intellectual property rights. We may receive similar notices or be involved in similar lawsuits in the future. Responding to these claims may require us to expend significant time and money defending our use of affected technology, may require us to enter into licensing agreements requiring license payments that we would not otherwise have to pay or may require us to pay damages. If we are required to take one or more of these actions, our operating expenses may increase. In addition, in responding to these claims, we may be required to stop selling or redesign one or more of our products or services, which could significantly and adversely affect the way we conduct business.

Similarly, from time to time, we may need to obtain the right to use certain patents or other intellectual property from third parties to be able to offer new products and services. If we cannot license or otherwise obtain rights to use any required technology from a third party on reasonable terms, our ability to offer new products and services may be restricted, made more costly or delayed.

***We depend on third party providers for certain of our billing functions, IT services, including network support and improvements, and for the provision of our long distance and bandwidth services.***

We have agreements with outside service providers to perform a portion of our billing functions and for our provision of long distance and bandwidth services. We also rely on certain third parties for IT services, including network support and improvements.

If these service providers are unable to adequately perform such services or if one of them experiences a significant degradation or failure with respect to such services, it could result in disruptions in our billing, IT systems and/or long distance and bandwidth services. Service failures could also result in internal controls deficiencies, which could adversely impact our overall control assessment of internal control in accordance with the Sarbanes-Oxley Act of 2002. Furthermore, if these agreements are terminated for any reason, we may be unable to find an alternative service provider in a timely manner or on terms acceptable to us, and may be unable ourselves to perform the services they provide.

With respect to the agreements governing our long distance and bandwidth services, these agreements are based, in part, on our estimate of future supply and demand and may contain minimum volume commitments. If we overestimate demand, we may be forced to pay for services we do not need. If we underestimate demand, we 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, we may not be able to meet this demand. In addition, if we cannot meet any minimum volume commitments, we may be subject to underutilization charges, termination charges or rate increases.

If any of the foregoing events occur with respect to our third-party providers, our business, financial condition, results of operations, liquidity and/or the market price of our outstanding securities could be materially adversely affected.

***A network disruption could cause delays or interruptions of service, which could cause us to lose customers or otherwise adversely impact our business.***

To be successful, we will need to continue to provide our customers with reliable and uninterrupted service over our expanded network. Disruptions in our service could occur as a result of events that are beyond our control. Some of the risks to our network and infrastructure include:

- physical damage to our transmission network including poles, cable and access lines;
- widespread power surges or outages;
- software defects in critical systems;
- capacity limitations resulting from changes in our customers' usage patterns;
- human error; and
- damage intentionally inflicted upon the network or our other infrastructure.

From time to time, in the ordinary course of business, we have experienced and in the future may experience short disruptions in our service due to factors such as cable damage, inclement weather and service failures of our third-party service providers. We could experience more significant disruptions in the future. In addition, certain portions of our network may lack adequate redundancy to allow for expedient recovery of service to affected customers. Disruptions may cause interruptions in service or reduced capacity for customers, either of which could cause us to lose customers and incur expenses or capital expenditures, which could have a material adverse impact on our business, financial condition, results of operations, liquidity and/or the market price of our outstanding securities.

***Any failure or inadequacy of our IT infrastructure could harm our business.***

A major failure or inadequacy of our IT infrastructure could harm our business. The capacity, reliability and security of our internal IT hardware and software infrastructure are important to the operation of our current and future business, which would suffer in the event of major system failures. Our inability to expand or upgrade our IT hardware and software infrastructure could have adverse consequences, which could include the delayed implementation of new service offerings, increased acquisition integration costs, service or billing interruptions, the issuance of service quality credits, and the diversion of development resources. If any of the foregoing events occur with respect to our IT infrastructure, our business, financial condition, results of operations, liquidity and/or the market price of our outstanding securities could be materially adversely affected.

***Increases in broadband usage may cause network capacity limitations, resulting in service disruptions, reduced capacity or slower transmission speeds for customers.***

Video streaming services and peer-to-peer file sharing applications use significantly more bandwidth than traditional Internet activity such as web browsing and email. As use of these newer services continues to grow, our high-speed Internet customers will likely use much more bandwidth than in the past. If this occurs, we could be required to make significant capital expenditures to increase network capacity in order to avoid service disruptions, service degradation or slower transmission speeds for our customers. Alternatively, we may choose to implement network management practices to reduce the network capacity available to bandwidth-intensive activities during certain times in areas experiencing congestion, which could negatively affect our ability to retain and attract customers in affected markets. While we believe demand for these services may drive high-speed Internet customers to pay for faster broadband speeds, we may not be able to recover the costs of the necessary network investments. This could result in an adverse impact to our business, financial condition, results of operations, liquidity and/or the market price of our outstanding securities.

***A cyber-attack that bypasses our IT and/or network security systems causing an IT and/or network security breach may lead to unauthorized use or disabling of our network, theft of customer data, unauthorized use or publication of our intellectual property and/or confidential business information and could harm our competitive position or otherwise adversely affect our business.***

Attempts by others to gain unauthorized access to organizations' IT systems or network elements are becoming more sophisticated and are sometimes successful. These attempts include covertly introducing malware to companies' computers and networks, impersonating authorized users, or "hacking" into systems. We seek to detect and investigate all security incidents and to prevent their recurrence, but, in some cases, we might be unaware of an incident or its magnitude and effect. Significant network security failures could result in the theft, loss, damage, unauthorized use or publication of our intellectual property and/or confidential business information; the theft, loss, damage, unauthorized use or publication of our customers' personally identifiable information, intellectual property and/or confidential business information; the unauthorized use or disabling of our network elements; or damage to our reputation among customers and the public. These consequences could harm our competitive position,

subject us to additional regulatory scrutiny, expose us to litigation, reduce the value of our investment in research and development and other strategic initiatives or otherwise adversely affect our business. To the extent that any security breach results in inappropriate disclosure of our customers' or licensees' confidential information, we may incur liability as a result.

***Natural catastrophes or terrorism may damage our network or adversely affect the financial markets.***

A major earthquake, hurricane, tornado, winter storm, flood, fire, terrorist attack, cyber-attack or other similar disruption could damage our network, network operations centers, call centers, data centers, central offices, corporate headquarters or other facilities. Such an event could interrupt our services, adversely affect service quality, overwhelm customer support and ultimately harm our business and reputation. Although we have implemented measures that are designed to mitigate the effects of such events, we cannot predict all of the potential impacts of such events. We maintain insurance coverage for some of these events; however, the potential liabilities associated with these events could exceed the insurance coverage we maintain. Our inability to operate our networks or operate key systems as a result of such events, even for a limited period of time, may result in significant expenses or loss of customers and associated revenue.

Even if the major event does not directly impact us, these events could more broadly cause consumer confidence and spending to decrease or result in increased volatility in the United States and world financial markets and economy, which would adversely affect our business.

***Because our post-emergence consolidated financial statements reflect fresh start accounting adjustments made upon emergence from bankruptcy and because of the effects of the transactions that became effective pursuant to the Plan, financial information in our post-emergence financial statements is not comparable to our financial information for periods prior to the Effective Date, including certain statements contained therein.***

Upon our emergence from the Chapter 11 bankruptcy proceedings, we adopted fresh start accounting in accordance with guidance under the applicable reorganization accounting rules, pursuant to which our reorganization value was allocated to our assets in conformity with guidance requiring use of the purchase method of accounting for business combinations. In addition to fresh start accounting, our consolidated financial statements reflect all effects of the transactions contemplated by the Plan. Therefore, our consolidated statements of financial position and consolidated statements of operations subsequent to the Effective Date are not comparable in many respects to our consolidated statements of financial position and consolidated statements of operations for periods prior to the Effective Date.

***Our actual operating results may differ significantly from our guidance.***

From time to time, we have released and may continue to release guidance regarding our future performance that represents our management's best estimates as of the date the guidance is provided. This guidance, which consists of forward-looking statements, is prepared by our management and is qualified by, and subject to, the assumptions and the other information contained or referred to in the release. 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 the guidance is provided. Actual results may differ from the guidance and the differences 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, users of this guidance are urged to put the guidance in context and not to place undue reliance on any such guidance.

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.

***Our success will depend on our ability to attract and retain qualified management and other personnel.***

Our success depends upon the talents and efforts of our senior management team. The loss of any member of our 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 our business, financial condition, results of operations, liquidity and/or the market price of our outstanding securities.

***Our ability to successfully manage reductions in our workforce could have a material adverse impact on our results of operations.***

Reductions in our workforce could adversely impact our ability to operate effectively and, therefore, could adversely impact our customer service, result in higher regulatory penalties and/or reduce our ability to achieve our operational goals.

***A significant portion of our workforce is represented by labor unions and therefore subject to collective bargaining agreements. If disputes arise, or if we are unable to successfully renegotiate these agreements at an appropriate time or on terms acceptable to us, workers subject to these agreements could engage in work stoppages or other concerted activities, which could materially adversely impact our business, financial condition, results of operations, liquidity and/or the market price of our outstanding securities.***

As of December 31, 2014, 1,914 of our 3,052 employees were covered by 13 collective bargaining agreements. After ratification of the collective bargaining agreements on February 22, 2015, our agreements with the IBEW and the CWA in northern New England covering approximately 1,700 employees in the aggregate expire in August 2018. Disputes with regard to the terms of any of these agreements or our potential inability to negotiate acceptable contracts with these unions in the future as our current contracts expire could result in, among other things, strikes, work stoppages or other slowdowns by the affected workers. We have experienced work stoppages in the past upon the expiration of collective bargaining agreements. If represented workers were to engage in future work stoppages or other concerted activities, we could experience a significant disruption of our operations, including network disruptions, IT failures, service backlog, internal control failures and/or regulatory compliance issues, and/or higher ongoing labor costs, either of which could have a material adverse effect on our business, financial condition, results of operations, liquidity and/or the market price of our outstanding securities. Additionally, future renegotiation of labor agreements or the provisions of such labor agreements could adversely impact our service reliability and significantly increase our costs for healthcare, wages and other benefits, which could have a material adverse impact on our business, financial condition, results of operations, liquidity and/or the market price of our outstanding securities.

***The amount we are required to contribute to our qualified pension plans and post-retirement healthcare plans is impacted by several factors that are beyond our control and changes in those factors may result in a significant increase in future cash contributions.***

We sponsor two qualified defined benefit pension plans covering certain employees that will provide them benefit payments, if eligible, after their retirement. These qualified pension plans are subject to funding requirements determined under ERISA and the Code. Required pension contributions may be impacted by several factors, including fluctuations in the discount rate used to calculate the funding target, unfavorable differences in actual experience relative to the assumptions used to determine the liabilities in these plans, the performance of the pension plan asset portfolio and the number of retirees in the qualified pension plan covering non-represented employees who elect to receive lump sum distributions. Unfavorable fluctuations or adverse changes in any of these factors are beyond our control and may diminish the funded status of our pension plans, thereby significantly increasing the contributions we are required to make under ERISA and the Code.

Non-represented employees covered by the pension plan have the option to elect to receive their accrued vested benefit in the form of a lump sum payment. Represented employees covered by the pension plan are no longer able to elect to receive their accrued vested benefit in the form of a lump sum effective with the expiration of the collective bargaining agreements with the IBEW and the CWA on August 2, 2014. As the discount rate used to calculate lump sum payments are currently significantly lower than the discount rate used to calculate the actuarial liabilities in the non-represented employee pension plan, the value of a lump sum payment exceeds the actuarial liability for the participant, which creates an actuarial loss in the pension plan for non-represented employees when paid. As such, a lump sum payment depletes the plan's assets more than the corresponding reduction in the plan's liability, which thereby reduces the funded status of the plan. If a significant number of eligible non-represented employees retire and elect to receive their accrued vested benefit in the form of a lump sum payment, which is beyond our control, the qualified pension plan covering these participants may experience a significant reduction in its funded status, which could materially increase future required contributions.

During the year ended December 31, 2014, we experienced actual returns on qualified pension plan assets totaling approximately 4.8%. The actuarially-determined funded status of our pension plans is dependent on the market value of the assets

held by each plan. As such, a significant decline in the market value of the pension plans' assets could result in us having to make additional contributions to these plans.

Legislation enacted in 2014 changed the method for determining the discount rate used for calculating a qualified pension plan's unfunded liability for ERISA and Code purposes, which improved our pension plans' funded status. There are no assurances of any future legislation to provide similar relief or to extend the benefits of relief provided by this legislation. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations -Liquidity and Capital Resources -Pension Contributions and Post-Retirement Healthcare Plan Expenditures" included elsewhere in this Annual Report.

We also sponsor a post-retirement healthcare plan that provides medical, dental and life insurance benefits to eligible non-represented employees and former represented employees and, in some instances, to their spouses and families. The level of contributions required from us under these plans is dependent on the number of eligible retirees that elect coverage under the plan and the level and cost of health services used by those eligible retirees, each of which are beyond our control. Inflation in medical and dental costs in the future will increase future contributions. Effective August 28, 2014, active represented employees are no longer eligible for this post-retirement healthcare plan. Upon ratification of the collective bargaining agreements on February 22, 2015 and for 30 months thereafter, active represented employees who retire and meet the eligibility requirements and their spouses are eligible to receive certain monthly reimbursements of medical insurance premiums for healthcare plans until the retired employee reaches age 65 or dies. As a result of these factors, the payments we are required to make in relation to the above may also increase.

Increasing cash requirements to fund benefits under our qualified pension and post-retirement healthcare plans and the represented employee limited reimbursement arrangement may impact our liquidity position and limit our operational flexibility. These future cash requirements could have a material adverse impact on our business, financial condition, results of operations, liquidity and/or the market price of our outstanding securities.

***Our long-lived assets and non-amortizable intangible assets may become impaired in the future.***

At December 31, 2014, in addition to our net property, plant and equipment of \$1,213.6 million, we have net amortizable intangible assets of \$55.7 million and a non-amortizable intangible asset of \$39.2 million. Amortizable long-lived assets must be reviewed for impairment whenever indicators of impairment exist. Non-amortizable long-lived assets are required to be reviewed for impairment on an annual basis or more frequently whenever indicators of impairment exist. Indicators of impairment could include, but are not limited to:

- an inability to perform at levels that were forecasted;
- a permanent decline in market capitalization;
- implementation of restructuring plans;
- changes in industry trends; and/or
- unfavorable changes in our capital structure, cost of debt, interest rates or capital expenditures levels.

Situations such as these could result in an impairment that would require a material non-cash charge to our results of operations and could have a material adverse effect on our consolidated results of operations.

***Our operations require substantial capital expenditures.***

We require significant capital expenditures to maintain, upgrade and enhance our network facilities and operations. While we have historically been able to fund capital expenditures from cash generated from operations and borrowings under our revolving facility, the other risk factors described in this section could materially reduce cash available from operations or significantly increase our capital expenditure requirements, and these outcomes may result in our inability to fund the necessary level of capital expenditures to maintain, upgrade or enhance our network. This could adversely affect our business, financial condition, results of operations, liquidity and/or the market price of our outstanding securities.

***We are exposed to risks relating to evaluations of internal control systems required by Section 404 of the Sarbanes-Oxley Act.***

As a public reporting company, we are required to comply with the Sarbanes-Oxley Act and the related rules and regulations of the SEC, including accelerated reporting requirements and expanded disclosures regarding evaluations of internal control systems. With respect to internal control over financial reporting, standards established by the Public Company Accounting Oversight Board define a material weakness as a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. If our management identifies one or more material weaknesses in internal control over financial reporting in the future in accordance with the annual assessments and quarterly evaluations required

by the Sarbanes-Oxley Act, we will be unable to assert that our internal controls are effective which could result in sanctions or investigation by regulatory authorities. In addition, any such material weakness could result in material misstatements in our financial statements, prevent us from providing timely financial statements or meeting our reporting requirements both with the SEC and under our debt obligations and cause investors to lose confidence in our reported financial information.

## **Risks Relating to Our Regulatory Environment**

***"Net neutrality" legislation or regulation could limit our ability to operate our broadband business profitably and to manage our broadband facilities efficiently.***

In order to continue to provide quality high-speed data service at attractive prices and to offer new services, we believe we need the continued flexibility to respond to changing consumer uses and demands, to manage bandwidth usage efficiently and to continue to invest in our networks. In 2010, the FCC adopted "net neutrality" regulations that curtailed our operational flexibility. Although a federal appeals court vacated these rules in January 2014, the FCC could adopt rules or Congress could adopt legislation banning the blocking of Internet traffic and/or imposing non-discrimination requirements on broadband Internet access providers, such as us. Such regulation or legislation could adversely impact our ability to operate our high-speed data network profitably and to implement the upgrades and network management practices that may be needed to continue to provide high quality high-speed data services and could therefore negatively impact our ability to compete effectively.

The FCC adopted new regulations governing "Broadband Internet Access Services" at its February 26, 2015 Open Meeting. Based on the information released about the yet-to-be released Order, "broadband Internet access service" will now be classified as a "telecommunications service" under Title II of the Communications Act. The Order prohibits "unjust and unreasonable practices" by broadband and Internet access providers. The Order prohibits broadband Internet access providers from blocking access to legal content, applications, services and non-harmful devices. It prohibits broadband Internet access providers from impairing or degrading lawful Internet traffic on the basis of content, applications, services or non-harmful devices. It also prohibits broadband Internet access providers from favoring some lawful Internet traffic over other lawful traffic in exchange for consideration and from prioritizing their own content or services over those of unaffiliated entities. Other than paid prioritization which is prohibited, broadband Internet access providers are allowed to engage in reasonable network management practices, though it is not currently known what such practices will be defined to include. Broadband services that do not flow over the public Internet are exempt from these rules. The Order allows consumer complaints to be brought to the FCC under Title II of the Communications Act.

We cannot predict what impact, if any, new rules may have on our business, financial condition, results of operations, liquidity or the market price of our outstanding securities.

***We are subject to significant regulations that could change in a manner adverse to us.***

We operate in a heavily regulated industry. Laws and regulations applicable to us and our 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 us:

***Risk of loss or reduction of network access charge revenues.*** A portion of our revenues comes from intrastate and interstate network access charges, which are paid to us by interexchange carriers for originating and terminating telecommunications traffic. Through 2011, our revenues also included various forms of high-cost USF support payments. Starting in 2012, these forms of universal service funding were replaced by CAF. See "Item 1. Business—Regulatory and Legislative Environment" included elsewhere in this Annual Report.

In the CAF/ICC Order, the FCC replaced all existing high-cost funding for price cap carriers with CAF funding. In CAF Phase I, FairPoint has received high-cost support frozen at 2011 levels but must dedicate an increasing portion of that support to the construction and operation of broadband in areas that are unserved by an unsubsidized competitor, while we remain subject to federal and state requirements to maintain voice service throughout our service territories. The FCC has announced its intent to offer CAF Phase II funding to price cap ILECs early in 2015, on a state-by-state basis, and has adopted rules determining the obligations associated with receipt of such support. The amount of CAF Phase II funding that will be available to us under a "right of first refusal" has not been determined. We risk significant reductions in the amount of CAF funding that will be made available to us compared to current CAF Phase I frozen support. The specific obligations that will be associated with future CAF funding include the obligation to serve a specified number of locations in specified census blocks, both of which are yet to be determined by the FCC; to provide broadband service to those locations with speeds of at least 10 megabits per second down and 1 megabit per second up; to achieve latency of less than 100 milliseconds; to provide data of at least 100 gigabytes per month; and to offer pricing reasonably comparable to pricing in urban areas. We risk not being able to accept CAF Phase II funding if the cost of the obligation exceeds the funding. If we refuse the CAF Phase II support, it will be offered to all ETCs through a competitive bidding



process. The FCC has not yet announced the final rules governing the competitive bidding process nor the transition from CAF Phase I to CAF Phase II for price cap LECs that decline the "right of first refusal" in any particular state. Depending on whether other service providers bid and win such a process, we could lose all high-cost support in some states.

The CAF/ICC Order fundamentally reforms the ICC system that governs how communications companies bill one another for terminating traffic, gradually phasing out these charges. Additional reforms have been proposed. The reforms adopted by the FCC in its order will significantly change 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. Regulatory developments of this type could materially adversely affect our business, financial condition, results of operations, liquidity and/or the market price of our outstanding securities.

***Risk of re-regulation of wholesale network services provided to retail and wholesale customers.*** Pursuant to forbearance from the regulation of high-speed interstate services that was deemed granted to Verizon in 2006 and transferred to FairPoint by the FCC in its order approving the Merger, we offer high-speed interstate services on a deregulated basis. The FCC has initiated a proceeding to investigate potential changes to the regulation of special access services. Several parties filed petitions in 2011 and 2012 asking the FCC to reverse the 2006 forbearance granted to Verizon. The FCC has issued a comprehensive data request to gather granular information from all providers of special access-like high speed services and this data request was completed in February 2015. The purpose of the data request is to provide the FCC with information that can be used to evaluate competition for special access-like services. It is not clear what actions, if any, the FCC will take in these proceedings. Orders resulting from these proceedings could adversely affect pricing and regulation of these services.

The FCC also is considering changes to its rules governing who contributes to the USF support mechanisms, and on what basis. Any changes in the FCC's rules governing the manner in which entities contribute to the USF could have a material adverse effect on our business, financial condition, results of operations, liquidity and/or the market price of our outstanding securities.

***Risk of loss of statutory exemption from burdensome interconnection rules imposed on ILECs.*** Our rural LECs generally are exempt from the more burdensome requirements of the 1996 Act governing the rights of competitors to interconnect to ILEC 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 our rural LECs, we may be required to provide UNEs to competitors in our rural telephone company areas. As a result, more competitors could enter our traditional telephone markets than are currently expected, which could have a material adverse effect on our business, financial condition, results of operations, liquidity and/or the market price of our outstanding securities.

***Risks posed by costs of regulatory compliance.*** Regulations create significant compliance and administrative costs for us. Our subsidiaries that provide intrastate services are generally subject to certification, tariff filing and other ongoing regulatory requirements by state regulators. Our interstate and intrastate access services are currently provided in accordance with tariffs filed with the FCC and state regulatory authorities, respectively. Challenges in the future to our tariffs by regulators or third parties or delays in obtaining certifications and regulatory approvals could cause us to incur substantial legal and administrative expenses, and, if successful, these challenges could adversely affect the rates that we are able to charge our customers, which could have a material adverse effect on our business, financial condition, results of operations, liquidity and/or the market price of our outstanding securities.

In addition, our Northern New England operations are subject to regulations not applicable to our rural operations, including but not limited to requirements relating to interconnection, the provision of UNEs, and the other market-opening obligations set forth in the 1996 Act. In approving the transfer of authorizations to us in the Merger, the FCC determined that our non-rural operations would be subject to the same regulatory requirements that currently apply to Bell Operating Companies. The FCC also stated that we would be entitled to the same regulatory relief that Verizon New England had obtained in the region. Any changes made in connection with these obligations or relief could increase our non-rural operations' costs or otherwise have a material adverse effect on our business, financial condition, results of operations, liquidity and/or the market price of our outstanding securities. Moreover, we cannot predict the precise manner in which the FCC will apply the Bell Operating Company regulatory framework to us.

Our business also may be affected by legislation and regulation imposing new or greater obligations related to open Internet access, assisting law enforcement, bolstering homeland security, pole attachments, minimizing environmental impacts, protecting customer privacy or addressing other issues that affect our business. We cannot predict whether or to what extent the FCC might modify its rules or what compliance with those new rules might cost. Similarly, we cannot predict whether or to what extent federal or state legislators or regulators might impose new network access, security, environmental or other obligations on our business.

***Risk of losses from rate reduction.*** Our LECs that operate pursuant to intrastate 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 our business, financial condition, results of operations, liquidity and/or the market price of our outstanding securities.

For a more thorough discussion of the regulatory issues that may affect our business, *see* "Item 1. Business—Regulatory and Legislative Environment" included elsewhere in this Annual Report.

#### **ITEM 1B. UNRESOLVED STAFF COMMENTS**

Not applicable.

#### **ITEM 2. PROPERTIES**

We own or lease all of the properties material to our business. Our headquarters is located in Charlotte, North Carolina, in a leased facility. We also have administrative offices, maintenance facilities, rolling stock, central office and remote switching platforms, and transport and distribution network facilities in each of the 17 states in which we operate our LECs. Our administrative and maintenance facilities are generally located in or near the communities served by our LECs and our central offices are often within the administrative building. Auxiliary battery or other non-utility power sources are located at each central office to provide uninterrupted service in the event of an electrical power failure. Transport and distribution network facilities include fiber optic backbone and copper wire distribution facilities, which connect customers to remote switch locations or to the central office and to points of presence or interconnection with the long distance carriers. These facilities are located on land pursuant to permits, easements or other agreements. Our rolling stock includes service vehicles, construction equipment and other required maintenance equipment.

We believe each of our respective properties is suitable and adequate for the business conducted thereon, is being appropriately used consistent with past practice and has sufficient capacity for the present intended purposes.

#### **ITEM 3. LEGAL PROCEEDINGS**

From time to time, we are involved in litigation and regulatory proceedings arising out of our operations. For details of legal proceedings, *see* note (18) "Commitments and Contingencies" to our consolidated financial statements in "Item 8. Financial

Statements and Supplementary Data" included elsewhere in this Annual Report. Management believes that we are not currently a party to any legal or regulatory proceedings, the adverse outcome of which, individually or in the aggregate, would have a material adverse effect on our business, financial position or results of operations.

#### **ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.



## PART II

### ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

#### General Market Information, Holders and Dividends

Our common stock is listed on the NASDAQ under the symbol "FRP". All of the common stock of the Predecessor Company was extinguished in accordance with the Plan on January 24, 2011. Our existing common stock began trading on the NASDAQ on January 25, 2011.

The following table sets forth, for the periods indicated, the high and low sales prices per share of our common stock as reported on the NASDAQ. The stock price information is based on published financial sources.

Year Ended December 31, 2014	High		Low	
First quarter	\$	14.20	\$	11.13
Second quarter		15.83		12.54
Third quarter		16.91		13.05
Fourth quarter		17.13		13.30

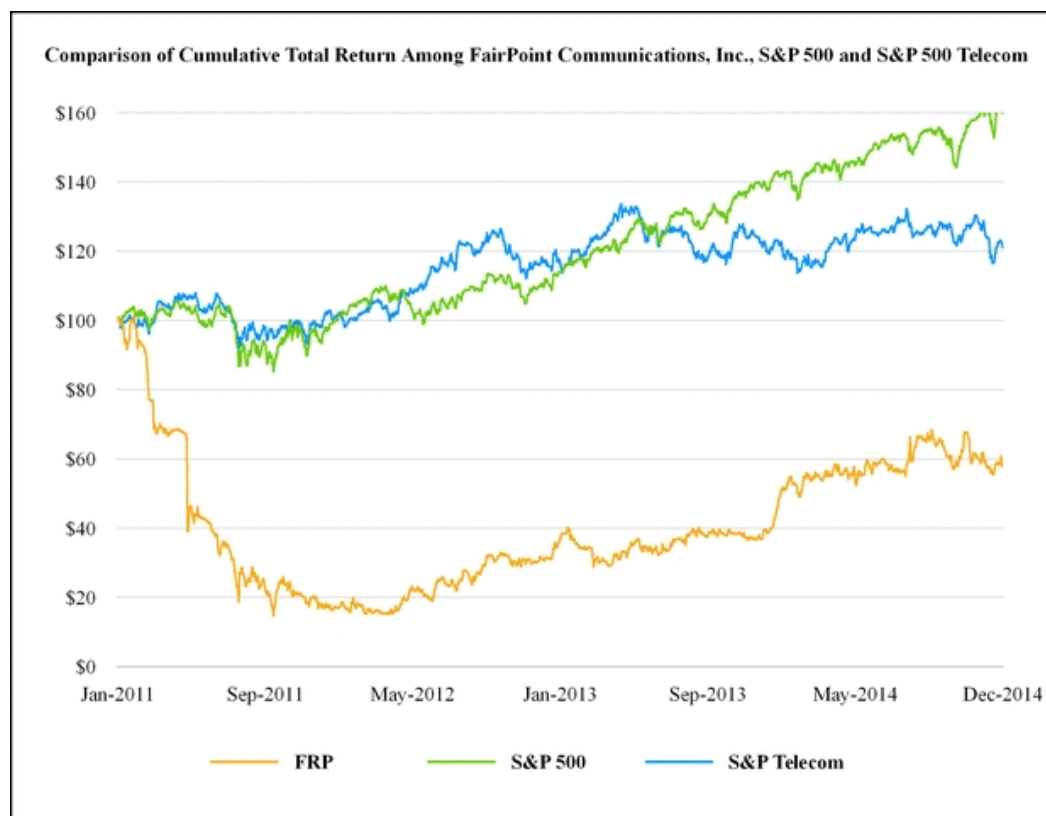
Year Ended December 31, 2013	High		Low	
First quarter	\$	10.04	\$	6.96
Second quarter		9.12		6.77
Third quarter		9.99		7.99
Fourth quarter		11.71		8.92

No dividends were declared on any class of our common stock during the fiscal years 2014 or 2013. We currently do not pay any cash dividends on shares of our common stock and have no plans to pay cash dividends. Any determination to pay dividends in the future will be at the discretion of our board of directors and will depend upon limitations imposed by our results of operations, financial condition, contractual restrictions relating to indebtedness, restrictions imposed by applicable law and other factors our board of directors may deem relevant at the time.

As of February 27, 2015, there were approximately 123 holders of record of our common stock.

## Performance Graph

Set forth below is a line graph comparing the cumulative total stockholder return on shares of our common stock against (i) the cumulative total return of all companies listed on the S&P 500 and (ii) the cumulative total return of the S&P 500 Telecom sector. The period compared commences on January 25, 2011, the date our common stock began trading on the NASDAQ after we emerged from Chapter 11 bankruptcy protection and ends on December 31, 2014. Because the value of the common stock of the Predecessor Company bears no relation to the value of our existing common stock, the graph below reflects only our existing common stock. This graph assumes that \$100 was invested on January 25, 2011 in our common stock and in each of the market index and the sector index at the closing price for FairPoint Communications and the respective indices, and that all cash distributions were reinvested.



## Securities Authorized for Issuance under Equity Compensation Plans

The table below provides information, as of the end of the most recently completed fiscal year, concerning securities authorized for issuance under our equity compensation plans. As of December 31, 2014, the FairPoint Communications, Inc. Amended and Restated 2010 Long Term Incentive Plan (the "Long Term Incentive Plan") was the only equity compensation plan under which securities of FairPoint Communications were authorized for issuance. The Board of Directors of the Company approved the Long Term Incentive Plan on March 14, 2014 and the stockholders of the Company approved it on May 12, 2014. The Long Term Incentive Plan, prior to its amendment and restatement, was approved by the Bankruptcy Court in connection with our emergence from bankruptcy. For a description of the material features of the Long Term Incentive Plan, *see* note (15) "Stock-Based Compensation" to our consolidated financial statements in "Item 8. Financial Statements and Supplementary Data" included elsewhere in this Annual Report.

Plan Category	(a)	(b)		(c)
	Number of securities to be issued upon exercise of outstanding options, warrants and rights <sup>(1)</sup>		Weighted average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) <sup>(2)</sup>
Equity compensation plans approved by our stockholders	1,774,845	\$	16.03	2,877,285
<b>Total</b>	<b>1,774,845</b>	<b>\$</b>	<b>16.03</b>	<b>2,877,285</b>

(1) Includes 1,774,845 options to purchase shares of common stock under the Long Term Incentive Plan, of which 1,761,077 options were issued prior to the amendment and restatement of the Long Term Incentive Plan on May 12, 2014 with a weighted average exercise price of \$16.04.

(2) Each stock option granted reduces the availability under the Long Term Incentive Plan by one share. Prior to the amendment and restatement of the Long Term Incentive Plan on May 12, 2014, each restricted stock award granted reduced the availability under the Long Term Incentive Plan by one share. On or after May 12, 2014, each restricted stock award granted reduces the availability by 1.35 shares. Upon the exercise of each stock option or vesting of each restricted share award, one new share of common stock will be issued.

### Repurchase of Equity Securities

Under the Long Term Incentive Plan, employees may elect to have us withhold shares to satisfy minimum statutory federal, state and local tax withholding obligations arising from the vesting of restricted stock. When we withhold these shares, we are required to remit to the appropriate taxing authorities the market price of the shares withheld, which could be deemed a purchase of shares by us on the date of withholding. During the year ended December 31, 2014, an aggregate of 11,906 shares were withheld at an average price of \$13.11 per share.

### ITEM 6. SELECTED FINANCIAL DATA

As of January 24, 2011, we adopted fresh start accounting in accordance with guidance under the applicable reorganization accounting rules, pursuant to which our reorganization value was allocated to our assets in conformity with guidance under the applicable accounting rules for business combinations, using the purchase method of accounting for business combinations. In addition to fresh start accounting, our consolidated financial statements reflect all effects of the transactions contemplated by the Plan. Therefore, our consolidated statements of financial position and consolidated statements of operations subsequent to January 24, 2011 are not comparable in many respects to our consolidated statements of financial position and consolidated statements of operations for periods prior to January 24, 2011.

The summary financial data presented below represents portions of our consolidated financial statements and are not complete. The following financial information should be read in conjunction with "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and notes thereto contained in "Item 8. Financial Statements and Supplementary Data" included elsewhere in this Annual Report. Historical results are not necessarily indicative of future performance or results of operations. Amounts are in thousands, except access lines, per share data and units.

	Years Ended December 31,				Three Hundred Forty-One Days Ended December 31, 2011	Predecessor Company	
						Twenty-Four Days Ended January 24, 2011	Year Ended December 31, 2010
	2014	2013	2012				
<b>Results of Continuing Operations:</b>							
Revenues	\$ 901,396	\$ 939,354	\$ 973,649	\$ 963,112	\$ 66,378	\$ 1,070,986	
Operating expenses, excluding impairment on intangible assets and goodwill	994,670	1,052,540	1,155,632	1,107,298	87,442	1,180,925	
Impairment of intangible assets and goodwill	—	—	—	262,019	—	—	
Loss from operations	(93,274)	(113,186)	(181,983)	(406,205)	(21,064)	(109,939)	
Interest expense <sup>(1)</sup>	80,371	78,675	67,610	63,807	9,321	140,896	
Reorganization items income (expense) <sup>(2)</sup>	—	—	—		897,313	(41,120)	
Net (loss) income	\$ (136,319)	\$ (103,494)	\$ (153,294)	(414,945)	\$ 586,907	\$ (281,579)	
(Loss) earnings per share from continuing operations:							
Basic	\$ (5.15)	\$ (3.95)	\$ (5.90)	(16.06)	\$ 6.56	\$ (3.15)	
Diluted	\$ (5.15)	\$ (3.95)	\$ (5.90)	(16.06)	\$ 6.54	\$ (3.15)	
Cash dividends per share	\$ —	\$ —	\$ —	—	\$ —	\$ —	
Weighted average shares outstanding:							
Basic	26,449	26,190	25,987	25,838	89,424	89,424	
Diluted	26,449	26,190	25,987	25,838	89,695	89,424	
<b>Financial Position (at period end) <sup>(3)</sup>:</b>							
Cash, excluding restricted cash <sup>(4)</sup>	\$ 37,587	\$ 42,700	\$ 23,203	\$ 17,350	\$ 10,262	\$ 105,497	
Total assets	1,465,958	1,599,898	1,732,361	1,985,671	2,516,871	2,973,794	
Total long-term debt <sup>(5)</sup>	914,590	918,122	957,000	1,000,000	1,000,000	2,520,959	
Total stockholders' (deficit) equity	(600,284)	(309,196)	(317,813)	(106,143)	498,486	(587,418)	
<b>Operating Data (at period end):</b>							
Access line equivalents <sup>(6)</sup>	1,126,870	1,209,351	1,278,434	1,346,894	N/A	1,417,290	
Residential access lines	467,561	527,890	586,725	645,453	N/A	712,591	
Business access lines	283,490	291,836	299,701	311,241	N/A	327,812	
Wholesale access lines <sup>(7)</sup>	54,195	59,859	65,641	76,065	N/A	87,142	
Broadband subscribers	321,624	329,766	326,367	314,135	N/A	289,745	
<b>Summary of Cash Flows:</b>							
Net cash provided by (used in) operating activities	\$ 121,063	\$ 171,085	\$ 192,775	\$ 170,099	\$ (81,091)	\$ 191,626	
Net cash used in investing activities	(118,363)	(95,951)	(144,307)	(162,850)	(12,477)	(197,268)	
Net cash (used in) provided by financing activities	(7,813)	(55,637)	(42,615)	(161)	(1,667)	1,784	
Capital expenditures	119,489	128,298	145,066	163,648	12,477	197,795	

(1) Upon the October 26, 2009 filing of the Chapter 11 Cases and through January 24, 2011, in accordance with guidance under the applicable reorganization accounting rules, we ceased to accrue interest expense on the Pre-Petition Notes and our interest rate swap agreements as it was unlikely that such interest expense would be paid or would become an allowed priority secured or unsecured claim. We continued to accrue interest expense on the Pre-Petition Credit Facility, as such interest was considered an allowed claim pursuant to the Plan. All pre-petition debt was terminated on January 24, 2011. See "Item 7. Management's Discussion and Analysis—Liquidity and Capital Resources—Debt" included elsewhere in this Annual Report for further information on our pre-petition debt. We have accrued interest in normal course subsequent to January 24, 2011.

- (2) Reorganization items represent income or expense amounts that have been recognized as a direct result of the Chapter 11 Cases, prior to January 24, 2011. On January 24, 2011, we emerged from Chapter 11 protection and substantially consummated our reorganization through a series of transactions contemplated by the Plan. Reorganization items income during the 24 days ended January 24, 2011 includes adjustments made upon application of the Plan and adoption of fresh start accounting, in addition to certain other items.
- (3) The balance sheet data reflected at January 24, 2011 is representative of the Company after application of the Plan and the adoption of fresh start accounting.
- (4) Cash excludes aggregate restricted cash of \$0.6 million, \$1.2 million and \$7.5 million, \$25.1 million and \$4.1 million at December 31, 2014, 2013, 2012, 2011 and 2010, respectively, and \$86.8 million at January 24, 2011.
- (5) Long-term debt at December 31, 2010 is included in "Liabilities subject to compromise" in our consolidated balance sheets.
- (6) Total access line equivalents include voice access lines and broadband subscribers, which include DSL, wireless broadband, cable modem and fiber-to-the-premise.
- (7) Wholesale access lines include residential and business resale lines and unbundled network element platform ("UNEP") lines.

## **ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following discussion should be read in conjunction with our consolidated financial statements and the notes thereto in "Item 8. Financial Statements and Supplementary Data" included elsewhere in this Annual Report. The following discussion includes certain forward-looking statements. For a discussion of important factors, including the continuing development of our business, actions of regulatory authorities and competitors and other factors which could cause actual results to differ materially from the results referred to in the forward-looking statements, *see* "Item 1A. Risk Factors" and "Cautionary Note Regarding Forward-Looking Statements" included elsewhere in this Annual Report. Our discussion and analysis of financial condition and results of operations are presented in the following sections:

- Overview
- Executive Summary
- Labor Matters
- Regulatory and Legislative
- Basis of Presentation
- Results of Operations
- Non-GAAP Financial Measures
- Liquidity and Capital Resources
- Off-Balance Sheet Arrangements
- Summary of Contractual Obligations
- Critical Accounting Policies and Estimates
- New Accounting Standards
- Inflation

### **Overview**

We are a leading provider of advanced communications services to business, wholesale and residential customers within our service territories. We offer our customers a suite of advanced services including Ethernet, SIP-Trunking, Hosted PBX, Managed Services, Data Center Rack Space, high capacity data transport and other IP-based services over our Next Generation Network, in addition to Internet access, HSD, and local and long distance voice services. Our service territory spans 17 states where we are the incumbent communications provider primarily serving rural communities and small urban markets. Many of our LECs have served their respective communities for more than 80 years. We operate with approximately 1.1 million access line equivalents, including approximately 322,000 broadband subscribers, in service as of December 31, 2014.

We own and operate our Next Generation Network, an extensive, next generation fiber network with more than 16,000 miles of fiber optic cable, in Maine, New Hampshire and Vermont, giving us capacity to support more HSD services and extend our fiber reach into more communities across the region. The IP/MPLS network architecture of our Next Generation Network allows us to provide Ethernet, transport and other IP-based services with the highest level of reliability at a lower cost of service. This fiber network also supplies critical infrastructure for wireless carriers serving the region as their bandwidth needs increase, driven

by mobile data from smartphones, tablets and other wireless devices. As of December 31, 2014, we provide cellular transport, also known as backhaul, through over 1,700 mobile Ethernet backhaul connections. We have fiber connectivity to more than 1,200 cellular telecommunications towers in our service footprint.

## **Executive Summary**

Our executive management team is focused on our 'four pillar' strategy of improving operations, changing the regulatory environment, transforming and growing revenue and aligning our human resources. Our mission is to provide reliable communications services with outstanding customer support across the 17 states we serve. During 2014, we continued to make substantial progress on our 'four pillar' business strategy to continue our transformation from a traditional telephone company into a provider of advanced communications services.

Access lines have historically been an important element of our business, although they are becoming less so as demand for bandwidth, Ethernet, high capacity data transport and advanced data services increases. Communications companies, including FairPoint, continue to experience a decline in access lines due to increased competition from CLECs, wireless carriers and cable television operators, increased availability of alternative communications services, including wireless and VoIP, and challenging economic conditions. Our objective is to transform our revenue by continuing to add advanced data products and services such as Ethernet, high capacity data transport and other IP-based services over our Next Generation Network, in addition to HSD services, to minimize our dependence on voice access lines. We will continue our efforts to retain customers to mitigate the loss of voice access lines through bundled packages, including video and other value added services.

Over the past few years, we have made significant capital investments in our Next Generation Network to expand our business service offerings to meet the growing data needs of our customers and to increase broadband speeds and capacity in our consumer markets. We have also focused our sales and marketing efforts on these advanced data solutions. Specifically, within the last few years, we built and launched high capacity Ethernet services to allow us to meet the capacity needs of our business customers as well as supply high capacity infrastructure to our wholesale customers. In the past year, Ethernet demand has remained strong amid increased price pressure. We continue to see a market trend, largely led by cable companies, of reduced Ethernet prices to business and wholesale customers. We continue to see growth in Ethernet units and speeds amid declining prices in the market. These advanced data services are our flagship product and are laying the foundation not only for new business but also for additional IP-based voice services in the future.

Additionally, we believe the bandwidth needs of cellular backhaul will continue to grow with the continued adoption of bandwidth-intensive technology. We expect to see wireless carriers seek to manage bandwidth costs as demand increases on existing fiber-connected towers. As we are providing wireless backhaul services to these wireless carriers, we expect to be working closely with them as technologies evolve, including the use of "small cell" architecture. We expect wholesale cellular backhaul services will help to partially offset the decline we have seen and expect to continue to see in legacy wholesale offerings, including TDM transport services, DS1s, DS3s and wholesale switched access.

We believe that our extensive fiber network, with more than 16,000 miles of fiber optic cable, including over 1,200 cellular telecommunications towers currently served with fiber, puts us in an excellent position to grow our revenue base as demand for cellular backhaul services increases. We expect to see demand increase on existing fiber connected towers where we would provision or expand mobile Ethernet backhaul connections or construct new fiber routes to cellular telecommunications towers.

Coupled with recent regulatory reform in the states of Maine, New Hampshire and Vermont that will serve to promote fair competition among communication services providers in the region, we believe that there is a significant organic growth opportunity within the business and wholesale markets given our extensive fiber network and IP-based product suite, combined with our relatively low market share in these areas.

## **Labor Matters**

Two of our collective bargaining agreements that cover approximately 1,700 employees in the aggregate in northern New England expired on August 2, 2014. Between August 2, 2014 and October 16, 2014, we were operating without contracts with these two labor unions. On October 17, 2014, the two labor unions initiated a work stoppage and returned to work on February 25, 2015. For the year ended December 31, 2014, we recognized \$73.6 million of labor negotiation related expenses, primarily for contracted services, contingent workforce expenses (including training) and legal, communications and public relations expenses. During the fourth quarter of 2014, we recognized \$51.3 million of labor negotiation related expenses, which were partially offset by estimated lower union employee and vehicle expenses and other related expenses of approximately \$33 million. We expect additional labor negotiation related expenses in the first quarter of 2015, which are expected to be partially offset by lower employee expenses.

On February 22, 2015, the membership of both labor unions ratified their respective collective bargaining agreements that expire in August 2018. Highlights of the collective bargaining agreements are as follows:

- The qualified defined benefit pension plan is closed to new employees. For existing employees, past accruals have been frozen and future defined benefit accruals will be at 50% of prior rates and capped after 30 years of total credited service.
- No change to the 401(k) plan with a dollar-for-dollar match up to 5% of eligible pay.
- The post-retirement healthcare plan for active represented employees has been eliminated, except for a transitional monthly stipend for eligible employees who elect to retire in the first 30 months of the contract period. To be eligible for the stipend an employee must, among other criteria, have been granted a pension under the qualified defined benefit pension plan. The monthly stipend shall not exceed \$800 per retiree, plus an additional \$400 for a retiree's spouse, and shall only be for reimbursement of medical insurance premiums. The stipend will be available only until the retiree reaches age 65, or dies, among other limitations.
- Employees will participate in the National Electrical Contractors Association, Inc. ("NECA") and International Brotherhood of Electrical Workers multi-employer medical plan. For 2015, our contribution is approximately equal to 79% of the cost had these employees been on our management health plan. Further, annual increases in our costs are capped at 4% per year.
- For existing represented employees there will be a delayed ratification payment of \$400, with general wage increases of 1% in August 2016 and 2% in August 2017.
- New hire wage rate increases will occur at 12-month intervals versus 6-month intervals under the expired agreements.
- Paid sick days will be limited to 6 per year versus unlimited paid sick days under the expired agreements.
- Short-term disability will be limited to 6 months with a 60% of normal salary benefit versus 12 months and a 100% of normal salary benefit under the expired agreements.
- Prohibitions on layoffs included in the expired agreements were eliminated.
- Subcontracting rules were liberalized to permit subcontracting in a variety of circumstances including weather emergencies, spikes in service workloads and where management determines that due to evolving technological needs, different skills are necessary.
- Other operational rules such as call-outs, standby and transfers among locations were liberalized.
- The term of the collective bargaining agreements is from February 22, 2015 through August 4, 2018.

As a result of the changes to the Company's employee benefits resulting from the collective bargaining agreements, the pension and post-retirement healthcare plans will be remeasured and adjusted in the first quarter of 2015. We expect this to result in a decrease in the associated liabilities. Had the terms of the collective bargaining agreements relative to pension and post-retirement healthcare plans been used to value our pension and post-retirement healthcare obligations at December 31, 2014, assuming all assumptions used to value the obligations on that date (including discount rates) remained unchanged, we estimate that the accrued pension obligations would have been lower by approximately \$35 million to \$45 million and the accrued post-retirement healthcare obligations would have been lower by approximately \$620 million to \$640 million. We also estimate a decrease in the deferred income tax asset associated with the qualified pension and post-retirement healthcare obligations, partially offset by a decrease in the valuation allowance, of approximately \$30 million to \$40 million as of December 31, 2014. Since our long-term deferred tax assets are netted against our long-term deferred tax liabilities, this will result in an increase to the net long-term deferred tax liabilities reflected on our balance sheet. We do not expect any impact on our net operating loss carryforwards. Estimates as of December 31, 2014 are presented for comparative purposes only. The obligations for our qualified pension plan for represented employees and our post-retirement healthcare plan will each be remeasured and, therefore the actual results may differ materially from our December 31, 2014 estimates for reasons that may include, among others, changes in discount rates, changes in census data and/or changes in other assumptions. In addition, we estimate that the net periodic benefit costs will decline. Employee expenses in costs of services and selling, general and administrative expenses are estimated to decrease annually by approximately \$8 million to \$12 million due to our lower contribution for medical benefits for our represented employees.

## Regulatory and Legislative

We are generally subject to common carrier regulation primarily by federal and state governmental agencies. At the federal level, the FCC generally exercises jurisdiction over communications common carriers, such as FairPoint, to the extent those carriers provide, originate or terminate interstate or international communications. State regulatory commissions generally exercise jurisdiction over common carriers to the extent those carriers provide, originate or terminate intrastate communications. In addition, pursuant to the Communications Act, state and federal regulators share responsibility for implementing and enforcing the domestic pro-competitive policies introduced by that legislation.

We are required to comply with the Communications Act which requires, among other things, that telecommunication carriers offer telecommunication services at just and reasonable rates and on terms and conditions that are not unreasonably discriminatory. The Communications Act also contains requirements intended to promote competition in the provision of local services and lead to deregulation as markets become more competitive.

For a detailed description of the federal and state regulatory environment in which we operate and the FCC's recently promulgated CAF/ICC Order and other recent regulatory changes, as well as the effects and potential effects of such regulation on us, see "Item 1. Business—Regulatory and Legislative Environment" included elsewhere in this Annual Report. We anticipate that the significant changes in both federal and state regulation described therein will not have a material impact in 2015. However, in the long run, we are uncertain of the ultimate impact as federal and state regulation continues to evolve.

## Basis of Presentation

We view our business of providing data, voice and communications services to business, wholesale and residential customers as one reportable segment as defined in the Segment Reporting Topic of the Accounting Standards Codification ("ASC").

## Results of Operations

The following table sets forth our consolidated operating results reflected in our consolidated statements of operations for the years ended December 31, 2014, 2013 and 2012, respectively.

The year-to-year comparisons of financial results are not necessarily indicative of future results (in thousands, except for access line equivalents):

	Years Ended December 31,		
	2014	2013	2012
Revenues:			

Voice services	\$	375,545	\$	405,159	\$	446,126
Access		300,440		321,812		336,000
Data and Internet services		175,490		161,423		142,911
Other		49,921		50,960		48,612
<b>Total revenues</b>		<b>901,396</b>		<b>939,354</b>		<b>973,649</b>
Operating expenses:						
Cost of services and sales, excluding depreciation and amortization		440,979		439,217		450,441
Selling, general and administrative expense, excluding depreciation and amortization		332,909		331,656		332,243
Depreciation and amortization		220,678		282,438		376,614
Reorganization related income		104		(771)		(3,666)
<b>Total operating expenses</b>		<b>994,670</b>		<b>1,052,540</b>		<b>1,155,632</b>
<b>Loss from operations</b>		<b>(93,274)</b>		<b>(113,186)</b>		<b>(181,983)</b>
Other income (expense):						
Interest expense		(80,371)		(78,675)		(67,610)
Loss on debt refinancing		—		(6,787)		—
Other		7,548		4,863		739
Total other expense		(72,823)		(80,599)		(66,871)
<b>Loss before reorganization items and income taxes</b>		<b>(166,097)</b>		<b>(193,785)</b>		<b>(248,854)</b>
<b>Loss before income taxes</b>		<b>(166,097)</b>		<b>(193,785)</b>		<b>(248,854)</b>
Income tax benefit		29,778		90,291		95,560
<b>Loss before discontinued operations</b>		<b>(136,319)</b>		<b>(103,494)</b>		<b>(153,294)</b>
Gain on sale of discontinued operations, net of taxes		—		10,044		—
<b>Net loss</b>	<b>\$</b>	<b>(136,319)</b>	<b>\$</b>	<b>(93,450)</b>	<b>\$</b>	<b>(153,294)</b>
Access line equivalents:						
Residential		467,561		527,890		586,725
Business		283,490		291,836		299,701
Wholesale		54,195		59,859		65,641
<b>Total voice access lines</b>		<b>805,246</b>		<b>879,585</b>		<b>952,067</b>
Broadband subscribers		321,624		329,766		326,367
<b>Total access line equivalents <sup>(1)</sup></b>		<b>1,126,870</b>		<b>1,209,351</b>		<b>1,278,434</b>



(1) On January 31, 2013, we completed the sale of our operations in Idaho which accounted for 5,604 access line equivalents as of December 31, 2012. In August 2012, we divested our pay phone operations in our northern New England footprint and completed the process of transitioning the related pay phone stations to the buyer in 2013. We currently retain access lines for any pay phone stations the buyer continues to operate, which accounted for 578, 881 and 2,867 access line equivalents as of December 31, 2014, 2013 and 2012, respectively.

### ***Voice Services Revenues***

We receive revenues through the provision of local calling services to business and residential customers, generally for a fixed monthly charge and service charges for special calling features. We also generate revenue through long distance services within our service areas on our network and through resale agreements with national interexchange carriers. In addition, through our wholly-owned subsidiary, FairPoint Carrier Services, Inc., we provide wholesale long distance services to communication providers that are not affiliated with us. For the years ended December 31, 2014 and 2013, voice access lines in service decreased 8.5% and 7.7% year-over-year, respectively, which directly impacts local voice services revenues and our opportunity to provide long distance services to our customers, resulting in a decrease of minutes of use. Excluding divestitures of the pay phone operations and the Idaho-based operations, on a pro forma basis, voice access lines in service for the year ended December 31, 2013 would have declined 7.1% year-over-year. The impact to voice access lines in service for the year ended December 31, 2014 would have been 8.4% on a pro forma basis excluding the divestiture of the pay phone operations. Cable competitors, in particular, have greatly reduced voice pricing. There are very limited areas within our footprint where cable voice service is not an alternative for our customers. We expect the trend of decline in voice access lines in service, and thereby a decline in aggregate voice services revenue, to continue as customers are turning to the use of alternative communication services as a result of ever-increasing competition.

We were subject to retail service quality plans in the states of Maine, New Hampshire and Vermont for the year ended December 31, 2012 pursuant to which we incurred SQI penalties resulting from any failure to meet the requirements of the respective plans. In New Hampshire, the automatic retail service quality plan was eliminated by SB 48, which was effective August 10, 2012, thereby extinguishing our exposure to SQI penalties in that state. In Vermont, effective March 31, 2013 we are no longer subject to the automatic retail service quality plan based on our achievement of certain retail service quality metrics. We were subject to the retail service quality plan in Maine through July 31, 2013; however, under the Maine Deregulation Legislation enacted in August 2012, automatic SQI penalties were eliminated starting in August 2013. In June 2014, Maine established a new POLR SQI standard, which may subject us to future SQI penalties. See "Item 1. Business—Regulatory and Legislative Environment" elsewhere in this annual report.

We adopted a separate performance assurance plan ("PAP") for certain services provided on a wholesale basis to CLECs in each of the states of Maine, New Hampshire and Vermont, pursuant to which we are required to issue performance credits in the event we are unable to meet the provisions of the respective PAP. Our maximum exposure to penalties under the PAPs has not been reduced by the recent deregulation legislation in Maine and New Hampshire or by the IRP in Vermont.

We receive support to supplement the amount of local service revenue received by us to ensure that basic local service rates for customers in high-cost areas are consistent with rates charged in lower cost areas. A portion of the CAF Phase I frozen support represents high-cost loop funding and is recorded as voice services revenue. We expect to receive the same level of CAF Phase I frozen support revenue in 2015 as we did in 2014, plus or minus small adjustments recorded during the respective quarters until CAF Phase II is implemented. The FCC has announced its expectation to complete its CAF Phase II model development, establish all obligations associated with the CAF Phase II program and offer support to price cap carriers early in 2015. If so, CAF Phase II funding could be implemented during 2015. We cannot determine whether we will accept or refuse any funding under the CAF Phase II support programs until all obligations associated with the funding have been determined. For the years ended December 31, 2014, 2013 and 2012, we recognized \$13.1 million, \$12.9 million and \$14.1 million, respectively, of high-cost loop funding from the CAF Phase I frozen support program as local voice services revenues.

The following table reflects the primary drivers of year-over-year changes in voice services revenues (dollars in millions):

	Year Ended December 31, 2014 vs. December 31, 2013		Year Ended December 31, 2013 vs. December 31, 2012	
	Increase (Decrease)	%	Increase (Decrease)	%
Local voice services revenues, excluding:	\$	(24.6)	\$	(33.5)
Divestiture of Idaho-based operations		(0.2)		(2.9)
Decrease in accrual of PAP penalties <sup>(1)</sup>		0.4		2.1
Decrease in high-cost loop credits to customers <sup>(2)</sup>		—		0.8
(Increase) decrease in accrual of SQI penalties <sup>(3)</sup>		(0.1)		0.3
Long distance services revenues		(5.1)		(7.8)
<b>Total changes in voice services revenues</b>	<b>\$</b>	<b>(29.6)</b>	<b>\$</b>	<b>(41.0)</b>
		<b>(7)%</b>		<b>(9)%</b>

- (1) During the years ended December 31, 2014, 2013 and 2012, PAP penalties resulted in a decrease of \$0.3 million, \$0.7 million and \$2.8 million, respectively, to local voice services revenues as a result of our failure to meet specified performance standards as defined by the provisions of the separate PAPs in Maine, New Hampshire and Vermont. In 2012, a majority of the penalty credits resulting from these commitments were recorded as a reduction to local voice services revenues with a small portion recorded to access revenues. However, as our wholesale business shifts from unbundled network elements ("UNEs") to access-driven services, a majority of penalty credits have followed and are now being recorded to access revenues. We expect this trend to continue and the impact of penalty credits on voice services revenues to decrease.
- (2) In 2012, the VPSB and the MPUC each approved a tariff change whereby we are no longer required to provide high-cost loop credits to customers. For the year ended December 31, 2012, we recognized a reduction to local voice services revenues related to high-cost loop credits remitted to customers of \$0.8 million.
- (3) During the years ended December 31, 2013 and 2012, SQI penalties resulted in an increase of \$0.1 million and a decrease of \$0.2 million, respectively, to local voice services revenues. There were no SQI penalties during the year ended December 31, 2014.

### Access Revenues

We receive revenues for the provision of network access through carrier Ethernet based products and legacy access products to end user customers and long distance and other competing carriers who use our local exchange facilities to provide interexchange services to their customers. Network access can be provided to carriers and end users that buy dedicated local and interexchange capacity to support their private networks (i.e. special access) or it can be derived from fixed and usage-based charges paid by carriers for access to our local network (i.e. switched access).

Carriers are migrating from legacy access products, such as DS1, DS3, frame relay, ATM and private line, to carrier Ethernet based products. During the year ended December 31, 2014, wholesale Ethernet circuits grew by 44.4% to 7,027 circuits at December 31, 2014 compared to 4,866 circuits at December 31, 2013. These carrier Ethernet based products are more sustainable, but generally, at the outset, have lower average revenue per user of broadband capacity than the legacy products they are replacing, resulting in a decline in access revenues. We expect the decline in access revenues to continue with customer migration. This decline in legacy access products is expected to be partially offset with the increasing need for bandwidth, including cellular backhaul and demand for carrier Ethernet based products, both of which are expected to increase over time. With the entry of cable competitors into the wholesale market, we continue to experience an increased decline in access lines due to this new competition. However, our extensive fiber network with more than 16,000 miles of fiber optic cable, including over 1,200 cellular telecommunications towers currently served with fiber, puts us in a position to grow our revenue base as demand for cellular backhaul and other Ethernet services expands. We also construct new fiber routes to cellular telecommunications towers when the business case presents itself. Additionally, we are evaluating new services to provide to carriers, including the selective use of dark fiber and professional services, to continue to meet carrier access needs.

As described above, we adopted a separate PAP for certain services provided on a wholesale basis to CLECs in each of the states of Maine, New Hampshire and Vermont, pursuant to which we are required to issue performance credits in the event we are unable to meet the provisions of the respective PAP. As our wholesale business shifts from UNEs to access-driven services, a majority of penalty credits have transitioned in the same manner and are now being recorded to access revenues instead of voice services revenue. Our maximum exposure to penalties under the PAPs has not been reduced by the recent deregulation legislation in Maine and New Hampshire or by the IRP in Vermont. In June 2014, Maine established a new POLR SQI standard. See "Item 1. Business—Regulatory and Legislative Environment" elsewhere in this annual report.

The following table reflects the primary drivers of year-over-year changes in access revenues (dollars in millions):

	Year Ended December 31, 2014 vs. December 31, 2013		Year Ended December 31, 2013 vs. December 31, 2012	
	Increase (Decrease)	%	Increase (Decrease)	%
Carrier Ethernet services <sup>(1)</sup>	\$ 12.5		\$ 8.3	
Decrease in revenues from special access pool <sup>(2)</sup>	(3.5)		(2.5)	
(Increase) decrease in accrual of PAP penalties <sup>(3)</sup>	2.4		(3.3)	
Divestiture of Idaho-based operations	(0.4)		(3.4)	
Legacy access services <sup>(4)</sup>	(32.4)		(13.3)	
<b>Total changes in access revenues</b>	<b>\$ (21.4)</b>	<b>(7)%</b>	<b>\$ (14.2)</b>	<b>(4)%</b>

- (1) We offer carrier Ethernet services throughout our market to our business and wholesale customers, which include Ethernet virtual circuit technology for cellular backhaul. As of December 31, 2014, we provide cellular transport on our Next Generation Network through over 1,700 mobile Ethernet backhaul connections compared to over 1,300 as of December 31, 2013.
- (2) In July 2013, we discontinued participation for wholesale DSL services within the National Exchange Carrier Association ("NECA") special access rate of return pool for our remaining rural operating companies.
- (3) During the years ended December 31, 2014, 2013 and 2012, PAP penalties resulted in a decrease of \$1.2 million, \$3.6 million and \$0.3 million to access revenues, respectively, as a result of our failure to meet specified performance standards as defined by the provisions of the separate PAPs in Maine, New Hampshire and Vermont.
- (4) Legacy access services include products such as DS1, DS3, frame relay, ATM and private line.

### Data and Internet Services Revenues

We receive revenues from monthly recurring charges for the provision of data and Internet services to residential and business customers through DSL technology, fiber-to-the-home technology, retail Ethernet, dedicated T-1 connections, Internet dial-up, high speed cable modem and wireless broadband.

We have invested in our broadband network to extend the reach and capacity of the network to customers who did not previously have access to data and Internet products and to offer more competitive services to existing customers, including retail Ethernet products. During the year ended December 31, 2014, retail Ethernet circuits grew by 20.6% to 5,611 circuits at December 31, 2014 compared to 4,651 circuits at December 31, 2013. Our broadband subscribers' penetration reached 39.9% of voice access lines at December 31, 2014 from 37.5% and 34.3% at December 31, 2013 and 2012, respectively. We expect to continue our investment in our broadband network to further grow data and Internet services revenues in the coming years.

The following table reflects the primary drivers of year-over-year changes in data and Internet services revenues (dollars in millions):

	Year Ended December 31, 2014 vs. December 31, 2013		Year Ended December 31, 2013 vs. December 31, 2012	
	Increase	%	Increase	%
Retail Ethernet services <sup>(1)</sup>	\$ 8.3		\$ 8.9	
Other data and Internet technology based services <sup>(2)</sup>	5.8		9.6	
<b>Total changes in data and Internet revenues</b>	<b>\$ 14.1</b>	<b>9%</b>	<b>\$ 18.5</b>	<b>13%</b>

- (1) Retail Ethernet services revenue is comprised of data services provided through E-LAN, E-LINE and E-DIA technology on our Next Generation Network. During the years ended December 31, 2014, 2013 and 2012, we recognized \$36.0 million, \$27.7 million and \$18.8 million, respectively, of retail Ethernet revenues from our Next Generation Network.
- (2) Includes all other services such as DSL, T-1, dial-up, high speed cable modem and wireless broadband.

### Other Services Revenues

We receive revenues from other services, including special purpose projects on behalf of third party requests, video services (including cable television and video-over-DSL), billing and collection, directory services, the sale and maintenance of customer premise equipment and certain other miscellaneous revenues. Other services revenues also include revenue we receive from late payment charges to end users and interexchange carriers. Due to the composition of other services revenues, it is difficult to predict future trends.

The following table reflects the primary drivers of year-over-year changes in other services revenues (dollars in millions):

	Year Ended December 31, 2014 vs. December 31, 2013		Year Ended December 31, 2013 vs. December 31, 2012	
	Increase (Decrease)	%	Increase (Decrease)	%
Special purpose projects <sup>(1)</sup>	\$ 1.1		\$ 2.7	
Late payment fees <sup>(2)</sup>	(1.3)		(1.6)	
Other <sup>(3)</sup>	(0.8)		1.2	
<b>Total changes in other services revenues</b>	<b>\$ (1.0)</b>	<b>(2)%</b>	<b>\$ 2.3</b>	<b>5%</b>

(1) Special purpose projects are completed on behalf of third party requests.

(2) Late payment fees are related to customers who have not paid their bills in a timely manner.

(3) Other revenues were primarily attributable to directory services, billing and collections and various other miscellaneous services revenues.

### Cost of Services and Sales

Cost of services and sales includes the following costs directly attributable to a service or product: salaries and wages, benefits (including stock based compensation), materials and supplies, contracted services, network access and transport costs, customer provisioning costs, computer systems support and cost of products sold. Aggregate customer care costs, which include billing and service provisioning, are allocated between cost of services and sales and selling, general and administrative expenses. We expect the cost of services and sales to fluctuate with revenue and decrease due to lower employee expenses and lower labor negotiation related expense as a result of the collective bargaining agreements described in "Labor Matters" herein.

The following table reflects the primary drivers of year-over-year changes in cost of services and sales (dollars in millions):

	Year Ended December 31, 2014 vs. December 31, 2013		Year Ended December 31, 2013 vs. December 31, 2012	
	Increase (Decrease)	%	Increase (Decrease)	%
Employee expense <sup>(1)</sup>	\$ (24.9)		\$ 0.2	
Labor negotiation related expense <sup>(2)</sup>	38.3		—	
Severance expense <sup>(3)</sup>	(4.9)		3.4	
Access expense <sup>(4)</sup>	(1.6)		(7.9)	
Other <sup>(5)</sup>	(5.1)		(6.9)	
<b>Total changes in cost of services and sales</b>	<b>\$ 1.8</b>	<b>—%</b>	<b>\$ (11.2)</b>	<b>(2)%</b>

(1) For the years ended December 31, 2014, 2013 and 2012, we recognized \$162.4 million, \$187.3 million and \$187.1 million, respectively, of employee expense as cost of services and sales. The decrease for 2014 compared to 2013 is primarily due to the work stoppage described in "Labor Matters" herein as well as a reduction in headcount. The increase in employee expense for 2013 compared to 2012 was primarily due to an increase in overtime expenses and a decrease in capitalized labor, associated with a reduction in labor intensive capital projects in 2013 versus 2012, offset by fewer employees.

(2) Labor negotiation related expense is primarily related to contracted services incurred during the fourth quarter of 2014 as a result of the work stoppage described in "Labor Matters" herein.

(3) For the years ended December 31, 2014, 2013 and 2012, we recognized \$1.0 million, \$5.9 million and \$2.5 million of severance expense, respectively, attributed to the reduction in our workforce.

(4) Access expense continues to decrease primarily due to increased usage of our IP infrastructure, which has enabled us to significantly reduce the associated costs of utilizing other carriers.

(5) Other cost of services and sales has decreased primarily due to lower network expenses and motor vehicle expenses.

### Selling, General and Administrative Expense

Selling, general and administrative ("SG&A") expense includes salaries and wages and benefits (including stock based compensation, pension and post-retirement healthcare) not directly attributable to a service or product, bad debt charges, taxes other than income, advertising and sales commission costs, customer billing, call center and information technology costs, professional service fees and rent for administrative space. We expect SG&A expense to decrease primarily due to favorable changes in our represented employee qualified pension plan and because of the elimination of the represented employee post-retirement healthcare plan for all employees who retire after August 28, 2014 as well as lower labor negotiation related expense

as a result of the collective bargaining agreements described in "Labor Matters" herein. However, changes in discount rates and assumptions may offset some of these expense savings. The following table reflects the primary drivers of year-over-year changes in SG&A expense (dollars in millions):

	Year Ended December 31, 2014 vs. December 31, 2013		Year Ended December 31, 2013 vs. December 31, 2012	
	Increase (Decrease)	%	Increase (Decrease)	%
Employee expense <sup>(1)</sup>	\$ (12.8)		\$ 1.4	
Labor negotiation related expense <sup>(2)</sup>	33.3		—	
Pension expense <sup>(3)</sup>	(8.1)		8.4	
Post-retirement healthcare expense <sup>(4)</sup>	2.6		3.6	
Operating taxes	(3.9)		(3.2)	
Bad debt expense <sup>(5)</sup>	(0.6)		2.3	
Severance expense <sup>(6)</sup>	(1.2)		(1.7)	
Other <sup>(7)</sup>	(8.0)		(11.4)	
<b>Total changes in SG&amp;A expense</b>	<b>\$ 1.3</b>	<b>—%</b>	<b>\$ (0.6)</b>	<b>—%</b>

- (1) For the years ended December 31, 2014, 2013 and 2012, we recognized \$110.9 million, \$123.7 million and \$122.3 million, respectively, of employee expense in SG&A expense. The decrease in 2014 compared to 2013 is primarily attributable to a reduction in the accrual of our annual performance bonus amounts, a reduction in headcount and the work stoppage described in "Labor Matters" herein. Wages and benefits per employee were slightly higher in 2013 compared to 2012.
- (2) Labor negotiation related expense is primarily related to contingent workforce expenses as well as communications and public relations, legal and training expenses.
- (3) Decrease in 2014 net periodic benefit cost for our qualified pension plans is primarily attributable to a decrease in service cost and lower amortized actuarial losses resulting from a reduction in the projected benefit obligation of approximately \$41.1 million at December 31, 2013 compared to December 31, 2012 and was partially offset by an increase in interest cost. The decrease in the projected benefit obligation is attributed to an increase of approximately 84 basis points in the weighted average discount rate used to value the qualified pension obligations at December 31, 2013 compared to December 31, 2012. Increase in 2013 net periodic benefit costs is primarily attributable to an increase in the projected benefit obligation from reductions of approximately 55 basis points in the weighted average discount rate used to value the qualified pension obligations at December 31, 2012 compared to December 31, 2011. The larger projected benefit obligation served to increase service cost and interest cost recognized in 2013 compared to 2012. At December 31, 2013, we recognized actuarial gains of \$42.8 million, which resulted in a decrease in the amount of actuarial losses being amortized in 2014 compared to 2013. At December 31, 2012, we recognized actuarial losses of \$49.3 million, which resulted in an increase in the amount of actuarial losses being amortized in 2013 compared to the prior year. The actuarial gains/losses can be attributed primarily to the change in discount rates and the gains/losses incurred on payment of significant lump sums in each of those years. See note (10) "Employee Benefit Plans" to our consolidated financial statements in "Item 8. Financial Statements and Supplementary Data" included elsewhere in this Annual Report for further information on our company-sponsored qualified pension plans.
- (4) Increase in 2014 net periodic benefit costs for our post-retirement healthcare plans is primarily attributable to an increase in interest cost resulting from an increase of approximately 78 basis points in the weighted average discount rate used to value the post-retirement healthcare obligations at December 31, 2013 partially offset by a decrease in the amortization of actuarial losses and service cost in 2014 compared to 2013. Increase in 2013 net periodic benefit costs is primarily attributable to an increase in the projected benefit obligation from reductions of approximately 46 basis points in the weighted average discount rate used to value the post-retirement healthcare obligations at December 31, 2012. The larger projected benefit obligation served to increase service cost and interest cost recognized in 2013 when compared to the prior year. At December 31, 2013, we recognized actuarial gains of \$78.6 million, which resulted in a decrease in the amount of actuarial losses being amortized in 2014 compared to 2013. At December 31, 2012, we recognized actuarial losses of \$42.3 million, which resulted in an increase in the amount of actuarial losses being amortized in 2013 compared to the prior year. The actuarial gains/losses can be attributed primarily to the change in discount rates. See note (10) "Employee Benefit Plans" to our consolidated financial statements in "Item 8. Financial Statements and Supplementary Data" included elsewhere in this Annual Report for further information on our post-retirement healthcare plans.
- (5) For the years ended December 31, 2014, 2013 and 2012, we recognized \$9.2 million, \$9.8 million and \$7.5 million of bad debt expense, respectively.

- (6) For the years ended December 31, 2014, 2013 and 2012, we recognized \$1.0 million, \$2.2 million and \$3.9 million of severance expense, respectively. Since 2012 we have been working to consolidate operational functions and realign our human resources with the changing telecommunications landscape.
- (7) Decreases in other expenses is primarily due to contracted services and advertising costs.

### **Depreciation and Amortization**

Depreciation and amortization includes depreciation of our communications network and equipment and amortization of intangible assets. We require significant capital expenditures to maintain, upgrade and enhance our network facilities and operations. We expect to reduce our capital expenditures in the upcoming years, which will likely reduce our depreciation expense. We expect amortization expense to remain consistent throughout the remainder of our intangible assets' useful lives.

For the years ended December 31, 2014, 2013 and 2012, we recognized \$209.7 million, \$271.3 million and \$365.5 million of depreciation expense, respectively. The decrease in depreciation expense for the year ended December 31, 2014 compared to December 31, 2013 and for December 31, 2013 compared to December 31, 2012 was primarily related to certain asset classes becoming fully depreciated during 2013 and the impact of changes to the estimated remaining useful lives implemented in 2013. We recognized \$11.1 million, \$11.1 million and \$11.2 million of amortization expense in the years ended December 31, 2014, 2013 and 2012, respectively.

### **Reorganization Related Income**

Reorganization related income represents income or expense amounts that have been recognized as a direct result of the Chapter 11 Cases, occurring after the Effective Date. We will continue to incur expenses associated with the Chapter 11 Cases until all of the remaining claims have been closed. In addition, income may be recognized to the extent that we favorably settle outstanding claims in the claims reserve established to pay outstanding bankruptcy claims and various other bankruptcy related fees (the "Claims Reserve") or receive other payments related to the Chapter 11 Cases. As of December 31, 2014, the Claims Reserve has a balance of \$0.2 million.

### **Interest Expense**

The following table reflects a summary of interest expense recorded during the years ended December 31, 2014, 2013 and 2012, respectively (in millions):

	Years Ended December 31,		
	2014	2013	2012
Credit Agreement Loans	\$ 49.5	\$ 44.1	\$ —
Notes	26.3	23.0	—
Old Credit Agreement Loans	—	7.7	66.6
Amortization of debt issue costs	1.1	0.9	0.7
Amortization of debt discount	2.9	2.3	—
Other interest expense	0.6	0.7	0.3
<b>Total interest expense</b>	<b>\$ 80.4</b>	<b>\$ 78.7</b>	<b>\$ 67.6</b>

Interest expense increased \$1.7 million (2%) in the year ended December 31, 2014 as compared to the year ended December 31, 2013. The increase in interest expense is primarily attributable to the amortization of the debt discount and debt issuance fees related to the Credit Agreement Loans as a result of the Refinancing (as defined hereinafter in "Liquidity and Capital Resources—Debt—February 2013 Refinancing"), partially offset by lower weighted average long-term debt outstanding during 2014 as compared to 2013.

Interest on borrowings under the Old Credit Agreement accrued at an annual rate equal to either LIBOR or the base rate, in each case plus an applicable margin. Generally, the Old Credit Agreement Loans accrued interest at 6.50%. During the year ended December 31, 2012, the Old Credit Agreement Loans had an outstanding weighted average balance of \$987.3 million, taking into consideration \$43.0 million of principal payments made on our Old Term Loan in 2012, of which \$33.0 million exceeded the scheduled payments and was allocated to the final payment due at maturity. During the first half of the first quarter of 2013, the Old Credit Agreement Loans had an outstanding weighted average balance of \$952.3 million, taking into consideration \$10.5 million of prepayments made during that period.

On February 14, 2013, in connection with the Refinancing, we repaid the entire outstanding balance of the Old Credit Agreement Loans, issued \$300.0 million aggregate principal amount of the Notes and entered into the Credit Agreement Loans,

which include the \$640.0 million Term Loan outstanding and the undrawn \$75.0 million Revolving Facility. The Notes accrue interest at a rate of 8.75% per annum. Interest on borrowings under the Credit Agreement Loans accrues at an annual rate equal to either LIBOR or the base rate, in each case plus an applicable margin. Generally, the Term Loan accrued interest at 7.50% during 2014 and for the time period in 2013 after issuance. Regularly scheduled amortization payments of \$1.6 million were made on the Term Loan at the end of the second, third and fourth quarters of 2013 and at the end of each quarter of 2014. In addition, the Term Loan was issued at a \$19.4 million discount, which is being amortized using the effective interest method. As of December 31, 2014, we were party to interest rate swap agreements; however, since the agreements are not effective until September 30, 2015, they did not have an impact on interest expense in 2013 or 2014.

Interest expense increased \$11.1 million (16%) in the year ended December 31, 2013 as compared to the year ended December 31, 2012. The increase in interest expense is primarily attributable to the increase in interest rates and amortization of the debt discount and debt issuance fees related to the Credit Agreement Loans as a result of the Refinancing, partially offset by lower weighted average long-term debt outstanding during 2013 as compared to 2012.

For further information regarding the Credit Agreement Loans and the Notes, *see* "Liquidity and Capital Resources—Debt" herein and note (7) "Long-term Debt" to our consolidated financial statements in "Item 8. Financial Statements and Supplementary Data" included elsewhere in this Annual Report.

#### ***Loss on Debt Refinancing***

On February 14, 2013, we completed the Refinancing (as defined hereinafter in "Liquidity and Capital Resources—Debt—February 2013 Refinancing") and paid all amounts outstanding under the Old Credit Agreement. In connection with this Refinancing, we incurred \$5.6 million in related fees and wrote off \$1.2 million of debt issue costs and other prepayments related to the Old Credit Agreement.

#### ***Other Income***

Other income generally includes non-operating gains and losses. During the years ended December 31, 2014, 2013 and 2012, net other income was \$7.5 million, \$4.9 million and \$0.7 million, respectively. 2013 included a one-time settlement of \$3.3 million.

On the Effective Date, as required by the Plan, the FairPoint Litigation Trust (the "Trust") was created and the Company transferred to the Trust the "Litigation Trust Claims", as defined in the FairPoint Litigation Trust Agreement among the Company, its subsidiaries and the trustee. The Trust thereafter settled the "Litigation Trust Claims" against Verizon Communications Inc. During 2014, we received payment from the settlement proceeds and recorded one-time, non-operating income of \$6.7 million.

#### ***Income Taxes***

The Company recorded a tax benefit on the loss from continuing operations for the years ended December 31, 2014, 2013 and 2012 of \$29.8 million, \$90.3 million and \$95.6 million, respectively, which equates to an effective tax rate of 17.9%, 46.6% and 38.4%, respectively. For 2014, the effective tax rate differs from the 35% federal statutory rate primarily due to an increase in the valuation allowance offset by a tax benefit related to state taxes. For 2013, the effective tax rate differs from the statutory rate primarily due to state taxes, as well as a decrease to the valuation allowance. For 2012, the effective tax rate differs from the statutory rate primarily due to state taxes, as well as favorable provision to return permanent adjustments, partially offset by an increase to the valuation allowance for deferred tax assets.

#### ***Gain on Sale of Discontinued Operations, Net of Tax***

On January 31, 2013, we completed the sale of our capital stock in our Idaho-based operations to Blackfoot Telecommunications Group for \$30.5 million in gross cash proceeds. The operating results of these Idaho-based operations were immaterial and, accordingly, were not segregated as discontinued operations for reporting purposes. A gain, before \$6.7 million of income taxes, of \$16.7 million was recorded upon the closing of the transaction, which is reported within discontinued operations in the consolidated statement of operations for the year ended December 31, 2013.

For details of our Idaho-based operations' operating results, *see* note (17) "Assets Held for Sale and Discontinued Operations" to our consolidated financial statements in "Item 8. Financial Statements and Supplementary Data" included elsewhere in this Annual Report.

#### ***Non-GAAP Financial Measures***

We report our financial results in accordance with accounting principles generally accepted in the United States ("GAAP"). The table below includes certain non-GAAP financial measures and the adjustments to the most directly comparable GAAP



measure used to determine the non-GAAP measures. Management believes that the non-GAAP measures, which 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 that may not otherwise be apparent when relying solely on GAAP financial measures. In addition, management believes the non-GAAP measures are useful for investors because they enable them to view performance in a manner similar to the method used by the Company's management. Management believes earnings before interest, taxes, depreciation and amortization ("EBITDA"), as adjusted to exclude the effect of special items, provides a useful measure of covenant compliance and 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 Consolidated EBITDA, which is consistent with the calculation of Adjusted EBITDA below.

For purposes of calculating Adjusted EBITDA (in accordance with the definition of Consolidated EBITDA in our Credit Agreement), costs, expenses and charges related to the renegotiation of labor contracts including, but not limited to, expenses for third-party vendors and losses related to disruption of operations (including any associated penalties under service level agreements and regulatory performance plans) are permitted to be excluded from the calculation. We believe this includes, among others, the costs paid to third-parties for the contingent workforce and service quality penalties due to the disruption of operations. On October 17, 2014, two of our labor unions in northern New England initiated a work stoppage. As a result, significant union employee and vehicle and other related expenses related to northern New England were not incurred between October 17, 2014 and December 31, 2014 (the "work stoppage period"). Therefore, to assist in the evaluation of the Company's operating performance without the impact of the work stoppage, we estimated the union employee and vehicle and other related expenses using historical data for the work stoppage period that we believe would have been incurred absent the work stoppage ("Estimated Avoided Costs"). Estimated Avoided Costs is a pro forma estimate only. Actual costs absent the strike may have been different. In the fourth quarter of 2014, had our incumbent workforce been in place, actual labor costs may have been higher than the \$33 million recorded as Estimated Avoided Costs due to significant winter storm activity that increased our service demands; however, those incremental storm-related costs would have been an allowed add back to Adjusted EBITDA under the Credit Agreement. Estimated employee expenses avoided during the work stoppage period include salaries and wages, bonus, overtime, capitalized labor, benefits, payroll taxes, travel expenses and other employee related costs based on a trailing 12-month average calculated per striking employee per day during the work stoppage period less any actual expense incurred. Estimated vehicle fuel and maintenance expense savings, which resulted from the contingent workforce utilizing their own vehicles, for the work stoppage period were estimated based on a trailing 12-month average of historical costs less actual expense incurred. Management believes "Adjusted EBITDA minus Estimated Avoided Costs" and "Unlevered Free Cash Flow minus Estimated Avoided Costs" may be useful to investors in understanding our operating performance without the impact of the two unions' work stoppage in northern New England as described elsewhere in this Annual Report.

However, the non-GAAP financial measures, as used herein, are not necessarily comparable to similarly titled measures of other companies. Furthermore, these non-GAAP measures have limitations as analytical tools and should not be considered in isolation from, or as an alternative to, net income or loss, operating income, cash flow or other combined income or cash flow data prepared in accordance with GAAP. Because of these limitations, Adjusted EBITDA, Adjusted EBITDA minus Estimated Avoided Costs, Unlevered Free Cash Flow, Unlevered Free Cash Flow minus Estimated Avoided Costs and related ratios should not be considered as measures of discretionary cash available to invest in business growth or reduce indebtedness. The Company compensates for these limitations by relying primarily on its GAAP results and using the non-GAAP measures only supplementally.

A reconciliation of Adjusted EBITDA, Adjusted EBITDA minus Estimated Avoided Costs, Unlevered Free Cash Flow and Unlevered Free Cash Flow minus Estimated Avoided Costs to net loss is provided in the table below (in thousands):

	Years Ended December 31,		
	2014	2013	2012
Net loss	\$ (136,319)	\$ (93,450)	\$ (153,294)
Income tax benefit	(29,778)	(90,291)	(95,560)
Interest expense	80,371	78,675	67,610
Depreciation and amortization	220,678	282,438	376,614
Pension expense (1a)	18,144	26,221	17,809
Post-retirement healthcare expense (1a)	57,138	54,469	50,875
Compensated absences (1b)	2,848	431	329
Severance	2,005	8,150	6,380
Reorganization costs (1c)	104	207	1,335
Storm expenses (1d)	145	2,598	3,000
Other non-cash items, net (1e)	2,537	1,902	3,518
Gain on sale of discontinued operations	—	(10,757)	—
Loss on debt refinancing	—	6,787	—
Labor negotiation related expense (1f)	73,590	648	—
All other allowed adjustments, net (1f)	(889)	(2,998)	(675)
Adjusted EBITDA (1) (3)	290,574	265,030	277,941
Estimated Avoided Costs (2)	(33,000)	—	—
<b>Adjusted EBITDA minus Estimated Avoided Costs (2) (3)</b>	<b>\$ 257,574</b>	<b>\$ 265,030</b>	<b>\$ 277,941</b>
Adjusted EBITDA (1) (3)	\$ 290,574	\$ 265,030	\$ 277,941
Pension contributions	(28,266)	(19,971)	(17,850)
Post-retirement healthcare payments	(5,808)	(3,470)	(3,183)
Capital expenditures	(119,489)	(128,298)	(145,066)
Unlevered Free Cash Flow (3)	137,011	113,291	111,842
Estimated Avoided Costs (2)	(33,000)	—	—
<b>Unlevered Free Cash Flow minus Estimated Avoided Costs (2) (3)</b>	<b>\$ 104,011</b>	<b>\$ 113,291</b>	<b>\$ 111,842</b>

(1) For purposes of calculating Adjusted EBITDA (in accordance with the definition of Consolidated EBITDA in the Company's Credit Agreement), the Company adjusts net (loss) income for interest, income taxes, depreciation and amortization, in addition to:

- a) the add-back of aggregate pension and post-retirement healthcare expense,
- b) the add-back (or subtraction) of the adjustment to the compensated absences accrual to eliminate the impact of changes in the accrual,
- c) the add-back of costs related to the reorganization, including professional fees for advisors and consultants,
- d) the add-back of costs and expenses, including those imposed by regulatory authorities, with respect to casualty events, acts of God or force majeure to the extent they are not reimbursed from proceeds of insurance,
- e) the add-back of other non-cash items, except to the extent they will require a cash payment in a future period, including impairment charges, and
- f) the add-back (or subtraction) of other items, including facility and office closures, labor negotiation related expenses, non-cash gains/losses, and non-operating dividend and interest income and other extraordinary gains/losses.

(2) See paragraphs preceding the table above for information regarding the calculation.

(3) On October 16, 2014, we received payment from the Trust settlement proceeds and recorded one-time, non-operating income of \$6.7 million, which is included in the calculation of Adjusted EBITDA. For further information regarding this payment, see "Results of Operations—Other Income" included herein.

## Liquidity and Capital Resources

### Overview

Our current and future liquidity is dependent upon our operating results. We expect that our primary sources of liquidity will be cash flow from operations, cash on hand and funds available under the Revolving Facility. Our short-term and long-term liquidity needs arise primarily from:

- (i) interest and principal payments on our indebtedness;
- (ii) capital expenditures;
- (iii) working capital requirements as may be needed to support and grow our business, including payments to contractors used during the work stoppage in northern New England; and
- (iv) contributions to our qualified pension plan and payments under our post-retirement healthcare plans.

Based on our current and anticipated levels of operations and conditions in our markets, we believe that cash on hand, the Revolving Facility and cash flow from operations will enable us to meet our working capital, capital expenditure, debt service and other funding requirements for at least the next 12 months. We were in compliance with the maintenance covenants contained in the Credit Agreement through the end of 2014 and expect to remain in compliance for 2015.

### Cash Flows

Cash and cash equivalents at December 31, 2014 totaled \$37.6 million compared to \$42.7 million at December 31, 2013, excluding restricted cash of \$0.6 million and \$1.2 million, respectively. During 2014, cash flows from operations of \$121.1 million, which included outflows due to the scheduled semi-annual interest payments on the Notes and the payment of 2013 annual performance bonuses, were partially offset by cash outflows largely associated with \$119.5 million of capital expenditures. During 2013, cash inflows were primarily associated with cash flow from operations of \$171.1 million and proceeds from the sale of our Idaho-based operations of \$30.5 million partially offset by the Refinancing (as defined in "Debt—February 2013 Refinancing" below) and \$128.3 million of capital expenditures.

The following table sets forth our consolidated cash flow results reflected in our consolidated statements of cash flows (in millions):

Net cash flows provided by (used in):	Years Ended December 31,		
	2014	2013	2012
Operating activities	\$ 121.1	\$ 171.1	\$ 192.8
Investing activities	(118.4)	(96.0)	(144.3)
Financing activities	(7.8)	(55.6)	(42.6)
<b>Net increase (decrease) in cash</b>	<b>\$ (5.1)</b>	<b>\$ 19.5</b>	<b>\$ 5.9</b>

**Operating activities.** Net cash provided by operating activities is our primary source of funds. Net cash provided by operating activities for 2014 decreased \$50.0 million compared to 2013, primarily due to a reduction in revenues, increased outflows for interest due to the timing of semi-annual payments on the Notes (as defined in "Debt—February 2013 Refinancing" below) in 2014 compared to 2013, as well as the full-year impact of higher interest rates resulting from financing, increased cash pension contributions and labor negotiation related expenses in 2014 compared to 2013.

Net cash provided by operating activities for 2013 decreased by \$21.7 million compared to 2012, primarily because reduced revenue and related collections were not sufficiently offset by lower expenses. Net cash provided by operating activities for 2012 includes payment of \$8.8 million in claims of the Predecessor Company, of which \$3.8 million of these claims were paid using funds from the reserve for payment of outstanding bankruptcy claims (the "Cash Claims Reserve") established on the Effective Date. Accordingly, \$5.0 million of cash on hand was used to pay claims of the Predecessor Company during 2012. During 2013, only \$0.2 million of cash on hand was used to pay claims. During 2013 and 2012, \$0.6 million and \$10.8 million of the Cash Claims Reserve was reclaimed by the Company as a source of cash on hand, respectively.

**Investing activities.** Net cash used in investing activities for 2014 increased \$22.4 million compared to 2013. In 2013, cash outflows in capital expenditures were partially offset by the sale of our Idaho-based operations during 2013 for \$30.5 million in cash proceeds. Capital expenditures were \$119.5 million, \$128.3 million and \$145.1 million for the years ended December 31, 2014, 2013 and 2012, respectively.

**Financing activities.** Net cash used in financing activities for 2014 decreased \$47.8 million compared to 2013. This decrease is largely due to the Refinancing (as defined hereinafter in "Liquidity and Capital Resources—Debt—February 2013 Refinancing") during 2013. 2013 increased \$13.0 million compared to 2012, primarily due to the Refinancing.

#### ***Pension Contributions and Post-Retirement Healthcare Plan Expenditures***

During the year ended December 31, 2014, we contributed \$30.0 million to our Company sponsored qualified defined benefit pension plans and funded benefit payments of \$6.1 million under our post-retirement healthcare plans. Contributions to our qualified defined benefit pension plans in 2014 exceeded the minimum funding requirements under the Pension Protection Act of 2006.

On August 8, 2014, the Highway and Transportation Funding Act was signed into law. This act contained a pension funding stabilization provision which allows pension plan sponsors to use higher discount rate assumptions when determining the funded status and, accordingly, the funding obligations for its pension plans.

The provisions of the Act will result in our 2015 minimum required pension plan contribution being lower than it would have been in the absence of this stabilization provision. We believe that the intent of the stabilization provision is to alter the timing of pension plan contributions, not to reduce the long-term funding of pension plans. Accordingly, the relief we will receive as a result of the stabilization provision may be temporary in nature in that our near-term minimum required contributions will be less than they otherwise would have been without the passage of this Act and will increase in the medium to long-term.

In 2015, we expect our aggregate cash pension contributions and cash post-retirement healthcare payments to be approximately \$20 million. See "Item 1A. Risk Factors—The amount we are required to contribute to our qualified pension plans and post-retirement healthcare plans is impacted by several factors that are beyond our control and changes in those factors may result in a significant increase in future cash contributions."

#### ***Capital Expenditures***

We require significant capital expenditures to maintain, upgrade and enhance our network facilities and operations. In 2014, our net capital expenditures totaled \$119.5 million, compared to \$128.3 million in 2013. We anticipate that we will fund future capital expenditures through cash flows from operations and cash on hand (including amounts available under the Revolving Facility). In 2015, capital expenditures are expected to be lower than in 2014.

#### ***Debt***

##### **February 2013 Refinancing**

On February 14, 2013 (the "Refinancing Closing Date"), we completed the refinancing of the Old Credit Agreement Loans (the "Refinancing"). In connection with the Refinancing, we (i) issued \$300.0 million aggregate principal amount of 8.75% senior secured notes due in 2019 (the "Notes") in a private offering exempt from registration under the Securities Act pursuant to an indenture that we entered into on the Refinancing Closing Date (the "Indenture") and (ii) entered into a new credit agreement (the "Credit Agreement"), dated as of the Refinancing Closing Date. The Credit Agreement provides for a \$75.0 million revolving credit facility, including a sub-facility for the issuance of up to \$40.0 million in letters of credit (the "Revolving Facility"), and a \$640.0 million term loan facility (the "Term Loan" and, together with the Revolving Facility, the "Credit Agreement Loans"). On the Refinancing Closing Date, we used the proceeds of the Notes offering, together with \$640.0 million of borrowings under the Term Loan and cash on hand to (i) repay principal of \$946.5 million outstanding on the Old Term Loan, plus approximately \$7.7 million of accrued interest and (ii) pay approximately \$32.6 million of fees, expenses and other costs related to the Refinancing.

**The Credit Agreement.** In connection with the Refinancing, we entered into the Credit Agreement, which provides for the \$75.0 million Revolving Facility, including a sub-facility for the issuance of up to \$40.0 million in letters of credit, and the \$640.0 million Term Loan. The Credit Agreement Loans replaced the Old Credit Agreement Loans, which were terminated on the Refinancing Closing Date. The principal amount of the Term Loan and commitments under the Revolving Facility may be increased by an aggregate amount up to \$200.0 million, subject to certain terms and conditions specified in the Credit Agreement. The Term Loan will mature on February 14, 2019 and the Revolving Facility will mature on February 14, 2018, subject in each case to extensions pursuant to the terms of the Credit Agreement. As of December 31, 2014, the Company had \$58.8 million, net of \$16.2 million of outstanding letters of credit, available for borrowing under the Revolving Facility.

**Interest Rates and Fees.** Interest on borrowings under the Credit Agreement Loans accrue at an annual rate equal to either LIBOR or the base rate, in each case plus an applicable margin. LIBOR is the per annum rate for an interest period of one, two, three or six months (at our election), with a minimum LIBOR floor of 1.25% for the Term Loan. The base rate for any date is the

per annum rate equal to the greatest of (x) the federal funds effective rate plus 0.50%, (y) the rate of interest publicly quoted from time to time by The Wall Street Journal as the United States "Prime Rate" and (z) LIBOR with an interest period of one month plus 1.00%. The applicable margin for the Term Loan is (a) 6.25% per annum with respect to term loans bearing interest based on LIBOR or (b) 5.25% per annum with respect to term loans bearing interest based on the base rate. The applicable rate for the Revolving Facility is, initially, (a) 5.50% with respect to revolving loans bearing interest based on LIBOR or (b) 4.50% per annum with respect to revolving loans bearing interest based on the base rate, in each case subject to adjustment based on our consolidated total leverage ratio, as defined in the Credit Agreement. We are required to pay a quarterly letter of credit fee on the average daily amount available to be drawn under letters of credit issued under the Revolving Facility equal to the applicable rate for revolving loans bearing interest based on LIBOR plus a fronting fee of 0.125% per annum on the average daily amount available to be drawn under such letters of credit. In addition, we are required to pay a quarterly commitment fee on the average daily unused portion of the Revolving Facility, which is 0.50% initially, subject to reduction to 0.375% based on our consolidated total leverage ratio. In the third quarter of 2013, we entered into interest rate swap agreements with a combined notional amount of \$170.0 million with three counterparties that are effective for a two year period beginning on September 30, 2015 and maturing on September 30, 2017. Each respective swap agreement requires us to pay a fixed rate of 2.665% and provides that we will receive a variable rate based on the three month LIBOR rate, subject to a minimum LIBOR floor of 1.25%. Amounts payable by or due to us will be net settled with the respective counterparties on the last business day of each fiscal quarter, commencing December 31, 2015. For further information regarding these agreements, see note (8) "Interest Rate Swap Agreements" to our consolidated financial statements in "Item 8. Financial Statements and Supplementary Data" included elsewhere in this Annual Report.

**Security/Guarantors.** All obligations under the Credit Agreement, together with certain designated hedging obligations and cash management obligations, are unconditionally guaranteed on a senior secured basis by each of the Subsidiary Guarantors and secured by a first-priority lien on substantially all personal property of FairPoint Communications and the Subsidiary Guarantors, subject to certain exclusions set forth in the related security documents, *pari passu* with the lien securing the obligations under the Notes.

**Mandatory Repayments.** We are required to make quarterly repayments of the Term Loan in a principal amount equal to \$1.6 million during the term of the Credit Agreement, with such repayments being reduced based on the application of mandatory and optional prepayments of the Term Loan made from time to time. In addition, mandatory repayments are due under the Credit Agreement with (i) a percentage, initially equal to 50% and subject to reduction to 25% in subsequent fiscal years based on our consolidated total leverage ratio, of our excess cash flow, as defined in the Credit Agreement, (ii) the net cash proceeds of certain asset dispositions, insurance proceeds and condemnation awards and (iii) issuances of debt not permitted to be incurred under the Credit Agreement. Optional prepayments and mandatory prepayments resulting from the incurrence of debt not permitted to be incurred under the Credit Agreement are required to be made at (i) 102.0% of the aggregate principal amount prepaid if such prepayment is made on or prior to February 14, 2015 and (ii) 101.0% of the aggregate principal amount prepaid if such prepayment is made prior to February 14, 2016. No premium is required to be paid for prepayments made after February 14, 2016. We did not make any optional or mandatory prepayments under the Credit Agreement, excluding mandatory quarterly repayments discussed above, during the years ended December 31, 2014 and 2013. In addition, we will not be required to make an excess cash flow payment for fiscal year 2014.

**Covenants.** The Credit Agreement contains customary representations and warranties and affirmative and negative covenants for a transaction of this type, including two financial maintenance covenants: (i) a consolidated interest coverage ratio and (ii) a consolidated total leverage ratio. The Credit Agreement also contains a covenant limiting the maximum amount of capital expenditures that we and our subsidiaries may make in any fiscal year.

**Events of Default.** The Credit Agreement also contains customary events of default for a transaction of this type.

**The Notes.** On the Refinancing Closing Date, we issued \$300.0 million in aggregate principal amount of the Notes pursuant to the Indenture in a private offering exempt from registration under the Securities Act.

The terms of the Notes are governed by the Indenture. The Notes are senior secured obligations of FairPoint Communications and are guaranteed by the Subsidiary Guarantors. The Notes and the guarantees thereof are secured by a first-priority lien on substantially all personal property of FairPoint Communications and the Subsidiary Guarantors, subject to certain exclusions set forth in the related security documents, *pari passu* with the lien securing the obligations under the Credit Agreement. The Notes will mature on August 15, 2019 and accrue interest at a rate of 8.75% per annum, which is payable semi-annually in arrears on February 15 and August 15 of each year.

On or after February 15, 2016, we may redeem all or part of the Notes at the redemption prices set forth in the Indenture, plus accrued and unpaid interest thereon, to the applicable redemption date. At any time prior to February 15, 2016, we may redeem all or part of the Notes at a redemption price equal to 100% of the principal amount of the Notes redeemed, plus a "make-whole" premium as of, and accrued and unpaid interest to, the applicable redemption date. In addition, at any time prior to February 15, 2016, we may, on one or more occasions, redeem up to 35% of the original aggregate principal amount of the Notes, using net

cash proceeds of certain qualified equity offerings, at a redemption price of 108.75% of the principal amount of Notes redeemed, plus accrued and unpaid interest to the applicable redemption date.

The holders of the Notes have the ability to require us to repurchase all or any part of the Notes if we experience certain kinds of changes in control or engage in certain asset sales, in each case at the repurchase prices and subject to the terms and conditions set forth in the Indenture.

The Indenture contains certain covenants which are customary with respect to non-investment grade debt securities, including limitations on our ability to incur additional indebtedness, pay dividends on or make other distributions or repurchase our capital stock, make certain investments, enter into certain types of transactions with affiliates, create liens and sell certain assets or merge with or into other companies. These covenants are subject to a number of important limitations and exceptions.

The Indenture also provides for customary events of default, including cross defaults to other specified debt of FairPoint Communications and certain of its subsidiaries.

***The Old Credit Agreement.*** On January 24, 2011, the Old Credit Agreement Borrowers entered into the Old Credit Agreement. The Old Credit Agreement was comprised of the Old Revolving Facility, which had a sub-facility providing for the issuance of up to \$30.0 million of letters of credit, and the Old Term Loan. The entire outstanding principal amount of the Old Credit Agreement Loans was due and payable five years after January 24, 2011, subject to certain conditions. On February 14, 2013, we entered into the Credit Agreement and repaid all outstanding amounts under the Old Credit Agreement, which was subsequently terminated. In addition, the following agreements relating to the Old Credit Agreement Loans were terminated on the Refinancing Closing Date: (i) the Security Agreement, dated as of January 24, 2011, among FairPoint Communications, the subsidiaries of FairPoint Communications party thereto and Bank of America, N.A., as administrative agent, (ii) the Pledge Agreement, dated as of January 24, 2011, made by FairPoint Communications and the subsidiaries of FairPoint Communications party thereto in favor of Bank of America, N.A., as administrative agent, and (iii) the Continuing Guaranty, dated as of January 24, 2011, made by the subsidiaries of FairPoint Communications party thereto in favor of Bank of America, N.A., as administrative agent.

***Merger Orders.*** As a condition to the approval of the Merger and related transactions by state regulatory authorities we agreed to make certain capital expenditures following the completion of the Merger, which were modified by regulatory settlements agreed to with representatives for each of Maine, New Hampshire and Vermont and approved by the applicable regulatory authorities in Maine, New Hampshire and Vermont and approved by the Bankruptcy Court as part of the Plan. For further information on these capital expenditure requirements, see "Item 1. Business—Regulatory Environment—State Regulation—Regulatory Conditions to the Merger, as Modified in Connection with the Plan" included elsewhere in this Annual Report.

#### **Off-Balance Sheet Arrangements**

As of December 31, 2014 and December 31, 2013 we had \$16.2 million and \$15.9 million, respectively, in outstanding letters of credit under the Revolving Facility and \$2.8 million and \$1.8 million, respectively, of surety bonds. We do not have any other off-balance sheet arrangements other than our operating lease obligations, which are not reflected on our balance sheet. See "—Summary of Contractual Obligations" for further detail.

## Summary of Contractual Obligations

The table set forth below contains information with regard to disclosures about contractual obligations and commercial commitments.

The following table discloses aggregate information about our contractual obligations as of December 31, 2014 and the periods in which payments are due (in thousands):

Contractual Obligations	Payments due by period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Long-term debt obligations, including current maturities <sup>(a)</sup>	\$ 928,800	\$ 6,400	\$ 12,800	\$ 909,600	\$ —
Interest payments on long-term debt obligations <sup>(b)</sup>	321,107	75,585	223,461	22,061	—
Capital lease obligations, including current maturities	1,909	700	980	229	—
Operating lease obligations	21,081	7,484	9,750	3,145	702
Other long-term liabilities <sup>(c)</sup>	1,008,859	23,572	36,340	28,023	920,924
<b>Total contractual obligations</b>	<b>\$ 2,281,756</b>	<b>\$ 113,741</b>	<b>\$ 283,331</b>	<b>\$ 963,058</b>	<b>\$ 921,626</b>

- (a) Long-term debt obligations exclude outstanding letters of credit totaling \$16.2 million under the Revolving Facility at December 31, 2014. For more information, *see* note (7) "Long-term Debt" to our consolidated financial statements in "Item 8. Financial Statements and Supplementary Data" included elsewhere in this Annual Report.
- (b) Interest payments represent cash payments on the long-term debt, including payments associated with interest rate swaps, while excluding amortization of capitalized debt issuance costs.
- (c) Other long-term liabilities primarily include our qualified pension and post-retirement healthcare obligations, and deferred tax liabilities. For more information, *see* notes (10) "Employee Benefit Plans" and (11) "Income Taxes" to our consolidated financial statements in "Item 8. Financial Statements and Supplementary Data" included elsewhere in this Annual Report. In addition,
- (i) The balance excludes \$3.8 million of reserves for uncertain tax positions, including interest and penalties, that were included in deferred tax liabilities at December 31, 2014 for which we are unable to make a reasonably reliable estimate as to when cash settlements with taxing authorities will occur;
  - (ii) The balance includes the current portion of our post-retirement healthcare obligations of \$6.0 million presented in the current portion of other accrued liabilities at December 31, 2014; and
  - (iii) Our 2015 pension contribution is expected to be approximately \$16 million and has been reflected as due in less than one year. Our actual contribution could differ from this estimation. Due to uncertainties in the pension funding calculation, the amount and timing of any other pension contributions are unknown and therefore the remaining accrued pension obligation has been reflected as due in more than 5 years.

## Critical Accounting Policies and Estimates

As disclosed in note (2) "Significant Accounting Policies" to our consolidated financial statements in "Item 8. Financial Statements and Supplementary Data" included elsewhere in this Annual Report, the preparation of our financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions about future events that affect the amounts reported in our consolidated financial statements and accompanying notes. Actual results could differ significantly from those estimates. We believe that the following discussion addresses our most critical accounting policies, which are those that are most important to the portrayal of our financial condition and results of operations and require management's most difficult, subjective and complex judgments. Our critical accounting policies as of December 31, 2014 are as follows:

- Revenue recognition;
- Allowance for doubtful accounts;
- Accounting for qualified pension and other post-retirement healthcare benefits;
- Accounting for income taxes;
- Depreciation of property, plant and equipment;
- Stock-based compensation; and



- Valuation of long-lived assets and indefinite-lived intangible assets.

**Revenue Recognition.** We recognize service revenues based upon usage of our local exchange network and facilities and contract fees. Fixed fees for voice services, Internet services and certain other services are recognized in the month the service is provided. Revenue from other services that are not fixed fee or that exceed contracted amounts is recognized when those services are provided. Non-recurring customer activation fees, along with the related costs up to, but not exceeding, the activation fees, are deferred and amortized over the customer relationship period. SQI penalties and certain PAP penalties are recorded as a reduction to revenue.

We recognize certain revenues pursuant to various cost recovery programs from state and federal USF, CAF/ICC and from revenue sharing agreements with other LECs administered by the National Exchange Carrier Association ("NECA"). Revenues are calculated based on our investment in our network and other network operations and support costs. We have historically collected revenues recognized through this program; however, adjustments to estimated revenues in future periods are possible. These adjustments could be necessitated by adverse regulatory developments with respect to these subsidies and revenue sharing arrangements, changes in the allowable rates of return, the determination of recoverable costs and/or decreases in the availability of funds in the programs due to increased participation by other carriers.

We make estimated adjustments, as necessary, to revenue and accounts receivable for billing errors, including certain disputed amounts. If circumstances related to these adjustments change or our knowledge evolves, our estimate of the recoverability of our accounts receivable could be further reduced from the levels provided in our consolidated financial statements.

**Allowance for Doubtful Accounts.** In evaluating the collectability of our accounts receivable, we assess a number of factors, including a specific customer's or carrier's ability to meet its financial obligations to us, the length of time the receivable has been past due and historical collection experience. Based on these assessments, we record both specific and general reserves for uncollectible accounts receivable to reduce the related accounts receivable to the amount we ultimately expect to collect from customers and carriers. If circumstances change or economic conditions worsen such that our past collection experience is no longer relevant, our estimate of the recoverability of our accounts receivable could be further reduced from the levels reflected in our accompanying consolidated balance sheet.

**Accounting for Qualified Pension and Other Post-retirement Healthcare Benefits.** Certain of our employees participate in our qualified pension plans and other post-retirement healthcare plans. In the aggregate, the projected benefit obligations of the qualified pension plans exceed the fair value of their respective assets and the post-retirement healthcare plans do not have plan assets, resulting in expense. Significant qualified pension and other post-retirement healthcare plan assumptions, including the discount rate used, the long-term rate-of-return on plan assets, and medical cost trend rates are periodically updated and impact the amount of benefit plan income, expense, assets and obligations reflected in our consolidated financial statements. The actuarial assumptions we used in determining our qualified pension and post-retirement healthcare plans obligations may differ materially from actual results due to changing market and economic conditions, higher or lower withdrawal rates or longer or shorter life spans of participants. While we believe that the assumptions used are appropriate, differences in actual experience or changes in assumptions might materially affect our financial position or results of operations.

Our qualified pension and post-retirement liabilities are highly sensitive to changes in the discount rate. We currently estimate that a movement of 1% in the discount rate would change our December 31, 2014 qualified pension plan benefit obligations by approximately 19%. We currently estimate that a 1% fluctuation in the discount rate would change our December 31, 2014 post-retirement healthcare benefit obligations by approximately 22%.

The post-retirement healthcare benefit obligations are also highly sensitive to the medical trend rate assumption. A 1% increase in the medical trend rate assumed for post-retirement healthcare benefits at December 31, 2014 would result in an increase in the post-retirement healthcare benefit obligations of approximately \$182.1 million and a 1% decrease in the medical trend rate assumed at December 31, 2014 would result in a decrease in the post-retirement healthcare benefit obligations of approximately \$138.0 million.

For additional information on our qualified pension and post-retirement healthcare plans, *see* note (10) "Employee Benefit Plans" to our consolidated financial statements in "Item 8. Financial Statements and Supplementary Data" included elsewhere in this Annual Report.

**Accounting for Income Taxes.** In accordance with the Income Taxes Topic of the ASC, income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management determines its estimates of future taxable income based upon the scheduled reversal of deferred tax liabilities and tax planning strategies. The Company establishes valuation allowances for deferred tax assets when it is estimated to be more likely than not that the tax assets will not be realized.

FairPoint Communications files a consolidated income tax return with its subsidiaries. All intercompany transactions and accounts have been eliminated in consolidation.

**Depreciation of Property, Plant and Equipment.** We recognize depreciation on property, plant and equipment principally on the composite group remaining life method and straight-line composite rates. This method provides for the recognition of the cost of the remaining net investment in telephone plant, less anticipated net salvage value (if any), over the remaining asset lives. When an asset is retired, the original cost, net of salvage value, is charged against accumulated depreciation and no immediate gain or loss is recognized on the disposition of the asset. Under this method, we review depreciable lives periodically and may revise depreciation rates when appropriate. The Company utilizes straight-line depreciation for its non-telephone property, plant and equipment.

Periodically, the Company reviews the estimated remaining useful lives of its group asset categories to address continuing changes in technology, competition and the Company's overall reduction in capital spending and increased focus on more efficient utilization of its existing assets.

**Stock-based Compensation.** Compensation expense for share-based awards made to employees and directors are recognized based on the estimated fair value of each award over the award's vesting period. We estimate the fair value of share-based payment awards on the date of grant using either an option-pricing model for stock options or the closing market value of our stock for restricted stock and expense the value of the portion of the award that is ultimately expected to vest over the requisite service period in the statement of operations.

We utilize the Black-Scholes option pricing model to calculate the fair value of our stock option grants. The key assumptions used in the Black-Scholes option pricing model are the expected life of the stock option, the expected dividend rate, the risk-free interest rate and expected volatility. The expected life of the stock options granted represents the period of time that the options are expected to be outstanding. The risk-free interest rates are based on United States Treasury yields in effect at the date of grant consistent with the expected life. The expected volatility reflects the historical volatility. Our assumptions of these key inputs, in addition to our assumption made about the portion of the awards that will ultimately vest, requires subjective judgment.

For additional information on share-based awards, including key assumptions used in calculating the grant date fair values, *see* note (15) "Stock-Based Compensation" to our consolidated financial statements in "Item 8. Financial Statements and Supplementary Data" included elsewhere in this Annual Report.

**Valuation of Long-lived Assets and Indefinite-lived Intangible Assets.** We review our long-lived assets, which include our amortizable intangible assets, for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. In addition, we review non-amortizable intangible assets for impairment on at least an annual basis as of the first day of the fourth quarter of each year, or more frequently whenever indicators of impairment exist. Indicators of impairment could include, but are not limited to:

- an inability to perform at levels that were forecasted;
- a decline in planned revenues;
- a permanent decline in market capitalization;
- implementation of restructuring plans;
- changes in industry trends; and/or
- unfavorable changes in our capital structure, cost of debt, interest rates or capital expenditures levels.

Our only non-amortizable intangible asset is the FairPoint trade name. An annual quantitative impairment analysis was performed on October 1, 2014. We assess the fair value of our trade name utilizing the relief from royalty method. If the carrying amount of our trade name exceeds its estimated fair value, the asset is considered impaired. For this annual impairment review, we made certain assumptions including an estimated royalty rate, long-term growth rate, effective tax rate and discount rate and applied these assumptions to projected future cash flows, exclusive of cash flows associated with wholesale and other revenues not generated through brand recognition. As of October 1, 2014, the estimated fair value exceeded the carrying value; therefore, an impairment was not necessary. We performed another quantitative analysis as of December 31, 2014 and the estimated fair value exceeded the carrying value by approximately 4%; therefore, an impairment was not necessary. However, future changes

in one or more of our assumptions discussed above may result in the recognition of an impairment loss. For example, an increase in the discount rate of 41 basis points could result in an impairment loss.

For additional information on our FairPoint trade name, *see* note (5) "Other Intangible Assets" to our consolidated financial statements in "Item 8. Financial Statements and Supplementary Data" included elsewhere in this Annual Report.

#### **New Accounting Standards**

For details of recent Accounting Standards Updates and our evaluation of their adoption on our consolidated financial statements, *see* note (3) "Recent Accounting Pronouncements" to our consolidated financial statements in "Item 8. Financial Statements and Supplementary Data" included elsewhere in this Annual Report.

#### **Inflation**

There are cost of living adjustment clauses in certain of the collective bargaining agreements covering our labor union employees. Considerable fluctuations in cost of living due to inflation could result in an adverse effect on our operations.

### **ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

We are exposed to market risk in the normal course of our business operations due to ongoing investing and funding activities, including those associated with the variable interest rate in our Credit Agreement and our qualified pension plan assets. Market risk refers to the potential change in fair value of a financial instrument as a result of fluctuations in interest rates, fixed income securities and equity prices. We do not hold or issue derivative instruments, derivative commodity instruments or other financial instruments for trading or speculative purposes. Our primary market risk exposures are interest rate risk and investment risk as follows:

**Interest Rate Risk - Long-Term Debt.** We are exposed to interest rate risk, primarily as it relates to the variable interest rates we are charged under credit agreements to which we are a party. As of December 31, 2014, our interest rate risk exposure was attributable to the Credit Agreement, which includes the Term Loan and the Revolving Facility, each of which is subject to variable interest rates. We use our variable rate debt, in addition to fixed rate debt, to finance our operations and capital expenditures and believe it is prudent to limit the variability of our interest payments on our variable rate debt. To meet this objective, from time to time, we may enter into interest rate derivative agreements to manage fluctuations in cash flows resulting from interest rate risk.

As of December 31, 2014, we were party to interest rate swap agreements in connection with borrowings under the Credit Agreement covering a combined notional amount of \$170.0 million. However, these agreements are not effective until September 30, 2015. Accordingly, on December 31, 2014, the entire \$628.8 million principal balance of the Term Loan was subject to interest rate risk. Interest payments on the Term Loan are subject to a LIBOR floor of 1.25%. As a result, while LIBOR remains below 1.25%, we incur interest at above market rates. To the extent that LIBOR remains below 1.25%, we are buffered from the full financial impact of interest rate risk; however, as LIBOR rises, a change in interest rates could materially affect our consolidated financial statements. For example, with the principal balance of the Term Loan as of December 31, 2014, a 1% increase in the interest rate above the LIBOR floor of 1.25% would unfavorably impact interest expense and pre-tax earnings by approximately \$6.3 million on an annual basis.

For further information regarding the Credit Agreement, *see* "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources," and note (7) "Long-Term Debt" and note (8) "Interest Rate Swap Agreements" to our consolidated financial statements in "Item 8. Financial Statements and Supplementary Data" included elsewhere in this Annual Report.

**Interest Rate and Investment Risk - Pension Plans.** We are exposed to risks related to the fair value of our pension plan assets and the discount rate used to value our pension plan liabilities and the amount of lump-sum payments made to participants. Our pension plan assets consist of a portfolio of fixed income securities, equity securities and cash. Changes in the fair value of this portfolio can occur due to changes in interest rates and the general economy. In addition, interest rates are a primary factor in the determination of our actuarially determined liability and the amount of the accrued benefit paid in the form of a lump-sum to a pension plan retiree when requested. Our qualified pension plan assets have historically funded a large portion of the benefits paid under our qualified pension plans. Payment of significant lump sum payments, lower returns on plan assets, decrease in the fair value of plan assets and lower discount rates could negatively impact the funded status of the plan and we may be required to make larger contributions to the pension plan than currently anticipated. Due to uncertainties in the pension funding calculation, the amount and timing of pension contributions are unknown other than as disclosed in this Annual Report. For activity in our

qualified pension plan assets, *see* note (10) "Employee Benefit Plans" to our consolidated financial statements in "Item 8. Financial Statements and Supplementary Data" included elsewhere in this Annual Report.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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### **Report of Management on Internal Control Over Financial Reporting**

We, the management of FairPoint Communications, Inc., are responsible for establishing and maintaining adequate internal control over financial reporting of the Company. Management has evaluated internal control over financial reporting of the Company as of December 31, 2014 using the criteria for effective internal control established in *Internal Control–Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Based on such evaluation, management determined that the Company's internal control over financial reporting was effective as of December 31, 2014.

Ernst & Young, LLP, our independent registered public accounting firm who audited the financial statements included in this Annual Report, has issued an attestation report on the Company's internal control over financial reporting. This report appears on the following page.

/s/ Paul H. Sunu

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**Paul H. Sunu**

Chief Executive Officer

/s/ Ajay Sabherwal

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**Ajay Sabherwal**

Executive Vice President and Chief Financial Officer

## **Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders of FairPoint Communications, Inc. and subsidiaries

We have audited the accompanying consolidated balance sheets of FairPoint Communications, Inc. and subsidiaries as of December 31, 2014 and 2013, and the related consolidated statements of operations, comprehensive (loss) income, stockholders' equity (deficit) and cash flows for each of the three years in the period ended December 31, 2014. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of FairPoint Communications, Inc. and subsidiaries at December 31, 2014 and 2013, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2014, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), FairPoint Communication, Inc. and subsidiaries' internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated March 4, 2015 expressed an unqualified opinion thereon.

Charlotte, North Carolina  
March 4, 2015

/s/ Ernst & Young LLP



## **Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders of FairPoint Communications, Inc. and subsidiaries

We have audited FairPoint Communications, Inc. and subsidiaries' internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). FairPoint Communications, Inc. and subsidiaries' management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Report of Management on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, FairPoint Communications, Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of FairPoint Communications, Inc. and subsidiaries as of December 31, 2014 and 2013, and the related consolidated statements of operations, comprehensive (loss) income, stockholders' equity (deficit) and cash flows for each of the three years in the period ended December 31, 2014, and our report dated March 4, 2015 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Charlotte, North Carolina  
March 4, 2015

**FAIRPOINT COMMUNICATIONS, INC. AND SUBSIDIARIES**  
**Consolidated Balance Sheets**  
(in thousands, except share data)

	December 31, 2014	December 31, 2013
<b>Assets:</b>		
Cash	\$ 37,587	\$ 42,700
Restricted cash	—	543
Accounts receivable, net	71,545	89,248
Prepaid expenses	25,360	26,552
Other current assets	5,406	3,876
Deferred income tax, net	7,638	18,250
<b>Total current assets</b>	<b>147,536</b>	<b>181,169</b>
Property, plant and equipment, net	1,213,729	1,301,292
Intangible assets, net	94,879	105,886
Debt issue costs, net	5,949	7,101
Restricted cash	651	651
Other assets	3,214	3,799
<b>Total assets</b>	<b>\$ 1,465,958</b>	<b>\$ 1,599,898</b>
<b>Liabilities and Stockholders' Deficit:</b>		
Current portion of long-term debt	\$ 6,400	\$ 6,400
Current portion of capital lease obligations	627	1,445
Accounts payable	62,985	37,876
Claims payable and estimated claims accrual	216	256
Accrued interest payable	9,978	9,977
Accrued payroll and related expenses	25,218	34,897
Other accrued liabilities	47,147	55,994
<b>Total current liabilities</b>	<b>152,571</b>	<b>146,845</b>
Capital lease obligations	962	447
Accrued pension obligations	212,806	153,534
Accrued post-retirement healthcare obligations	735,351	584,734
Deferred income taxes	35,231	85,948
Other long-term liabilities	21,131	25,864
Long-term debt, net of current portion	908,190	911,722
<b>Total long-term liabilities</b>	<b>1,913,671</b>	<b>1,762,249</b>
<b>Total liabilities</b>	<b>2,066,242</b>	<b>1,909,094</b>
<b>Commitments and contingencies (See Note 18)</b>		
Stockholders' deficit:		
Common stock, \$0.01 par value, 37,500,000 shares authorized, 26,710,569 and 26,480,837 shares issued and outstanding at December 31, 2014 and 2013, respectively	267	264
Additional paid-in capital	516,080	512,008
Retained deficit	(798,008)	(661,689)
Accumulated other comprehensive loss	(318,623)	(159,779)
<b>Total stockholders' deficit</b>	<b>(600,284)</b>	<b>(309,196)</b>
<b>Total liabilities and stockholders' deficit</b>	<b>\$ 1,465,958</b>	<b>\$ 1,599,898</b>

See accompanying notes to consolidated financial statements.

**FAIRPOINT COMMUNICATIONS, INC. AND SUBSIDIARIES**  
**Consolidated Statements of Operations**  
(in thousands, except per share data)

	Years Ended December 31,		
	2014	2013	2012
<b>Revenues</b>	<b>\$ 901,396</b>	<b>\$ 939,354</b>	<b>\$ 973,649</b>
Operating expenses:			
Cost of services and sales, excluding depreciation and amortization	440,979	439,217	450,441
Selling, general and administrative expense, excluding depreciation and amortization	332,909	331,656	332,243
Depreciation and amortization	220,678	282,438	376,614
Reorganization related income (expense)	104	(771)	(3,666)
<b>Total operating expenses</b>	<b>994,670</b>	<b>1,052,540</b>	<b>1,155,632</b>
<b>Loss from operations</b>	<b>(93,274)</b>	<b>(113,186)</b>	<b>(181,983)</b>
Other income (expense):			
Interest expense	(80,371)	(78,675)	(67,610)
Loss on debt refinancing	—	(6,787)	—
Other	7,548	4,863	739
<b>Total other expense</b>	<b>(72,823)</b>	<b>(80,599)</b>	<b>(66,871)</b>
<b>Loss before income taxes</b>	<b>(166,097)</b>	<b>(193,785)</b>	<b>(248,854)</b>
Income tax benefit	29,778	90,291	95,560
<b>Net loss from continuing operations</b>	<b>(136,319)</b>	<b>(103,494)</b>	<b>(153,294)</b>
Gain on sale of discontinued operations, net of taxes	—	10,044	—
<b>Net loss</b>	<b>\$ (136,319)</b>	<b>\$ (93,450)</b>	<b>\$ (153,294)</b>
<b>Weighted average shares outstanding:</b>			
Basic	26,449	26,190	25,987
Diluted	26,449	26,190	25,987
(Loss) income per share, basic:			
Continuing operations	\$ (5.15)	\$ (3.95)	\$ (5.90)
Discontinued operations	—	0.38	—
<b>Loss per share, basic</b>	<b>\$ (5.15)</b>	<b>\$ (3.57)</b>	<b>\$ (5.90)</b>
(Loss) income per share, diluted:			
Continuing operations	\$ (5.15)	\$ (3.95)	\$ (5.90)
Discontinued operations	—	0.38	—
<b>Loss per share, diluted</b>	<b>\$ (5.15)</b>	<b>\$ (3.57)</b>	<b>\$ (5.90)</b>

See accompanying notes to consolidated financial statements.

**FAIRPOINT COMMUNICATIONS, INC. AND SUBSIDIARIES**  
**Consolidated Statements of Comprehensive (Loss) Income**  
(in thousands)

	Years Ended December 31,		
	2014	2013	2012
<b>Net loss</b>	<b>\$ (136,319)</b>	<b>\$ (93,450)</b>	<b>\$ (153,294)</b>
Other comprehensive (loss) income, net of taxes:			
Interest rate swaps (net of \$0.7 million and \$0.4 million tax benefit)	(1,037)	(601)	—
Qualified pension and post-retirement healthcare plans (net of \$8.6 million tax benefit, \$45.6 million tax expense, \$19.7 million tax benefit, respectively)	(157,807)	96,811	(62,495)
<b>Total other comprehensive income (loss)</b>	<b>(158,844)</b>	<b>96,210</b>	<b>(62,495)</b>
<b>Comprehensive income (loss)</b>	<b>\$ (295,163)</b>	<b>\$ 2,760</b>	<b>\$ (215,789)</b>

See accompanying notes to consolidated financial statements.

**FAIRPOINT COMMUNICATIONS, INC. AND SUBSIDIARIES**  
**Consolidated Statements of Stockholders' Equity (Deficit)**  
**Years Ended December 31, 2014, 2013, and 2012**  
**(in thousands)**

	Common stock		Additional paid-in capital	Retained earnings (deficit)	Accumulated other comprehensive (loss) income	Total stockholders' equity (deficit)
	Shares	Amount				
<b>Balance at December 31, 2011</b>	<b>26,197</b>	<b>\$ 262</b>	<b>\$ 502,034</b>	<b>\$ (414,945)</b>	<b>\$ (193,494)</b>	<b>\$ (106,143)</b>
Net loss	—	—	—	(153,294)	—	(153,294)
Issuance of common stock	100	—	—	—	—	—
Forfeiture of restricted stock	(22)	—	—	—	—	—
Exercise of stock options	14	—	64	—	—	64
Stock-based compensation expense	—	—	4,055	—	—	4,055
Employee benefit adjustment to comprehensive loss	—	—	—	—	(62,495)	(62,495)
<b>Balance at December 31, 2012</b>	<b>26,289</b>	<b>\$ 262</b>	<b>\$ 506,153</b>	<b>\$ (568,239)</b>	<b>\$ (255,989)</b>	<b>\$ (317,813)</b>
Net loss	—	—	—	(93,450)	—	(93,450)
Issuance of common stock	185	2	(2)	—	—	—
Forfeiture of restricted stock	(7)	—	—	—	—	—
Exercise of stock options	14	—	50	—	—	50
Stock-based compensation expense	—	—	5,807	—	—	5,807
Interest rate swaps other comprehensive loss	—	—	—	—	(601)	(601)
Employee benefit other comprehensive income before reclassifications	—	—	—	—	86,841	86,841
Employee benefit amounts reclassified from accumulated other comprehensive loss	—	—	—	—	9,970	9,970
<b>Balance at December 31, 2013</b>	<b>26,481</b>	<b>\$ 264</b>	<b>\$ 512,008</b>	<b>\$ (661,689)</b>	<b>\$ (159,779)</b>	<b>\$ (309,196)</b>
Net Loss	—	—	—	(136,319)	—	(136,319)
Issuance of common stock	217	3	(3)	—	—	—
Forfeiture of restricted stock	(12)	—	—	—	—	—
Exercise of stock options	25	—	(199)	—	—	(199)
Stock-based compensation expense	—	—	4,274	—	—	4,274
Interest rate swaps other comprehensive loss	—	—	—	—	(1,037)	(1,037)
Employee benefit other comprehensive loss before reclassifications	—	—	—	—	(166,673)	(166,673)
Employee benefit amounts reclassified from accumulated other comprehensive loss	—	—	—	—	8,866	8,866
<b>Balance at December 31, 2014</b>	<b>26,711</b>	<b>\$ 267</b>	<b>\$ 516,080</b>	<b>\$ (798,008)</b>	<b>\$ (318,623)</b>	<b>\$ (600,284)</b>

See accompanying notes to consolidated financial statements.

**FAIRPOINT COMMUNICATIONS, INC. AND SUBSIDIARIES**  
**Consolidated Statements of Cash Flows**  
(in thousands)

	Years Ended December 31,		
	2014	2013	2012
<b>Cash flows from operating activities:</b>			
<b>Net loss</b>	<b>\$ (136,319)</b>	<b>\$ (93,450)</b>	<b>\$ (153,294)</b>
Adjustments to reconcile net loss to net cash provided by operating activities:			
Deferred income taxes	(29,864)	(94,369)	(96,778)
Provision for uncollectible revenue	9,218	9,806	7,506
Depreciation and amortization	220,678	282,438	376,614
Post-retirement healthcare	51,337	51,035	47,692
Qualified pension	(10,129)	6,250	(42)
Gain on sale of discontinued operations, net	—	(10,044)	—
Loss on debt refinancing	—	6,787	—
Stock-based compensation	4,274	5,807	4,055
Loss on abandoned projects	174	201	2,862
Other non-cash items	1,963	(906)	(3,189)
Changes in assets and liabilities arising from operations:			
Accounts receivable	8,485	(12,127)	9,587
Prepaid and other assets	(338)	(7,044)	(3,301)
Restricted cash	463	5,698	(6,164)
Accounts payable and accrued liabilities	5,068	(2,070)	3,364
Accrued interest payable	1	9,801	(332)
Other assets and liabilities, net	(3,988)	13,721	(4,198)
Reorganization adjustments:			
Non-cash reorganization income	—	(980)	(5,002)
Claims payable and estimated claims accrual	(40)	(46)	(8,824)
Restricted cash—Cash Claims Reserve	80	577	22,219
<b>Total adjustments</b>	<b>257,382</b>	<b>264,535</b>	<b>346,069</b>
<b>Net cash provided by operating activities</b>	<b>121,063</b>	<b>171,085</b>	<b>192,775</b>
<b>Cash flows from investing activities:</b>			
Net capital additions	(119,489)	(128,298)	(145,066)
Proceeds from sale of business	—	30,452	—
Distributions from investments and proceeds from the sale of property and equipment	1,126	1,895	759
<b>Net cash used in investing activities</b>	<b>(118,363)</b>	<b>(95,951)</b>	<b>(144,307)</b>
<b>Cash flows from financing activities:</b>			
Proceeds from issuance of long-term debt	—	920,590	—
Financing costs	—	(13,217)	—
Repayments of long-term debt	(6,400)	(961,800)	(43,000)
Restricted cash	—	—	1,573
Proceeds from exercise of stock options	32	55	64
Repayment of capital lease obligations	(1,445)	(1,265)	(1,252)
<b>Net cash used in financing activities</b>	<b>(7,813)</b>	<b>(55,637)</b>	<b>(42,615)</b>
<b>Net change</b>	<b>(5,113)</b>	<b>19,497</b>	<b>5,853</b>
Cash, beginning of period	42,700	23,203	17,350
<b>Cash, end of period</b>	<b>\$ 37,587</b>	<b>\$ 42,700</b>	<b>\$ 23,203</b>

See accompanying notes to consolidated financial statements.

	Years Ended December 31,		
	2014	2013	2012
<b>Supplemental disclosure of cash flow information:</b>			
Interest paid, net of capitalized interest	\$ 75,520	\$ 64,786	\$ 66,619
Income tax paid, net of refunds	2,363	1,647	562
Capital additions included in accounts payable, claims payable and estimated claims accrual or liabilities subject to compromise at period-end	13,120	8,067	9,501
Capital lease obligations	1,142	467	—
Reorganization costs paid	—	324	1,197
Non-cash settlement of claims payable	—	—	7,668

See accompanying notes to consolidated financial statements.



**FAIRPOINT COMMUNICATIONS, INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

*Except as otherwise required by the context, references in notes to the consolidated financial statements to:*

- *"FairPoint Communications" refers to FairPoint Communications, Inc., excluding its subsidiaries.*
- *"FairPoint" or the "Company" refer to the combined business of FairPoint Communications, Inc. and all of its subsidiaries after giving effect to the merger on March 31, 2008 with Northern New England Spinco Inc. ("Spinco"), a subsidiary of Verizon Communications Inc. ("Verizon"), which transaction is referred to herein as the "Merger".*
- *"Northern New England operations" refers to the local exchange business acquired from Verizon and certain of its subsidiaries after giving effect to the Merger.*
- *"Telecom Group" refers to FairPoint, exclusive of our acquired Northern New England operations.*

**(1) Organization and Principles of Consolidation**

***Organization***

FairPoint is a leading provider of advanced communications services to business, wholesale and residential customers within its service territories. FairPoint offers its customers a suite of advanced data services such as Ethernet, high capacity data transport and other IP-based services over an extensive, next-generation fiber network with more than 16,000 miles of fiber optic cable in addition to Internet access, high-speed data ("HSD") and local and long distance voice services. As of December 31, 2014, FairPoint's service territory spanned 17 states where it is the incumbent communications provider, primarily serving rural communities and small urban markets. Many of its local exchange carriers ("LECs") have served their respective communities for more than 80 years. As of December 31, 2014, the Company operated with approximately 1.1 million access line equivalents in service, including approximately 322,000 broadband subscribers.

***Principles of Consolidation***

The consolidated financial statements include all majority-owned subsidiaries of the Company. Partially owned equity affiliates are accounted for under the cost method or equity method when the Company demonstrates significant influence, but does not have a controlling financial interest. Intercompany accounts and transactions have been eliminated upon consolidation.

***Reorganization***

On October 26, 2009, the Company and substantially all of its direct and indirect subsidiaries filed voluntary petitions for relief under chapter 11 of title 11 ("Chapter 11") of the United States Code. These cases were jointly administered under the caption *In re FairPoint Communications, Inc.* (collectively, the "Chapter 11 Cases") in the United States Bankruptcy Court for the Southern District of New York (the "Bankruptcy Court"). On January 24, 2011 (the "Effective Date"), the Company substantially consummated its reorganization through a series of transactions contemplated by its Third Amended Joint Plan of Reorganization Under Chapter 11 of the United States Code (as confirmed by the Bankruptcy Court, the "Plan").

**(2) Significant Accounting Policies**

***(a) Presentation and Use of Estimates***

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP"), which require management to make estimates and assumptions that affect reported amounts and disclosures. Actual results could differ from those estimates. The consolidated financial statements reflect all adjustments that, in the opinion of management, are necessary for a fair presentation of results of operations and financial condition for the interim periods shown, including normal recurring accruals and other items.

Examples of significant estimates include the allowance for doubtful accounts, revenue reserves, the depreciation of property, plant and equipment, valuation of intangible assets, qualified pension and post-retirement healthcare plan assumptions, stock-based compensation and income taxes.

***(b) Revenue Recognition***

Revenues are recognized as services are rendered and are primarily derived from the usage of the Company's networks and facilities or under revenue-sharing arrangements with other communications carriers. Revenues are primarily derived from: voice services, access (including pooling), certain Connect America Fund ("CAF") receipts, Internet and broadband services and other

miscellaneous services. Local access charges are billed to local end users under tariffs approved by each state's Public Utilities Commission ("PUC") or by rates, terms and conditions determined by the Company. Access revenues are derived for the intrastate jurisdiction by billing access charges to interexchange carriers and to other local exchange carriers ("LECs"). These charges are billed based on toll or access tariffs approved by the local state's PUC. Access charges for the interstate jurisdiction are billed in accordance with tariffs filed by the National Exchange Carrier Association ("NECA") or by the individual company and approved by the Federal Communications Commission (the "FCC").

Revenues are determined on a bill-and-keep basis or a pooling basis. If on a bill-and-keep basis, the Company bills the charges to either the access provider or the end user and keeps the revenue. If the Company participates in a pooling environment (interstate or intrastate), the toll or access billed is contributed to a revenue pool. The revenue is then distributed to individual companies based on their company-specific revenue requirement. This distribution is based on individual state PUCs' (intrastate) or the FCC's (interstate) approved separation rules and rates of return. Distribution from these pools can change relative to changes made to expenses, plant investment or rate-of-return. Some companies participate in federal and certain state universal service programs that are pooling in nature but are regulated by rules separate from those described above. These rules vary by state. Revenues earned through the various pooling arrangements are initially recorded based on the Company's estimates. Rule changes associated with the FCC's CAF/ICC Order (as defined hereinafter) impact the NECA interstate pooling, in that a portion of the Company's interstate Universal Service Fund ("USF") revenues, which are administered through the NECA pools and which prior to January 1, 2012 were based on costs, are now based on the CAF Phase I rules and will be based on CAF Phase II rules when those are put into effect.

Long distance retail and wholesale services can be recurring due to coverage under an unlimited calling plan or usage sensitive. In either case, they are billed in arrears and recognized when earned. Internet and data services revenues are substantially all recurring revenues and are billed one month in advance and deferred until earned.

As of December 31, 2014 and December 31, 2013, unearned revenue expected in the next 12 months of \$19.0 million and \$18.0 million, respectively, was included in current other accrued liabilities on the consolidated balance sheets. As of December 31, 2014 and December 31, 2013, unearned revenue expected thereafter of \$9.3 million and \$10.5 million, respectively, was included in other long-term liabilities on the consolidated balance sheets.

The majority of the Company's other miscellaneous services revenue is generated from ancillary special projects at the request of third parties, video services, directory services and late payment charges to end users and interexchange carriers. The Company requires customers to pay for ancillary special projects in advance. As of December 31, 2014 and 2013, customer deposits of \$3.4 million and \$6.8 million, respectively, were included in current other accrued liabilities on the consolidated balance sheets. Once the ancillary special project is completed or substantially complete and all project costs have been accumulated for proper accounting recognition, the advance payment is recognized as revenue with any overpayments refunded to the customer, as appropriate. The Company recognizes revenue upon the provision of video services in certain markets by reselling DirecTV and providing cable and IP television video-over-digital subscriber line services. The Company also publishes telephone directories in some of its Telecom Group markets and recognizes revenues associated with these publications evenly over the time period covered by the directory, which is typically twelve months. The Company bills late payment fees to customers who have not paid their bills in a timely manner. In general, late fee revenue is recognized based on collection of these charges.

Non-recurring customer activation fees, along with the related costs up to, but not exceeding, the activation fees, are deferred and amortized over the customer relationship period.

The Company was subject to retail service quality plans in Maine, New Hampshire and Vermont in 2012 and for a portion of 2013 in Maine and Vermont, pursuant to which automatic service quality index ("SQI") penalties were imposed upon the Company's failure to meet the requirements of the respective plans. Penalties resulting from these commitments were recorded as a reduction to revenue and to current other accrued liabilities on the consolidated balance sheets. On June 26, 2014, the Maine PUC ("MPUC") adopted a final rule (Chapter 201), establishing new provider of last resort ("POLR") SQI standards and reporting requirements which began August 1, 2014. Under Chapter 201, the MPUC may open an investigation into the failure to meet any of the established standards and has the authority to impose penalties of up to \$500,000 per standard. On January 13, 2015, the MPUC issued a Notice of Investigation to review our service quality in Maine. In addition, the Vermont Public Service Board opened an investigation into service quality on December 3, 2014 at the request of the Department of Public Service. The Company also adopted a separate performance assurance plan ("PAP") for certain services provided on a wholesale basis to competitive local exchange carriers ("CLECs") in each of the states of Maine, New Hampshire and Vermont, pursuant to which FairPoint is required to provide performance credits in the event the Company is unable to meet the provisions of the respective PAP. Penalties resulting from these commitments are recorded as a reduction to revenue. In Maine and New Hampshire, these penalties are recorded as a reduction to accounts receivable on the consolidated balance sheets since they are paid by the Company in the form of credits applied to CLEC bills. PAP penalties in Vermont are recorded to other accrued liabilities on the consolidated balance sheets as a majority of these penalties are paid to the Vermont Universal Service Fund ("VUSF"), while the remaining credits assessed in Vermont are paid by the Company in the form of credits applied to CLEC bills.

Revenue is recognized net of tax collected from customers and remitted to governmental authorities.

Customer arrangements that include both equipment and services are evaluated to determine whether the elements are separable. If the elements are deemed separable and separate earnings processes exist, the revenue associated with each element is allocated to each element based on the relative estimated selling price of the separate elements. The Company has estimated the selling prices of each element by reference to vendor-specific objective evidence of selling prices when the elements are sold separately. The revenue associated with each element is then recognized as earned.

Management makes estimated adjustments, as necessary, to revenue and accounts receivable for billing errors, including certain disputed amounts.

#### **(c) Cash and Cash Equivalents**

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

#### **(d) Accounts Receivable**

Accounts receivable are recorded at the invoiced amount and do not bear interest. The allowance for doubtful accounts is recorded as a contra-asset of accounts receivable and represents the Company's best estimate of probable credit losses in the Company's existing accounts receivable. The Company establishes an allowance for doubtful accounts based upon factors surrounding the credit risk of specific customers, historical trends, and other information. Accounts receivable balances are reviewed on an aged basis and account balances are written off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote.

The following is activity in the Company's allowance for doubtful accounts receivable for the years ended December 31, 2014, 2013 and 2012 (in thousands):

	Years Ended December 31,		
	2014	2013	2012
<b>Balance, beginning of period</b>	<b>\$ 13,142</b>	<b>\$ 18,863</b>	<b>\$ 11,497</b>
Provision charged to expense	9,218	9,806	7,506
Provision charged to other accounts <sup>(a)</sup>	(43)	(163)	(341)
Amounts written off, net of recoveries <sup>(b)</sup>	(12,423)	(15,364)	211
Assets held for sale adjustment	—	—	(10)
<b>Balance, end of period</b>	<b>\$ 9,894</b>	<b>\$ 13,142</b>	<b>\$ 18,863</b>

(a) Provision charged to other accounts includes accruals charged to accounts payable for anticipated uncollectible charges on purchase of accounts receivable from others which were billed by the Company.

(b) Net recoveries for the year ended December 31, 2012 are primarily due to settlements with wholesale carriers for accounts receivable previously reserved as uncollectible.

#### **(e) Credit Risk**

The financial instruments which potentially subject the Company to concentrations of credit risk consist principally of cash and gross accounts receivable existing at December 31, 2014. The Company places its cash with high-quality financial institutions. Concentrations of credit risk with respect to accounts receivable are principally related to trade receivables from other interexchange carriers and are otherwise limited to the Company's large number of customers in several states.

The Company sponsors qualified pension plans for certain employees. Plan assets associated with these qualified pension plans are held by third party trustees and investments are comprised principally of debt and equity securities. The fair value of these plan assets is dependent on the financial condition of those entities issuing the debt and equity securities. A significant decline in the fair value of plan assets could result in additional Company contributions to the qualified pension plans in order to meet funding requirements under the Employee Retirement Income Security Act of 1974, as amended ("ERISA"). For additional information regarding the plan assets of the Company's qualified pension plans, including the December 31, 2014 balance at risk, see note (10) "Employee Benefit Plans" herein.

***(f) Property, Plant and Equipment***

In connection with the Company's adoption of fresh start accounting on the Effective Date, accumulated depreciation was reset to zero and the net carrying value of the Company's existing property, plant and equipment assets were revalued to their fair value, generally their appraised value after considering economic obsolescence. New remaining useful asset lives were established for each asset ranging from two to twenty-three years.

Given that a majority of the Company's property, plant and equipment is plant used in the Company's wireline and next generation networks, depreciation is principally based on the composite group remaining life method and straight-line composite rates. This methodology provides for the recognition of the cost of the remaining net investment in telephone plant, property and equipment less anticipated positive net salvage value, over the remaining asset lives. When depreciable telephone plant is replaced or retired, the carrying amount of such plant is deducted from the respective accounts and charged to accumulated depreciation. No gain or loss is recognized on disposition of assets. Use of this methodology requires the periodic revision of depreciation rates. In the evaluation of asset lives, multiple factors are considered, including, but not limited to, the ongoing network deployment, technology upgrades and enhancements, planned retirements and the adequacy of reserves. The Company utilizes straight-line depreciation for its non-telephone property, plant and equipment.

Periodically, the Company reviews the estimated remaining useful lives of its group asset categories to address continuing changes in technology, competition and the Company's overall reduction in capital spending and increased focus on more efficient utilization of its existing assets. In the third quarter of 2013, the Company conducted this review and determined that changes to the estimated remaining useful lives for certain asset categories were appropriate. Accordingly, as a result of the changes to the remaining useful lives, depreciation expense in 2013 was approximately \$37.0 million less than it would have been absent the changes.

Network software purchased or developed in connection with related plant assets is capitalized. The Company also capitalizes interest associated with the acquisition or construction of network related assets. Capitalized interest is reported as part of the cost of the network related assets and as a reduction in interest expense. *See* "(i) Computer Software and Interest Costs" herein for additional information.

***(g) Long-Lived Assets***

Property, plant and equipment and intangible assets subject to amortization are reviewed for impairment as required by the Property, Plant and Equipment Topic of the accounting standards codification ("ASC") and the Intangibles—Goodwill and Other Topic of the ASC. These assets are tested for recoverability whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. An impairment charge is recognized for the amount, if any, by which the carrying value of the asset exceeds its fair value.

As of December 31, 2014, the Company performed its routine review of impairment triggering events specified by the Property, Plant and Equipment Topic of the ASC and concluded that it does not believe a triggering event has occurred with respect to property, plant and equipment and intangible assets subject to amortization.

***(h) Asset Retirement Obligations***

The Company records the estimated fair value of an asset retirement obligation when incurred. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset and depreciated over the asset's estimated useful life. The Company has asset retirement obligations related to battery, fuel tank and chemically-treated pole disposal as well as soil remediation at leased facilities. Considerable management judgment is required in estimating these obligations. Important assumptions include estimates of retirement costs, the timing of the future retirement activities and the likelihood or retirement provisions being enforced. Changes in these assumptions based on future information could result in adjustments to estimated liabilities.

***(i) Computer Software and Interest Costs***

The Company capitalizes certain costs incurred in connection with developing or obtaining internal use software which has a useful life in excess of one year in accordance with the Intangibles—Goodwill and Other Topic of the ASC. Capitalized costs include direct development costs associated with internal use software, including direct labor costs and external costs of materials and services.

Subsequent additions, modifications or upgrades to internal-use software are capitalized only to the extent that they allow the software to perform a task it previously did not perform. Software maintenance and training costs are expensed in the period in which they are incurred.

In addition, the Company capitalizes the interest cost associated with the period of time over which the Company's internal use software is developed or obtained in accordance with the Interest Topic of the ASC.

During the years ended December 31, 2014, 2013, and 2012, the Company capitalized \$18.0 million, \$20.0 million and \$9.5 million, respectively, in software costs. The Company capitalized \$0.1 million, \$0.1 million and \$0.1 million, respectively, in interest costs for the years ended December 31, 2014, 2013 and 2012.

As of the year ended December 31, 2014, the gross value and accumulated depreciation of the capitalized software was \$153.1 million and \$115.3 million, respectively. As of the year ended December 31, 2013 the gross value and accumulated depreciation of the capitalized software was \$135.0 million and \$104.0 million, respectively. During the years ended December 31, 2014, 2013 and 2012, amortization expense on the capitalized software was \$11.4 million, \$15.4 million and \$47.2 million, respectively, and is expected to be \$12.5 million in 2015, \$10.8 million in 2016, \$8.2 million in 2017, \$5.1 million in 2018 and \$1.2 million in 2019, respectively.

#### ***(j) Impairment of Other Intangible Assets***

***Indefinite-lived Intangible Asset.*** In accordance with the Intangibles—Goodwill and Other Topic of the ASC, non-amortizable intangible assets are assessed for impairment at least annually. The Company performs its annual impairment test as of the first day of the fourth fiscal quarter of each year and assesses the fair value of the trade name based on the relief from royalty method. If the carrying amount of the trade name exceeds its estimated fair value, the asset is considered impaired.

For its non-amortizable intangible asset impairment assessments of the FairPoint trade name, the Company makes certain assumptions including an estimated royalty rate, a long-term growth rate, an effective tax rate and a discount rate, and applies these assumptions to projected future cash flows, exclusive of cash flows associated with wholesale revenues and other revenues not generated through brand recognition. As of October 1, 2014, the estimated fair value exceeded the carrying value in the Company's quantitative analysis; therefore, an impairment was not necessary. The Company performed another quantitative analysis as of December 31, 2014 and the estimated fair value exceeded the carrying value by approximately 4%; therefore, an impairment was not necessary. However, future changes in one or more of the assumptions discussed above may result in the recognition of an impairment loss.

***Amortizable Intangible Assets.*** Amortizable intangible assets must be reviewed for impairment as part of long-lived assets whenever indicators of impairment exist. See "(g) Long-Lived Assets" herein for additional information.

#### ***(k) Accounting for Income Taxes***

In accordance with the Income Taxes Topic of the ASC, income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management determines its estimates of future taxable income based upon the scheduled reversal of deferred tax liabilities and tax planning strategies. The Company establishes valuation allowances for deferred tax assets when it is estimated to be more likely than not that the tax assets will not be realized.

FairPoint Communications files a consolidated income tax return with its subsidiaries. All intercompany transactions and accounts have been eliminated in consolidation.

#### ***(l) Stock-Based Compensation***

The Company accounts for its stock-based compensation plan in accordance with the Compensation—Stock Compensation Topic of the ASC, which establishes accounting for stock-based awards granted in exchange for employee services. Accordingly, for employee awards which are expected to vest, stock-based compensation cost is measured at the grant date, based on the fair value of the award, and is recognized as expense on a straight-line basis over the requisite service period, which generally begins on the date the award is granted through the date the award vests.

**(m) Employee Benefit Plans**

The Company accounts for qualified pension plans and other post-retirement healthcare plans in accordance with the Compensation-Retirement Benefits Topic of the ASC. The Company recognizes the overfunded or underfunded status of its qualified defined benefit plans and post-retirement healthcare plans as either an asset or liability, respectively, on the consolidated balance sheets. Actuarial gains and losses that arise during the year are recognized as a component of comprehensive loss, net of applicable income taxes, and included in accumulated other comprehensive loss. These gains and losses are amortized over future years as a component of the net periodic benefit cost.

**(n) Operating Segments**

Management views its business of providing data, video and voice communication services to residential, wholesale and business customers as one operating segment as defined in the Segment Reporting Topic of the ASC. The Company's services consist of retail and wholesale telecommunications and data services, including voice and HSD in 17 states. The Company's chief operating decision maker assesses operating performance and allocates resources based on the consolidated results.

**(o) Other Liabilities**

**Accrued Bonuses.** As of December 31, 2014 and 2013, accrued bonuses of \$6.2 million and \$14.3 million, respectively, were included in accrued payroll and related liabilities on the consolidated balance sheets.

**Unfavorable intangible assets.** As of December 31, 2013, unfavorable union contracts of \$2.1 million were included in other long-term liabilities; however, they were fully amortized during 2014 as a reduction of employee expense within operating expenses.

**(p) Advertising Costs**

Advertising costs are expensed as they are incurred. During the years ended December 31, 2014, 2013 and 2012, advertising costs were \$9.8 million, \$9.9 million and \$10.1 million, respectively.

**(q) Interest Rate Swap Agreements**

In the third quarter of 2013, the Company entered into interest rate swap agreements. For further information regarding these interest rate swap agreements, *see* note (8) "Interest Rate Swap Agreements." The interest rate swap agreements, at their inception, qualified for and were designated as cash flow hedging instruments. In accordance with the Derivatives and Hedging Topic of the ASC, the Company records its interest rate swaps on the consolidated balance sheets at fair value. The effective portion of changes in fair value are recorded in accumulated other comprehensive loss and are subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. Any ineffective portion is recognized in earnings. Both at inception and on a quarterly basis, the Company performs an effectiveness test.

**(3) Recent Accounting Pronouncements**

In July 2013, the Financial Accounting Standard Board ("FASB") issued Accounting Standard Update ("ASU") 2013-11, which is designed to reduce diversity in practice of financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss or a tax credit carryforward exists. This new guidance became effective for the Company on January 1, 2014. The Company adopted this ASU during the quarter ended March 31, 2014 and it did not have a material impact on the Company's consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, which is designed to clarify the principles used to recognize revenue for entities. The accounting guidance defines how companies report revenues from contracts with customers, and also requires enhanced disclosures. The guidance becomes effective for the Company on January 1, 2017 and allows for two methods of adoption: (1) "full retrospective" adoption, meaning the standard is applied to all periods presented, or (2) "modified retrospective" adoption, meaning the cumulative effect of applying ASU 2014-09 is recognized as an adjustment to the fiscal year 2017 opening retained earnings balance. The Company is evaluating the potential impact of this pronouncement.

In August 2014, the FASB issued ASU 2014-15, Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern, which requires management to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures in certain circumstances. ASU 2014-15 is effective for annual and interim

periods beginning after December 15, 2016 with early adoption permitted. We do not believe the adoption of this pronouncement will have a material impact on the Company's consolidated financial statements.



#### (4) Dividends

The Company currently does not pay a dividend on its common stock and has no plans to pay dividends.

#### (5) Other Intangible Assets

##### *Indefinite-lived Intangible Asset*

At December 31, 2014 and 2013, the Company's trade name is recorded at \$39.2 million. On October 1, 2014 and October 1, 2013, the Company performed its annual non-amortizable intangible asset quantitative analysis and concluded that there was no impairment at that time. As of December 31, 2014, the Company performed its routine review of impairment indicators specified by the Intangibles—Goodwill and Other Topic of the ASC and performed another quantitative analysis. As of December 31, 2014, the estimated fair value exceeded the carrying value by approximately 4%; therefore, an impairment was not necessary.

##### *Other Amortizable Intangible Assets*

The Company's amortizable intangible assets are as follows (in thousands):

	December 31, 2014	December 31, 2013
Customer lists ( <i>weighted average 9.0 years</i> ):		
Gross carrying amount	\$ 99,000	\$ 99,000
Less: accumulated amortization	(43,290)	(32,290)
<b>Net customer lists</b>	<b>55,710</b>	<b>66,710</b>
Favorable leasehold agreements ( <i>weighted average 2.7 years</i> ):		
Gross carrying amount	410	410
Less: accumulated amortization	(410)	(403)
<b>Net favorable leasehold agreements</b>	<b>—</b>	<b>7</b>
<b>Total amortizable intangible assets, net (<i>weighted average 8.9 years</i>)</b>	<b>\$ 55,710</b>	<b>\$ 66,717</b>

Amortization expense of the Company's amortizable intangible assets was \$11.0 million, \$11.1 million and \$11.2 million for the years ended December 31, 2014, 2013 and 2012, respectively, and is expected to be approximately \$11.0 million in 2015, 2016, 2017, 2018 and 2019, respectively.

#### (6) Property, Plant and Equipment

A summary of property, plant and equipment is shown below (in thousands):

	Estimated Life (in years)	December 31, 2014	December 31, 2013
Land	—	\$ 34,932	\$ 35,585
Buildings	40	199,159	191,348
Central office equipment	7 – 10	604,621	559,304
Outside communications plant	15 – 35	1,124,865	1,091,238
Furniture, vehicles and other work equipment	5 – 15	224,728	197,439
Plant under construction	—	90,979	93,734
Other	—	19,860	18,881
<b>Total property, plant and equipment</b>		<b>2,299,144</b>	<b>2,187,529</b>
Less: Accumulated depreciation		(1,085,415)	(886,237)
<b>Net property, plant and equipment</b>		<b>\$ 1,213,729</b>	<b>\$ 1,301,292</b>

Depreciation expense, excluding amortization of intangible assets, for the years ended December 31, 2014, 2013 and 2012 was \$209.7 million, \$271.3 million and \$365.5 million, respectively. Depreciation expense includes amortization of assets recorded under capital leases.

The Company recorded a negligible amount of asset retirement obligations during the year ended December 31, 2014. Accretion expense, revisions in cash flow estimates and liability settlements were insignificant during the year. The Company's

asset retirement obligations are included as a component of other accrued liabilities or other long-term liabilities in the consolidated balance sheets based on the expected timing of the obligation. As of December 31, 2014, the Company's asset retirement liability of \$4.4 million consisted of \$1.1 million in other accrued liabilities and \$3.3 million in other long-term liabilities. As of December 31, 2013, the Company's asset retirement liability of \$4.3 million consisted of \$1.1 million in other accrued liabilities and \$3.2 million in other long-term liabilities.

## (7) Long-term Debt

Long-term debt for the Company at December 31, 2014 and 2013 is shown below (in thousands):

	<b>December 31, 2014</b>		<b>December 31, 2013</b>	
Term Loan, due 2019 <i>(weighted average rate of 7.50%)</i>	\$	628,800	\$	635,200
Discount on Term Loan <sup>(a)</sup>		(14,210)		(17,078)
Notes, 8.75%, due 2019		300,000		300,000
<b>Total long-term debt</b>	\$	914,590	\$	918,122
Less: current portion		(6,400)		(6,400)
<b>Total long-term debt, net of current portion</b>	\$	<b>908,190</b>	\$	<b>911,722</b>

- (a) The \$14.2 million and \$17.1 million discount on the Term Loan (as defined below) as of December 31, 2014 and December 31, 2013, respectively, is being amortized using the effective interest method over the life of the Term Loan.

As of December 31, 2014, the Company had \$58.8 million, net of \$16.2 million outstanding letters of credit, available for additional borrowing under the Revolving Facility (as defined below).

The approximate aggregate maturities of long-term debt, excluding the debt discount on the Term Loan (as defined below), for each of the five years subsequent to December 31, 2014 are as follows (in thousands):

Year ending December 31,	Balance Due
2015	\$ 6,400
2016	6,400
2017	6,400
2018	6,400
2019	903,200
<b>Total long-term debt, including current portion</b>	<b>\$ 928,800</b>

### Refinancing

On February 14, 2013 (the "Refinancing Closing Date"), FairPoint Communications refinanced the Old Credit Agreement Loans (as defined herein) (the "Refinancing"). In connection with the Refinancing, FairPoint Communications (i) issued \$300.0 million aggregate principal amount of its 8.75% senior secured notes due 2019 (the "Notes") in a private offering exempt from registration under the Securities Act pursuant to an indenture (the "Indenture") that FairPoint Communications entered into on the Refinancing Closing Date with certain of its subsidiaries that guarantee the indebtedness under the Credit Agreement (as defined herein) (the "Subsidiary Guarantors") and U.S. Bank National Association, as trustee and collateral agent, and (ii) entered into a credit agreement (the "Credit Agreement"), dated as of the Refinancing Closing Date, with the lenders party thereto from time to time and Morgan Stanley Senior Funding, Inc., as administrative agent and letter of credit issuer. The Credit Agreement provides for a \$75.0 million revolving credit facility (the "Revolving Facility"), which has a sub-facility providing for the issuance of up to \$40.0 million in letters of credit, and a \$640.0 million term loan facility (the "Term Loan" and, together with the Revolving Facility, the "Credit Agreement Loans"). On the Refinancing Closing Date, FairPoint Communications used the proceeds of the Notes offering, together with \$640.0 million of borrowings under the Term Loan and cash on hand to (i) repay principal of \$946.5 million outstanding on the Old Term Loan (as defined herein), plus approximately \$7.7 million of accrued interest and (ii) pay approximately \$32.6 million of fees, expenses and other costs related to the Refinancing.

**The Credit Agreement.** The principal amount of the Term Loan and commitments under the Revolving Facility may be increased by an aggregate amount of up to \$200.0 million, subject to certain terms and conditions specified in the Credit Agreement. The Term Loan will mature on February 14, 2019 and the Revolving Facility will mature on February 14, 2018, subject in each case to extensions pursuant to the terms of the Credit Agreement.

**Interest Rates and Fees.** Interest on borrowings under the Credit Agreement Loans accrue at an annual rate equal to either a British Bankers Association London Inter-Bank Offered Rate ("LIBOR") or the base rate, in each case plus an applicable margin. LIBOR is a per annum rate for dollar deposits with an interest period of one, two, three or six months (at FairPoint Communication's election), subject to a minimum LIBOR floor of 1.25%. The base rate is the per annum rate equal to the greatest of (x) the federal funds effective rate plus 0.50%, (y) the rate of interest publicly quoted from time to time by The Wall Street Journal as the United States "Prime Rate" and (z) LIBOR with an interest period of one month plus 1.00%. The applicable margin for the Term Loan is (a) 6.25% per annum with respect to term loans bearing interest based on LIBOR or (b) 5.25% per annum with respect to term loans bearing interest based on the base rate. The applicable interest rate for the Revolving Facility is, initially, (a) 5.50% with respect to revolving loans bearing interest based on LIBOR or (b) 4.50% per annum with respect to revolving loans bearing interest based on the base rate, in each case subject to adjustment based on FairPoint Communication's consolidated total leverage ratio, as defined in the Credit Agreement. FairPoint Communications is required to pay a quarterly letter of credit fee on the average daily amount available to be drawn under letters of credit equal to the applicable interest rate for revolving loans bearing interest based on LIBOR, plus a fronting fee of 0.125% per annum on the average daily amount available to be drawn under such letters of credit. In addition, FairPoint Communications is required to pay a quarterly commitment fee on the average daily unused portion of the New Revolving Facility, which is 0.50% initially, subject to reduction to 0.375% based on FairPoint Communication's consolidated total leverage ratio.

**Security/Guarantors.** All obligations under the Credit Agreement, together with certain designated hedging obligations and cash management obligations, are unconditionally guaranteed on a senior secured basis by each of the Subsidiary Guarantors and secured by a first-priority lien on substantially all personal property of FairPoint Communications and the Subsidiary Guarantors, subject to certain exclusions set forth in the related security documents, pari passu with the lien securing the obligations under the Notes.

**Mandatory Repayments.** FairPoint Communications is required to make quarterly repayments of the Term Loan in a principal amount equal to \$1.6 million during the term of the Credit Agreement. In addition, mandatory repayments are required under the Credit Agreement with (i) a percentage, initially equal to 50% and subject to reduction to 25% based on FairPoint Communication's

consolidated total leverage ratio, of FairPoint Communication's excess cash flow, as defined in the Credit Agreement, (ii) the net cash proceeds of certain asset dispositions, insurance proceeds and condemnation awards and (iii) issuances of debt not permitted to be incurred under the Credit Agreement. Optional prepayments and mandatory prepayments resulting from the incurrence of debt not permitted to be incurred under the Credit Agreement are required to be made at (i) 102.0% of the aggregate principal amount prepaid if such prepayment is made on or prior to February 14, 2015 and (ii) 101.0% of the aggregate principal amount prepaid if such prepayment is made after February 14, 2015 and on or prior to February 14, 2016. No premium is required to be paid for prepayments made after February 14, 2016.

**Covenants.** The Credit Agreement contains customary representations and warranties and affirmative and negative covenants for a transaction of this type, including two financial maintenance covenants: (i) a consolidated interest coverage ratio and (ii) a consolidated total leverage ratio. The Credit Agreement also contains a covenant limiting the amount of capital expenditures that FairPoint Communications and its subsidiaries may make in any fiscal year. As of December 31, 2014, FairPoint Communications was in compliance with all covenants under the Credit Agreement.

**Events of Default.** The Credit Agreement also contains customary events of default for a transaction of this type.

**The Notes.** On the Refinancing Closing Date, FairPoint Communications issued \$300.0 million of the Notes pursuant to the Indenture in a private offering exempt from registration under the Securities Act.

The terms of the Notes are governed by the Indenture. The Notes are senior secured obligations of FairPoint Communications and are guaranteed by the Subsidiary Guarantors. The Notes and the guarantees thereof are secured by a first-priority lien on substantially all personal property of FairPoint Communications and the Subsidiary Guarantors, subject to certain exclusions set forth in the related security documents, *pari passu* with the lien securing the obligations under the Credit Agreement. The Notes will mature on August 15, 2019 and accrue interest at a rate of 8.75% per annum, which is payable semi-annually in arrears on February 15 and August 15, commencing on August 15, 2013.

On or after February 15, 2016, FairPoint Communications may redeem all or part of the Notes at the redemption prices set forth in the Indenture, plus accrued and unpaid interest thereon, to the applicable redemption date. At any time prior to February 15, 2016, FairPoint Communications may redeem all or part of the Notes at a redemption price equal to 100% of the principal amount of the Notes redeemed, plus a "make-whole" premium as of, and accrued and unpaid interest to, the applicable redemption date. In addition, at any time prior to February 15, 2016, FairPoint Communications may, on one or more occasions, redeem up to 35% of the original aggregate principal amount of the Notes, using net cash proceeds of certain qualified equity offerings, at a redemption price of 108.75% of the principal amount of Notes redeemed, plus accrued and unpaid interest to the applicable redemption date.

The holders of the Notes have the ability to require FairPoint Communications to repurchase all or any part of the Notes if FairPoint Communications experiences certain kinds of changes in control or engages in certain asset sales, in each case at the repurchase prices and subject to the terms and conditions set forth in the Indenture.

The Indenture contains certain covenants which are customary with respect to non-investment grade debt securities, including limitations on FairPoint Communication's ability to incur additional indebtedness, pay dividends on or make other distributions or repurchase FairPoint Communication's capital stock, make certain investments, enter into certain types of transactions with affiliates, create liens and sell certain assets or merge with or into other companies. These covenants are subject to a number of important limitations and exceptions. As of December 31, 2014, FairPoint Communications was in compliance with all covenants under the Indenture.

The Indenture also provides for customary events of default, including cross defaults to other specified debt of FairPoint Communications and certain of its subsidiaries.

#### **Old Credit Agreement**

On January 24, 2011, FairPoint Communications and FairPoint Logistics, Inc. (collectively, the "Old Credit Agreement Borrowers") entered into a \$1,075.0 million senior secured credit facility with a syndicate of lenders and Bank of America, N.A., as the administrative agent for the lenders (the "Old Credit Agreement"), comprised of a \$75.0 million revolving facility (the "Old Revolving Facility") and a \$1.0 billion term loan (the "Old Term Loan" and together with the Old Revolving Facility, the "Old Credit Agreement Loans"). On January 24, 2011, the Company paid to the lenders providing the Old Revolving Facility an aggregate fee equal to \$1.5 million. Interest on the Old Credit Agreement Loans accrued at an annual rate equal to either (a) LIBOR plus 4.50%, with a minimum LIBOR floor of 2.00% for the Old Term Loan, or (b) a base rate plus 3.50% per annum, which base rate was equal to the highest of (x) Bank of America's prime rate, (y) the federal funds effective rate plus 0.50% and (z) the applicable LIBOR plus 1.00%. In addition, the Company was required to pay a 0.75% per annum commitment fee on the average daily unused portion of the Old Revolving Facility. The entire outstanding principal amount of the Old Credit Agreement Loans was to be due and payable on January 24, 2016. The Old Credit Agreement required quarterly repayments of principal of the Old

Term Loan after the first anniversary of January 24, 2011. During 2012 and in the first quarter of 2013, prior to the Old Credit Agreement being retired, the Company made \$43.0 and \$10.5 million, respectively, of principal payments on the Old Term Loan.

The Old Credit Agreement contained customary representations, warranties and affirmative and negative covenants. The Old Credit Agreement also contained minimum interest coverage and maximum total leverage maintenance covenants, along with a maximum senior leverage covenant measured upon the incurrence of certain types of debt. As of December 31, 2012, the Old Credit Agreement Borrowers were in compliance with all covenants under the Old Credit Agreement.

On February 14, 2013, the Company completed the Refinancing and repaid all amounts outstanding under the Old Credit Agreement.

#### ***Debt Issue Costs***

On February 14, 2013, the Company completed the Refinancing and capitalized \$7.6 million of debt issue costs associated with the Credit Agreement and Notes. These debt issue costs are being amortized over a weighted average life of 6.2 years using the effective interest method.

As of December 31, 2014 and 2013, the Company had capitalized debt issue costs of \$5.9 million and \$7.1 million, respectively, net of amortization.

#### **(8) Interest Rate Swap Agreements**

The Company uses interest rate swap agreements to protect the Company against adverse fluctuations in interest rates by reducing its exposure to variability in cash flows relating to interest payments on a portion of its outstanding debt. The Company's interest rate swaps, which are designated as cash flow hedges, involve the receipt of variable amounts from counterparties in exchange for the Company making fixed-rate payments over the effective term of the agreements without exchange of the underlying notional amount. The Company does not hold or issue any derivative financial instruments for speculative trading purposes.

In the third quarter of 2013, the Company entered into interest rate swap agreements with a combined notional amount of \$170.0 million with three counterparties that are effective for a two-year period beginning on September 30, 2015 and maturing on September 30, 2017. Each respective swap agreement requires the Company to pay a fixed rate of 2.665% and provides that the Company will receive a variable rate based on the three month LIBOR rate subject to a minimum LIBOR floor of 1.25%. Amounts payable by or due to the Company will be net settled with the respective counterparties on the last business day of each fiscal quarter, commencing December 31, 2015.

The effect of the Company's interest rate swap agreements on the consolidated balance sheet at December 31, 2014 and December 31, 2013 are shown below (in thousands):

		As of December 31, 2014	
Derivatives designated as hedging instruments:		Balance Sheet Location	Fair Value
Interest rate swaps	Other long-term liabilities	\$	2,742
		As of December 31, 2013	
Derivatives designated as hedging instruments:		Balance Sheet Location	Fair Value
Interest rate swaps	Other long-term liabilities	\$	1,005

The gross effect of the Company's interest rate swap agreements on the consolidated statements of comprehensive (loss) income for the years ended December 31, 2014 and December 31, 2013 are shown below (in thousands):

		Amount of Loss Recognized in Other Comprehensive Loss on Derivative (Effective Portion) (Pre-tax)	
		Year Ended December 31, 2014	Year Ended December 31, 2013
Interest Rate Swaps	\$	1,737	\$ 1,005

There were no amounts reclassified into current earnings due to ineffectiveness during the periods presented. The Company estimates that none of the amount reported in accumulated other comprehensive loss for interest rate swaps is expected to be reclassified to interest expense in the next 12 months.

Each interest rate swap agreement contains a provision whereby if the Company defaults on any of its indebtedness, the Company may also be declared in default under the interest rate swap agreements.

#### (9) Fair Value

The Fair Value Measurements and Disclosures Topic of the ASC defines fair value, establishes a framework for measuring fair value and establishes a hierarchy that categorizes and prioritizes the sources to be used to estimate fair value. The Fair Value Measurements and Disclosures Topic of the ASC also expands financial statement disclosures about fair value measurements.

In determining fair value, the Company uses a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. The hierarchy is broken down into three levels based on the reliability of inputs as follows:

- Level 1 - Valuations based on quoted prices in active markets for identical assets or liabilities that the Company has the ability to access.
- Level 2 - Valuations based on quoted prices for similar instruments in active markets or quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.
- Level 3 - Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The Company's non-financial assets and liabilities, including its long-lived assets and indefinite-lived intangible assets, are measured and subsequently adjusted, if necessary, to fair value on a non-recurring basis. The Company periodically performs routine reviews of triggering events and/or an impairment test, as applicable. Based on these procedures, the Company did not require an adjustment to fair value to be recorded in 2014 or 2013.

The Company's financial instruments, other than interest rate swap agreements and long-term debt, consist primarily of cash, restricted cash, accounts receivable and accounts payable. The carrying amounts of these financial instruments are estimated to approximate fair value due to the relatively short period of time to maturity for these instruments. As of December 31, 2014, interest rate swap agreements are carried at their fair value and measured on a recurring basis as follows (in thousands):

		Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Long-term interest rate swap liability <sup>(a)</sup>	\$	—	\$ 2,742	\$ —

As of December 31, 2013, interest rate swap agreements are carried at their fair value and measured on a recurring basis as

follows (in thousands):

	Fair Value Measurements Using		
	Level 1	Level 2	Level 3
Long-term interest rate swap liability <sup>(a)</sup>	\$ —	\$ 1,005	\$ —

- (a) The fair value is determined using valuation models which rely on the expected LIBOR based yield curve and estimates of counterparty and the Company's non-performance risk. Because each of these inputs are directly observable or can be corroborated by observable market data, the Company has categorized these interest rate swaps as Level 2 within the fair value hierarchy.

Long-term debt is not carried at fair value, but measured on a recurring basis. The estimated fair values of the Company's long-term debt as of December 31, 2014 and December 31, 2013 are as follows (in thousands):

	December 31, 2014		December 31, 2013	
	Carrying Amount	Fair Value <sup>(a)</sup>	Carrying Amount	Fair Value <sup>(a)</sup>
Term Loan, due 2019 <sup>(b)</sup>	\$ 614,590	\$ 619,368	\$ 618,122	\$ 655,844
Notes, 8.75%, due 2019	300,000	301,890	300,000	318,000
Total	\$ 914,590	\$ 921,258	\$ 918,122	\$ 973,844

- (a) The Company estimated fair value based on market prices of the Company's debt securities at the balance sheet date, which falls within Level 2 of the fair value hierarchy.
- (b) The carrying amount of the Term Loan is net of the unamortized discount of \$14.2 million and \$17.1 million as of December 31, 2014 and December 31, 2013, respectively.

For a discussion of the fair value measurement of the Company's pension plan assets, *see* note (10) "Employee Benefit Plans—Plan Assets, Obligations and Funded Status—Qualified Pension Plan Assets".

#### (10) Employee Benefit Plans

The Company sponsors noncontributory qualified defined benefit pension plans ("qualified pension plans") and a post-retirement healthcare benefit plan which provide certain cash payments and medical, dental and life insurance benefits to eligible retired employees and their beneficiaries and covered dependents. These plans were created as part of the acquisition of the Northern New England operations from Verizon and mirrored the prior Verizon plans.

On August 2, 2014, the Company's collective bargaining agreements with two of its labor unions expired. On August 28, 2014, the Company informed the unions that the parties were at impasse and on that date implemented its final proposals at that time that included, among other changes, elimination of post-retirement healthcare benefits for represented employees and freezing the pension plan effective as of October 14, 2014. As further discussed in Note 20, on February 22, 2015, the collective bargaining agreements with these two unions were ratified. Given the uncertainty around the outcome of these labor negotiations that existed at December 31, 2014, the Company has not recognized the impact of the changes to the benefit plans available to represented employees implemented at impasse or those agreed to upon ratification of the collective bargaining agreements.

The Company maintains a qualified pension plan for represented employees. Participants in this plan accrue benefits in accordance with the respective plan document and contractual requirements in the collective bargaining agreements. The accrued benefits for active participants through October 14, 2014 were frozen and the pension plan was closed to new participants effective October 14, 2014. With ratification of the collective bargaining agreements on February 22, 2015, future benefit accruals for eligible pension plan participants will be made at 50% of the benefit accrual rate prior to the plan freeze on October 14, 2014 and will be capped after 30 years of total credited service.

Effective August 28, 2014, active represented employees were no longer eligible for post-retirement healthcare plan benefits. Employees who retire on or after August 28, 2014 are permitted to participate in the post-retirement healthcare plan providing benefits to non-represented employees (the "OPEB Plan"). Upon ratification of the collective bargaining agreements on February 22, 2015 and for 30 months thereafter, active represented employees who retire and meet the eligibility requirements and their spouses are eligible to receive certain monthly reimbursements of medical insurance premiums until the retiree reaches age 65 or dies.

During the fourth quarter of 2014, the Company amended the OPEB Plan to allow the retirees receiving benefits under a separate post-retirement healthcare plan for represented employees to participate in the OPEB Plan. Effective January 1, 2015,



the represented retirees were transferred to the OPEB Plan and the post-retirement healthcare plan for represented employees was terminated.

The qualified pension plan, which covers non-represented employees, is frozen. Therefore, no new benefits are being earned by participants and no new participants are becoming eligible for benefits in this plan.

The Company makes contributions to the qualified pension plans to meet minimum funding requirements under the Employee Retirement Income Security Act of 1974, as amended ("ERISA") and has the ability to elect to make additional discretionary contributions. The post-retirement healthcare plans are unfunded and the Company funds the benefits that are paid. Annually, and as necessary, the Company remeasures the net liabilities of its qualified pension and other post-retirement healthcare benefits in accordance with the Compensation-Retirement Benefits Topic of the ASC.

#### ***Plan Assets, Obligations and Funded Status***

A summary of plan assets, projected benefit obligation and funded status of the plans are as follows for the year ended December 31, 2014 and the year ended December 31, 2013 (in thousands):

	<b>Qualified Pension Plans</b>	
	<b>Year Ended December 31, 2014</b>	<b>Year Ended December 31, 2013</b>
Fair value of plan assets:		
Beginning fair value of plan assets	\$ 175,242	\$ 166,304
Actual return on plan assets	7,553	18,883
Plan settlements	(2,935)	(7,931)
Employer contributions	30,000	21,800
Benefits paid	(14,450)	(23,814)
<b>Ending fair value of plan assets</b>	<b>195,410</b>	<b>175,242</b>
Projected benefit obligation:		
Beginning projected benefit obligation	\$ 328,776	\$ 369,841
Service cost	14,760	18,543
Interest cost	15,367	14,934
Plan settlements	(2,935)	(7,931)
Benefits paid	(14,450)	(23,814)
Actuarial loss (gain)	66,698	(42,797)
<b>Ending projected benefit obligation</b>	<b>408,216</b>	<b>328,776</b>
<b>Funded status</b>	<b>\$ (212,806)</b>	<b>\$ (153,534)</b>
Accumulated benefit obligation	\$ 366,649	\$ 290,910
Amounts recognized in the consolidated balance sheet:		
Long-term liabilities	\$ (212,806)	\$ (153,534)
<b>Net amount recognized in the consolidated balance sheet</b>	<b>\$ (212,806)</b>	<b>\$ (153,534)</b>
Amounts recognized in accumulated other comprehensive loss:		
Net actuarial loss	\$ (130,294)	\$ (60,349)
<b>Net amount recognized in accumulated other comprehensive loss</b>	<b>\$ (130,294)</b>	<b>\$ (60,349)</b>

	Post-retirement Healthcare Plans	
	Year Ended December 31, 2014	Year Ended December 31, 2013
Fair value of plan assets:		
Beginning fair value of plan assets	\$ —	\$ —
Employer contributions	6,097	3,704
Benefits paid	(6,097)	(3,704)
<b>Ending fair value of plan assets</b>	<b>—</b>	<b>—</b>
Projected benefit obligation:		
Beginning projected benefit obligation	\$ 590,435	\$ 621,443
Service cost	24,969	26,712
Interest cost	29,908	24,555
Plan amendment <sup>(a)</sup>	(46,277)	—
Benefits paid	(6,097)	(3,704)
Actuarial loss (gain)	148,434	(78,571)
<b>Ending projected benefit obligation</b>	<b>741,372</b>	<b>590,435</b>
<b>Funded status</b>	<b>\$ (741,372)</b>	<b>\$ (590,435)</b>
Amounts recognized in the consolidated balance sheet:		
Current liabilities	\$ (6,021)	\$ (5,701)
Long-term liabilities	(735,351)	(584,734)
<b>Net amount recognized in the consolidated balance sheet</b>	<b>\$ (741,372)</b>	<b>\$ (590,435)</b>
Amounts recognized in accumulated other comprehensive loss:		
Prior service credit	\$ 45,329	\$ —
Net actuarial loss	\$ (253,740)	\$ (111,960)
<b>Net amount recognized in accumulated other comprehensive loss</b>	<b>\$ (208,411)</b>	<b>\$ (111,960)</b>

(a) In the fourth quarter of 2014, the Company amended its OPEB Plan to permit the former represented employees currently receiving post-retirement healthcare benefits to participate in that plan. Effective January 1, 2015, the former represented employees were transferred from their current plan to the OPEB Plan. The healthcare plan options available in the OPEB Plan contain higher deductibles, co-pays and co-insurance requirements than the healthcare plan options in the post-retirement healthcare plan for former represented employees. Accordingly, the Company recognized a gain as a result of the plan amendment, which will be accounted for as a prior service credit.

**Qualified Pension Plan Assets.** The investment objective for the qualified pension plan assets is to achieve an attractive risk-adjusted return over time that will provide for the payment of benefits in the future while minimizing the risk of loss of principal. The Company's strategy emphasizes a long-term equity orientation, global diversification and financial and operating risk controls. Both active and passive management investment approaches are employed depending on perceived market efficiencies and various other factors. Diversification targets of 75% equity securities and 25% fixed income securities for the represented employees plan seeks to minimize the concentration of market risk. For the qualified pension plan for the non-represented employees, the diversification target is 35% equity securities and 65% fixed income securities and is invested using primarily a liability driven investment strategy. The asset allocation at December 31, 2014 for the Company's qualified pension plan assets was as follows:

	Non-Represented Employees Plan	Represented Employees Plan	Total Qualified Pension Plans
Cash and cash equivalents <sup>(a)</sup>	0.6%	0.4%	0.4%
Equity securities <sup>(b)</sup>	31.3%	74.9%	68.3%
Fixed income securities	68.1%	24.7%	31.3%
<b>Plan asset portfolio allocation at December 31, 2014</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

- (a) Cash and cash equivalents at December 31, 2014 include amounts pending settlement from the purchase or sale of equity or fixed income securities.
- (b) Equity securities at December 31, 2014 include amounts held in hedged equity funds which primarily invest using a "fund of funds" strategy in multiple other equity funds.

The fair values for the qualified pension plan assets by asset category at December 31, 2014 are as follows (in thousands):

	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 848	\$ 848	\$ —	\$ —
Equity securities <sup>(a)</sup>	133,446	79,896	53,199	351
Fixed income securities	61,116	26,803	34,313	—
<b>Fair value of plan assets at December 31, 2014</b>	<b>\$ 195,410</b>	<b>\$ 107,547</b>	<b>\$ 87,512</b>	<b>\$ 351</b>

- (a) All Level 3 equity securities are amounts held in hedged equity funds.

The fair values for the qualified pension plan assets by asset category at December 31, 2013 were as follows (in thousands):

	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 1,677	\$ 1,677	\$ —	\$ —
Equity securities <sup>(a)</sup>	107,683	69,381	26,591	11,711
Fixed income securities	65,882	28,942	36,940	—
<b>Fair value of plan assets at December 31, 2013</b>	<b>\$ 175,242</b>	<b>\$ 100,000</b>	<b>\$ 63,531</b>	<b>\$ 11,711</b>

- (a) All Level 3 equity securities are amounts held in hedged equity funds.

Cash and cash equivalents include short-term investment funds, primarily in diversified portfolios of investment grade money market instruments and are valued using quoted market prices, and thus classified within Level 1 of the fair value hierarchy, as outlined in note (9) "Fair Value".

Equity securities include direct holdings of equity securities and units held in mutual funds that invest in equity securities of domestic and international corporations in a variety of industry sectors. The direct holdings and units held in publicly traded mutual funds are valued using quoted market prices and are classified within Level 1 of the fair value hierarchy. Fair values for units held in mutual funds that invest in equity securities that are not publicly traded are based on observable prices and are classified within Level 2 of the fair value hierarchy. The fair values of hedged equity funds are estimated using net asset value per share of the investments. The Company has the ability to redeem these investments at net asset value on a limited basis and thus has classified hedged equity funds within Level 3 of the fair value hierarchy. The Company is liquidating its positions in all its hedged equity funds per the terms of its investment agreements with such hedge equity funds.

Fixed income securities are investments in mutual funds that invest in corporate bonds, treasury securities and other debt instruments. These securities are expected to provide significant diversification benefits, in terms of asset volatility and pension funding volatility, in the portfolio and a stable source of income. Units held in publicly traded mutual funds that invest in fixed income securities are valued using quoted market prices and are classified within Level 1 of the fair value hierarchy. Fair values of mutual funds that invest in fixed income securities that are not publicly traded are based on observable prices and are classified within Level 2 of the fair value hierarchy.

A reconciliation of the beginning and ending balance of plan assets that are measured at fair value using significant unobservable inputs (Level 3) for the year ended December 31, 2013 and the year ended December 31, 2014 is as follows (in thousands):

	Hedged Equity Funds
<b>Balance at December 31, 2012</b>	<b>\$ 11,869</b>
Actual gain on plan assets held	2,083
Purchases, sales and settlements, net	(2,241)
<b>Balance at December 31, 2013</b>	<b>\$ 11,711</b>
Actual gain (loss) on plan assets held	145
Purchases, sales and settlements, net	(11,505)
<b>Balance at December 31, 2014</b>	<b>\$ 351</b>

**Net Periodic Benefit Cost.** Components of the net periodic benefit cost related to the Company's qualified pension plans and post-retirement healthcare plans for the years ended December 31, 2014, 2013 and 2012 are as follows (in thousands):

Qualified Pension Plans			
	Year Ended December 31, 2014	Year Ended December 31, 2013	Year Ended December 31, 2012
Service cost	\$ 14,760	\$ 18,543	\$ 15,489
Interest cost	15,367	14,934	14,565
Expected return on plan assets	(13,525)	(12,462)	(13,268)
Amortization of actuarial loss	2,054	5,585	2,213
Plan settlement	671	1,683	445
<b>Net periodic benefit cost</b>	<b>\$ 19,327</b>	<b>\$ 28,283</b>	<b>\$ 19,444</b>

Post-retirement Healthcare Plans			
	Year Ended December 31, 2014	Year Ended December 31, 2013	Year Ended December 31, 2012
Service cost	\$ 24,969	\$ 26,712	\$ 25,423
Interest cost	29,908	24,555	23,958
Expected return on plan assets	—	—	(33)
Amortization of prior service credit	(948)	—	—
Amortization of actuarial loss	6,654	7,398	6,194
<b>Net periodic benefit cost</b>	<b>\$ 60,583</b>	<b>\$ 58,665</b>	<b>\$ 55,542</b>

**Other Comprehensive Loss.** Other pre-tax changes in plan assets and benefit obligations recognized in other comprehensive loss are as follows for the years ended December 31, 2014, 2013 and 2012, respectively, (in thousands):

Qualified Pension Plans			
	Year Ended December 31, 2014	Year Ended December 31, 2013	Year Ended December 31, 2012
Amounts recognized in other comprehensive loss:			
Net (gain) loss arising during the period	\$ 72,670	\$ (49,218)	\$ 48,632
Amortization or settlement recognition of net loss	(2,725)	(7,268)	(2,658)
<b>Total amount recognized in other comprehensive loss</b>	<b>\$ 69,945</b>	<b>\$ (56,486)</b>	<b>\$ 45,974</b>
Estimated amounts that will be amortized from accumulated other comprehensive loss in the next fiscal year:			
Net actuarial loss	(7,421)	(2,156)	(4,870)
<b>Total amount estimated to be amortized from accumulated other comprehensive loss in the next fiscal year</b>	<b>\$ (7,421)</b>	<b>\$ (2,156)</b>	<b>\$ (4,870)</b>
Post-retirement Healthcare Plans			
	Year Ended December 31, 2014	Year Ended December 31, 2013	Year Ended December 31, 2012
Amounts recognized in other comprehensive loss:			
Prior service credit	(46,277)	—	—
Net (gain) loss arising during the period	148,434	(78,571)	42,405
Amortization of prior service credit	948	—	—
Amortization or settlement recognition of net loss	(6,654)	(7,398)	(6,194)
<b>Total amount recognized in other comprehensive loss</b>	<b>\$ 96,451</b>	<b>\$ (85,969)</b>	<b>\$ 36,211</b>
Estimated amounts that will be amortized from accumulated other comprehensive loss in the next fiscal year:			
Prior service credit	5,782	—	—
Net actuarial loss	(14,389)	(3,694)	(8,941)
<b>Total amount estimated to be amortized from accumulated other comprehensive loss in the next fiscal year</b>	<b>\$ (8,607)</b>	<b>\$ (3,694)</b>	<b>\$ (8,941)</b>

### Assumptions

The determination of the net liability and the net periodic benefit cost recognized for the qualified pension plans and post-retirement healthcare plans by the Company are, in part, based on assumptions made by management. These assumptions include, among others, the discount rate applied to estimated future cash flows of the plans, the expected return on assets held by the qualified pension plans, certain demographic characteristics of the participants, such as expected retirement and mortality rates, and future inflation in healthcare costs. Certain assumptions, which include, among others, assumptions regarding future benefit increases and increases in the amount of post-retirement healthcare expenditures to be paid by the Company, reflect the Company's past practice of providing such increases to participants and therefore are considered a substantive plan under the Compensation—Retirement Benefits Topic of the ASC.

**Projected Benefit Obligation Assumptions.** The weighted average assumptions used in determining projected benefit obligations are as follows:

	December 31, 2014	December 31, 2013
Qualified Pension Plans:		
Discount rate	4.04%	4.92%
Rate of compensation increase <sup>(a)</sup>	3.00%	3.00%
Post-retirement Healthcare Plans:		
Discount rate	4.14%	4.98%
Rate of compensation increase <sup>(a)</sup>	4.00%	4.00%

- (a) The rate of future increases in compensation assumption only applies to the plans for represented employees as plans for non-represented employees are frozen.

**Net Periodic Benefit Cost Assumptions.** The weighted average assumptions used in determining net periodic cost are as follows:

	Years Ended December 31,		
	2014	2013	2012
Qualified Pension Plans:			
Discount rate	4.92%	4.08%	4.63%
Expected return on plan assets <sup>(a)</sup>	7.66%	7.54%	7.52%
Rate of compensation increase <sup>(b)</sup>	3.00%	3.00%	3.00%
Post-retirement Healthcare Plans:			
Discount rate	4.98%	4.20%	4.66%
Rate of compensation increase <sup>(b)</sup>	4.00%	4.00%	4.00%
Healthcare cost trend rate assumed for participants under 65 <sup>(a)</sup>	7.90%	8.10%	8.40%
Healthcare cost trend rate assumed for participants over 65 <sup>(a)</sup>	7.90%	8.10%	8.40%
Rate that the cost trend rates ultimately declines to	4.50%	4.50%	4.50%
Year that the rates reach the terminal rate	2030	2030	2030

- (a) The expected return on plan assets is the long-term rate-of-return the Company expects to earn on the plan assets. In developing the expected return on plan asset assumption, the Company evaluated historical investment performance, the plans' asset allocation strategies and return forecasts for each asset class and input from its advisors. Projected returns by such advisors were based on broad equity and fixed income indices. The expected return on plan assets is reviewed annually in conjunction with other plan assumptions and, if considered necessary, revised to reflect changes in the financial markets and the investment strategy. The investment strategy and target allocations of the qualified pension plans previously disclosed in "—Plan Assets, Obligations and Funded Status—Qualified Pension Plan Assets" herein were utilized.
- (b) The rate of future increases in compensation assumption only applies to the plans for represented employees as plans for non-represented employees are frozen.

**Post-retirement Healthcare Plan Sensitivity.** A 1% change in the medical trend rate assumed for post-retirement healthcare benefits at December 31, 2014 would have the following effects (in thousands):

	Increase (Decrease)
1% increase in the medical trend rate:	
Effect on total service cost and interest cost components	\$ 14,152
Effect on benefit obligation	\$ 182,080
1% decrease in the medical trend rate:	
Effect on total service cost and interest cost components	\$ (10,719)
Effect on benefit obligation	\$ (138,046)

The impact of the Medicare Drug Act of 2003 subsidy on the post-retirement healthcare benefits at December 31, 2014 is as follows (in thousands):

	Increase (Decrease)
Change in projected benefit obligation	\$ (35,554)
Change in each component of net periodic cost:	
Service cost	\$ (1,356)
Interest cost	(1,641)
Amortization of loss	(2,149)
<b>Total change in net periodic cost</b>	<b>\$ (5,146)</b>

#### **Estimated Future Contributions and Benefit Payments**

Legislation enacted in 2014 changed the method in determining the discount rate used for calculating a qualified pension plan's unfunded liability. This act contained a pension funding stabilization provision which allows pension plan sponsors to use higher interest rate assumptions when determining funded status and funding obligations. As a result, the Company's 2015 minimum required pension plan contribution is significantly lower than it would have been in the absence of this stabilization provision.

Estimated future employer contributions, benefit payments and Medicare prescription drug subsidies expected to offset the future post-retirement healthcare benefit payments as of December 31, 2014 are as follows (in thousands):

	Qualified Pension Plans	Post-retirement Healthcare Plans
Expected employer contributions for fiscal year 2015	\$ 16,190	\$ 6,021
Expected benefit payments for fiscal years:		
2015	\$ 6,311	\$ 6,021
2016	7,165	7,506
2017	8,244	9,199
2018	10,447	11,166
2019	11,347	13,439
2020-2024	81,870	109,814
Expected subsidy for fiscal years:		
2015		\$ 12
2016		28
2017		48
2018		76
2019		114
2020-2024		1,610

### 401(k) Savings Plans

The Company and its subsidiaries sponsor four voluntary 401(k) savings plans that, in the aggregate, cover all eligible Telecom Group employees and northern New England management employees, and one voluntary 401(k) savings plan that covers all eligible northern New England represented employees (collectively, "the 401(k) Plans"). Each 401(k) Plan year, the Company contributes an amount of matching contributions to the 401(k) Plans determined by the Company at its discretion for management employees and based on collective bargaining agreements for all other employees. For the 401(k) Plan years ended December 31, 2014, 2013 and 2012, the Company generally matched 100% of each employee's contribution up to 5% of compensation. Total Company contributions to all 401(k) Plans were \$9.5 million, \$9.9 million and \$9.8 million for the years ended December 31, 2014, 2013 and 2012, respectively.

### (11) Income Taxes

#### Income Tax Benefit (Expense)

Income tax benefit (expense) for the years ended December 31, 2014, 2013, 2012, respectively, consists of the following components (in thousands):

	Years Ended December 31,		
	2014	2013	2012
Current:			
Federal	\$ —	\$ (924)	\$ —
State and local	(86)	(3,154)	(1,218)
<b>Total current income tax (expense) benefit</b>	<b>(86)</b>	<b>(4,078)</b>	<b>(1,218)</b>
Deferred:			
Federal	25,081	77,341	77,010
State and local	4,783	17,028	19,768
<b>Total deferred income tax benefit</b>	<b>29,864</b>	<b>94,369</b>	<b>96,778</b>
<b>Total income tax benefit</b>	<b>\$ 29,778</b>	<b>\$ 90,291</b>	<b>\$ 95,560</b>

Total income tax (expense) benefit was different than that computed by applying United States federal income tax rates to (loss) income before income taxes for the years ended December 31, 2014, 2013 and 2012.

For the year ended December 31, 2014, the effective tax rate to calculate the tax benefit on \$166.1 million of pre-tax loss was 17.9%. The rate differs from the 35% federal statutory rate primarily due to an increase in the valuation allowance offset by a benefit related to state taxes.

For the year ended December 31, 2013, the effective tax rate to calculate the tax benefit on \$193.8 million of pre-tax loss was 46.6%. The rate differs from the 35% federal statutory rate primarily due to state taxes, as well as a decrease to the valuation allowance.

For the year ended December 31, 2012, the effective tax rate to calculate the tax benefit on \$248.9 million of pre-tax loss was 38.4%. The rate differs from the 35% federal statutory rate primarily due to state taxes as well as favorable provision to return permanent adjustments, offset by an increase to the valuation allowance.

A reconciliation of the Company's statutory tax rate to its effective tax rate is presented below (in percentages):

	Years Ended December 31,		
	2014	2013	2012
<b>Statutory federal income tax (benefit) rate</b>	<b>(35.0)%</b>	<b>(35.0)%</b>	<b>(35.0)%</b>
State income tax (benefit) expense, net of federal income tax (benefit) expense	(2.1)	(4.8)	(4.8)
Restructuring charges	—	—	0.1
Other, net	0.3	0.6	(0.1)
Valuation allowance	18.9	(7.4)	1.4
<b>Effective income tax (benefit) rate</b>	<b>(17.9)%</b>	<b>(46.6)%</b>	<b>(38.4)%</b>



## Deferred Income Taxes

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities as of December 31, 2014 and 2013 are presented below (in thousands):

	December 31, 2014	December 31, 2013
Deferred tax assets:		
Federal and state tax loss carryforwards	\$ 95,629	\$ 76,570
Employee benefits	395,806	313,760
Allowance for doubtful accounts	3,613	5,290
Alternative minimum tax and other state credits	4,808	4,925
Capitalized restructuring costs	3,355	3,973
Accrued professional services	—	3,838
Deferred Revenue	3,896	1,719
Other, net	3,492	7,527
<b>Total gross deferred tax assets</b>	<b>510,599</b>	<b>417,602</b>
Deferred tax liabilities:		
Property, plant, and equipment	235,524	269,908
Goodwill and other intangible assets	33,003	36,121
Other, net	9,808	12,498
<b>Total gross deferred tax liabilities</b>	<b>278,335</b>	<b>318,527</b>
<b>Net deferred tax assets (liabilities) before valuation allowance</b>	<b>232,264</b>	<b>99,075</b>
Valuation allowance	(259,857)	(166,773)
<b>Net deferred tax liabilities</b>	<b>\$ (27,593)</b>	<b>\$ (67,698)</b>

At December 31, 2014, the Company had gross federal NOL carryforwards of \$247.2 million after taking into consideration the NOL tax attribute reduction resulting from the Company's discharge of indebtedness upon emergence from Chapter 11 protection. The Company's remaining federal NOL carryforwards will expire from 2019 to 2034. At December 31, 2014, the Company had a net, after attribute reduction, state NOL deferred tax asset of \$12.9 million. The Company's remaining state NOL carryforwards will expire from 2015 to 2034. At December 31, 2014, the Company had no alternative minimum tax credit carryover and had \$4.8 million in state credit carryovers. Telecom Group completed an initial public offering on February 8, 2005, which resulted in an "ownership change" within the meaning of the United States federal income tax laws addressing NOL carryforwards, alternative minimum tax credits and other similar tax attributes. The Merger and the Company's emergence from Chapter 11 protection also resulted in ownership changes. As a result of these ownership changes, there are specific limitations on the Company's ability to use its NOL carryforwards and other tax attributes. The Company believes it can use the NOLs even with these restrictions in place based on its current income projections.

**Valuation Allowance.** At December 31, 2014 and 2013, the Company established a valuation allowance against its deferred tax assets of \$259.9 million and \$166.8 million, respectively, which consist of a \$217.8 million and \$136.4 million federal allowance, respectively, and a \$42.1 million and \$30.4 million state allowance, respectively. During 2014 and 2013, an increase in the Company's valuation allowance of approximately \$58.2 million and a decrease of approximately \$10.9 million, respectively, was allocated to accumulated other comprehensive loss in the consolidated balance sheets. During 2013, as a result of the Company's change in the estimated useful lives for certain fixed assets and change in realizability of certain state credits, the Company recognized a \$14.8 million reduction in the beginning of the year valuation allowance that was allocated to continuing operations.

The following is activity in the Company's valuation allowance for the years ended December 31, 2014, 2013 and 2012, respectively (in thousands):

	Years Ended December 31,		
	2014	2013	2012
<b>Balance, beginning of period</b>	<b>\$ (166,773)</b>	<b>\$ (192,492)</b>	<b>\$ (172,875)</b>
(Increase) decrease allocated to other comprehensive loss	(58,254)	10,884	(13,804)
(Increase) decrease allocated to continuing operations	(34,830)	14,835	(5,813)
<b>Balance, end of period</b>	<b>\$ (259,857)</b>	<b>\$ (166,773)</b>	<b>\$ (192,492)</b>

**Unrecognized Tax Benefits.** As of December 31, 2014, the Company's total unrecognized tax benefits were \$4.0 million, which were recorded as a reduction of the Company's federal and state NOL carryforwards. The total unrecognized tax benefits that, if recognized, would affect the effective tax rate were \$3.8 million. The Company does not expect a significant increase or decrease in its unrecognized tax benefits during the next twelve months. A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows (in thousands):

<b>Balance as of December 31, 2012</b>	<b>\$</b>	<b>3,785</b>
Additions for tax positions related to the current year		11
Additions for tax positions of prior years		1,059
<b>Balance as of December 31, 2013</b>	<b>\$</b>	<b>4,855</b>
Additions for tax positions related to the current year		34
Additions for tax positions of prior years		205
Decrease for settlements with taxing authorities		(1,059)
<b>Balance as of December 31, 2014</b>	<b>\$</b>	<b>4,035</b>

The Company recognizes any interest and penalties accrued related to unrecognized tax benefits in income tax expense. During the year ended December 31, 2014, the Company made payments of interest and penalties in the amount of \$0.1 million. During the years ended December 31, 2013 and 2012, the Company did not make any payments of interest and penalties. There was nothing accrued in the consolidated balance sheets for the payment of interest and penalties at December 31, 2014 and 2013, respectively, as the remaining unrecognized tax benefits would only serve to reduce the Company's current federal and state NOL carryforwards, if ultimately recognized.

### Income Tax Returns

The Company and its eligible subsidiaries file consolidated income tax returns in the United States federal jurisdiction and certain consolidated, combined and separate entity tax returns, as required, with various state and local governments. The Company is no longer subject to United States federal, state and local, or non-United States income tax examinations by tax authorities for years prior to 2010. NOL carryovers from closed tax years may be subject to examination by federal or state taxing authorities if utilized in a year open to examination. As of December 31, 2014 and 2013, respectively, the Company does not have any significant jurisdictional tax audits.

### (12) Accumulated Other Comprehensive Loss

Components of accumulated other comprehensive loss, net of income tax, were as follows (in thousands):

<i>In thousands</i>	<b>December 31, 2014</b>	<b>December 31, 2013</b>
Accumulated other comprehensive loss, net of taxes:		
Fair value of interest rate swaps	\$ (1,638)	\$ (601)
Qualified pension and post-retirement healthcare plans	(316,985)	(159,178)
<b>Total accumulated other comprehensive loss, net of taxes</b>	<b>\$ (318,623)</b>	<b>\$ (159,779)</b>

Other comprehensive loss for the years ended December 31, 2014 and 2013, respectively, includes changes in the fair value of the Company's cash flow hedges, actuarial losses and prior service credits related to the qualified pension and post-retirement healthcare plans arising during the respective periods and amortization of these actuarial losses and prior service credits. For further detail of amounts recognized in other comprehensive loss related to the cash flow hedges, see note (8) "Interest Rate Swap Agreements" herein. For further detail of amounts recognized in other comprehensive loss related to the qualified pension and post-retirement healthcare plans, see note (10) "Employee Benefit Plans—Plan Assets, Obligations and Funded Status—Other Comprehensive Loss" herein.

The following table provides a reconciliation of adjustments reclassified from accumulated other comprehensive loss to the consolidated statement of operations (in thousands):

	<b>Year Ended December 31, 2014</b>
<b>Employee benefits:</b>	
Amortization of actuarial loss <sup>(a)</sup>	\$ 8,708
Amortization of prior service credit <sup>(a)</sup>	(948)
Plan settlement <sup>(a)</sup>	671
<b>Total employee benefit amounts reclassified from accumulated other comprehensive loss</b>	<b>8,431</b>
Tax expense	435
<b>Total employee benefit amounts reclassified from accumulated other comprehensive loss, net</b>	<b>\$ 8,866</b>

(a) These accumulated other comprehensive loss components are included in the computation of net periodic benefit cost. See note (10) "Employee Benefit Plans" for details.

Net actuarial losses are amortized over the estimated remaining years of service for the active participants in the respective plans. Prior service credits are amortized over eight years. There were no amounts reclassified from accumulated other comprehensive loss related to interest rate swaps for the years ended December 31, 2014 or 2013, respectively.

### (13) Earnings Per Share

Earnings per share has been computed in accordance with the Earnings Per Share Topic of the ASC. Basic earnings per share of the Company is computed by dividing net loss by the weighted average number of shares of common stock outstanding for the period. Except when the effect would be anti-dilutive, the diluted earnings per share calculation calculated using the treasury stock method includes the impact of stock units, shares of non-vested restricted stock and shares that could be issued under outstanding stock options.

The following table provides a reconciliation of the common shares used for basic earnings per share and diluted earnings per share:

	<b>Years Ended December 31,</b>		
	<b>2014</b>	<b>2013</b>	<b>2012</b>
Weighted average number of common shares used for basic earnings per share <sup>(a)</sup>	26,449,408	26,189,668	25,987,483
Effect of potential dilutive shares <sup>(b)</sup>	—	—	—
<b>Weighted average number of common shares and potential dilutive shares used for diluted earnings per share</b>	<b>26,449,408</b>	<b>26,189,668</b>	<b>25,987,483</b>
Anti-dilutive shares outstanding at period-end that are excluded from the above reconciliation <sup>(c)</sup>	5,589,283	5,284,459	4,954,778

(a) Weighted average number of common shares used for basic earnings per share excludes 316,230, 278,681 and 245,602 weighted average shares of non-vested restricted stock as of the years ended December 31, 2014, 2013 and 2012, respectively. Non-vested restricted stock is included in common shares issued and outstanding in the consolidated balance sheets.

- (b) Since the Company incurred a net loss for the years ended December 31, 2014, 2013 and 2012, all potentially dilutive securities are anti-dilutive for these periods and, therefore, are excluded from the determination of diluted earnings per share.
- (c) Anti-dilutive shares outstanding at period-end that are excluded from the above reconciliation include warrants, non-vested restricted stock and stock options issued under the Long Term Incentive Plan (as defined hereinafter in note (15) "Stock-Based Compensation").

**(14) Stockholders' Deficit**

At December 31, 2014, 37,500,000 shares of common stock were authorized and 26,710,569 shares of common stock (including shares of non-vested restricted stock) and 3,582,402 warrants, each eligible to purchase one share of common stock, were outstanding.

The initial exercise price applicable to the warrants is \$48.81 per share of common stock. The exercise price applicable to the warrants is subject to adjustment upon the occurrence of certain events described in the warrant agreement. The warrants may be exercised at any time on or before January 24, 2018.

### (15) Stock-Based Compensation

Stock-based compensation expense recognized in the financial statements is as follows (in thousands):

	Years Ended December 31,		
	2014	2013	2012
Amounts charged against income, before income tax benefit	\$ 4,274	\$ 5,807	\$ 4,055
Amount of related income tax benefit recognized in income	(1,714)	(2,326)	(1,656)
<b>Total net loss impact</b>	<b>\$ 2,560</b>	<b>\$ 3,481</b>	<b>\$ 2,399</b>

At December 31, 2014, the Company had \$3.3 million of stock-based compensation cost related to non-vested awards that will be recognized over a weighted average period of 1.83 years, all of which is related to awards granted under the FairPoint Communications, Inc. Amended and Restated 2010 Long Term Incentive Plan (the "Long Term Incentive Plan").

#### *Long Term Incentive Plan*

The Long Term Incentive Plan provides for grants of up to 5,674,277 shares of common stock awards, of which stock options and restricted stock awards and other types of equity awards can be granted. As of December 31, 2014, there are 2,877,285 shares available for grant under the Long Term Incentive Plan. Each stock option granted reduces the availability under the Long Term Incentive Plan by one share. Prior to the approval of the amendment and restatement of the Long Term Incentive Plan by the Company's stockholders on May 12, 2014, each restricted stock award granted reduced the availability under the Long Term Incentive Plan by one share and on or after May 12, 2014 each restricted stock award granted reduces the availability by 1.35 shares. Upon the exercise of each stock option or vesting of each restricted share award, one new share of common stock will be issued.

For the years ended December 31, 2014, 2013 and 2012, the Company has granted shares of restricted stock and stock options with one of the following vesting terms: (i) vest immediately; (ii) vest 100% on the first anniversary; (iii) vest over three equal annual installments, with one-third vesting on the first anniversary of the grant date and one-third on the second and third anniversaries thereafter or (iv) vest 25% immediately and 25% on the first, second and third anniversaries thereafter.

**Stock Options.** Stock options have a term of 10 years from the date of grant; however, vested stock options will generally expire 90 days after an employee's termination with the Company, unless the Company is in a blackout period. Stock option activity under the Long Term Incentive Plan is summarized as follows:

	Options Outstanding	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Life (in years)
<b>Outstanding at December 31, 2011</b>	<b>947,737</b>	<b>\$ 24.29</b>	
Granted <sup>(a)</sup>	347,880	4.82	
Exercised	(14,212)	4.51	
Forfeited	(87,783)	19.32	
Expired	(63,793)	23.96	
<b>Outstanding at December 31, 2012</b>	<b>1,129,829</b>	<b>\$ 18.95</b>	
Granted <sup>(a)</sup>	368,016	9.37	
Exercised	(18,750)	4.63	
Forfeited	(41,893)	11.95	
Expired	(38,079)	22.29	
<b>Outstanding at December 31, 2013</b>	<b>1,399,123</b>	<b>\$ 16.74</b>	
Granted <sup>(a)</sup>	462,374	13.31	
Exercised <sup>(b)</sup>	(51,050)	6.28	
Forfeited	(2,005)	4.31	
Expired	(33,597)	23.65	
<b>Outstanding at December 31, 2014</b>	<b>1,774,845</b>	<b>\$ 16.03</b>	<b>7.4</b>
<b>Exercisable at December 31, 2014 <sup>(c)</sup></b>	<b>1,198,318</b>	<b>\$ 18.31</b>	<b>6.8</b>
<b>Vested and Expected to Vest at December 31, 2014 <sup>(d)</sup></b>	<b>1,766,262</b>	<b>\$ 16.04</b>	<b>7.3</b>

- (a) During the years ended December 31, 2014, 2013 and 2012, the weighted average grant date fair value of stock options granted was \$3.2 million, \$1.5 million and \$0.7 million, respectively. For purposes of determining compensation expense, the grant date fair value per share of the stock options was estimated using the Black-Scholes option pricing model which requires the use of various assumptions including the expected life of the option, expected dividend rate, expected volatility and risk-free interest rate. Key assumptions used for determining the fair value of stock options granted were as follows:

	Years Ended December 31,		
	2014	2013	2012
Expected life <sup>(1)</sup>	5.5 - 6.5 years	5.5 - 6 years	5.75 - 6 years
Expected dividend <sup>(2)</sup>	—	—	—
Expected volatility <sup>(3)</sup>	51%	45%	45%
Risk-free interest rate <sup>(4)</sup>	1.63% - 2.19%	0.77% - 1.92%	0.82% - 1.21%

- (1) The 5.5-year, 5.75-year, 6.0-year and 6.5-year expected lives (estimated period of time outstanding) of stock options granted were estimated using the 'Simplified Method' which utilizes the midpoint between the vesting date and the end of the contractual term. This method was utilized for the stock options due to the lack of historical exercise behavior of the Company's employees.
- (2) For all stock options granted during 2012, 2013 and 2014, no dividends are planned to be paid over the contractual term of the stock options resulting in the use of a zero expected dividend rate.
- (3) The expected volatility rate is based on the observed historical volatilities of the Company's common stock and observed historical and implied volatilities of comparable companies, which were adjusted to account for the various differences between the comparable companies and the Company.
- (4) The risk-free interest rate is specific to the date of grant and is based on the United States Treasury constant maturity market yield in effect at the time of the grant.

- (b) During the years ended December 31, 2014 and 2013, the total intrinsic value of stock options that were exercised was \$0.4 million and negligible, respectively.
- (c) Based upon a fair market value of the common stock as of December 31, 2014 of \$14.21 per share, the stock options that are exercisable have an aggregate intrinsic value (equal to the value of in-the-money stock options above their respective exercise price) of \$2.6 million.
- (d) Based upon a fair market value of the common stock as of December 31, 2014 of \$14.21 per share, the stock options that have vested and are expected to vest have an aggregate intrinsic value (equal to the value of in-the-money stock options above their respective exercise price) of \$4.3 million.

Based upon the respective grant fair value, the aggregate fair value of stock options that vested during the years ended December 31, 2014, 2013, and 2012 was \$2.9 million, \$2.2 million, and \$2.0 million, respectively.

**Restricted Stock Awards.** Restricted stock award activity under the Long Term Incentive Plan is summarized as follows:

	Awards Outstanding	Weighted Average Grant Date Fair Value Per Share
<b>Non-vested at December 31, 2011</b>	<b>351,998</b>	<b>\$ 18.26</b>
Granted <sup>(a)</sup>	30,000	\$ 5.51
Vested <sup>(b)</sup>	(116,202)	18.26
Forfeited	(21,550)	18.49
<b>Non-vested at December 31, 2012</b>	<b>244,246</b>	<b>\$ 16.65</b>
Granted <sup>(a)</sup>	184,610	\$ 9.46
Vested <sup>(b)</sup>	(157,318)	\$ 15.24
Forfeited	(6,883)	\$ 10.43
<b>Non-vested at December 31, 2013</b>	<b>264,655</b>	<b>\$ 12.64</b>
Granted (a)	216,586	\$ 13.21
Vested (b)	(249,205)	\$ 13.58
<b>Non-vested at December 31, 2014</b>	<b>232,036</b>	<b>\$ 12.15</b>

- (a) The grant date fair value per share of the restricted stock awards under the Long Term Incentive Plan is calculated as the fair market value per share of the common stock on the date of grant. During the years ended December 31, 2014, 2013 and 2012, the weighted average grant date fair value of restricted stock awards granted was \$2.9 million, \$1.7 million, and \$0.2 million, respectively.
- (b) Based upon the respective grant date fair value, the aggregate fair value of restricted stock which vested during the year ended December 31, 2014, 2013 and 2012 was \$3.4 million, \$2.4 million and \$2.1 million, respectively.

## (16) Business Concentrations

### Geographic

As of December 31, 2014, approximately 85% of the Company's access line equivalents were located in Maine, New Hampshire and Vermont. As a result of this geographic concentration, the 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 Company's services and a resulting loss of access line equivalents which could have a material adverse effect on the Company's business, financial condition, results of operations, liquidity and/or the market price of the Company's outstanding securities.

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

### Labor

As of December 31, 2014, we employed a total of 3,052 employees, 1,914, or 63%, of whom were covered by 13 collective bargaining agreements. As of December 31, 2014, approximately 1,700 employees were covered by two collective bargaining agreements that expired during 2014. See note (10) "Employee Benefit Plans" and note (18) "Commitments and Contingencies" for additional information.

## (17) Assets Held for Sale and Discontinued Operations

On November 28, 2012, the Company entered into an agreement to sell the capital stock of its Idaho-based operations to Blackfoot Telecommunications Group ("Blackfoot") of Missoula, Montana. The closing of the transaction was completed on January 31, 2013 for \$30.5 million in gross cash proceeds. Eleven FairPoint employees joined the Blackfoot organization at closing. The Company recorded a gain, before \$6.7 million of income taxes, of \$16.7 million upon the closing of the transaction, which was reported within discontinued operations in the consolidated statement of operations for the year ended December 31, 2013. Due to differences between the book and tax basis of the Idaho-based operations, the gain reported on the sale for income tax purposes was \$27.1 million.

The Idaho-based operations were immaterial to the financial results of the consolidated Company and therefore have not been segregated as discontinued operations in the consolidated statements of operations. Revenue and income before income taxes of the Idaho-based operations for the years ended December 31, 2013 and 2012 were as follows (in thousands):

Years Ended December 31,

	2013 (a)		2012	
Revenue	\$	674	\$	7,874
Income before income taxes		477		3,813

(a) Reflects revenue and income before income taxes of the Idaho-based operations for the period of January 1, 2013 through the completion of the transaction on January 31, 2013.

## (18) Commitments and Contingencies

### (a) Leases

The Company currently leases real estate and fleet vehicles under capital and operating leases expiring through the year ending 2023. The Company accounts for leases using the straight-line method, which amortizes contracted total payments evenly over the lease term.

Future minimum lease payments under capital leases and non-cancelable operating leases as of December 31, 2014 are as follows (in thousands):

	Capital Leases		Operating Leases	
Year ending December 31:				
2015	\$	700	\$	7,484
2016		586		5,568
2017		394		4,182
2018		161		2,294
2019		68		851
Thereafter		—		702
<b>Total minimum lease payments</b>	<b>\$</b>	<b>1,909</b>	<b>\$</b>	<b>21,081</b>
Less: interest and executory cost		(320)		
<b>Present value of minimum lease payments</b>		<b>1,589</b>		
Less: current installments		(627)		
<b>Long-term obligations at December 31, 2014</b>	<b>\$</b>	<b>962</b>		

Total rent expense was \$13.3 million, \$12.5 million and \$12.5 million for the years ended December 31, 2014, 2013 and 2012, respectively.

The Company does not have any leases with contingent rental payments or any leases with contingency renewal, purchase options, or escalation clauses.

### (b) Legal Proceedings

From time to time, the Company is involved in litigation and regulatory proceedings arising out of its operations. The Company's management believes that it is not currently a party to any legal or regulatory proceedings, the adverse outcome of which, individually or in the aggregate, would have a material adverse effect on the Company's financial position or results of



operations. Notwithstanding that the Company emerged from Chapter 11 protection on the Effective Date, one creditor's claim is still being litigated.

Notwithstanding the foregoing, the Company is a defendant in approximately 16 lawsuits filed by two long distance communications companies, who have collectively filed over 60 lawsuits arising from switched access charges for calls originating and terminating within the same wireless major trading area. At this time, an estimate of the impact, if any, of these lawsuits cannot be made.

**(c) Restricted Cash**

As of December 31, 2014, the Company had \$0.7 million of restricted cash, which is restricted for regulatory purposes and is included in long-term restricted cash on the balance sheet. As of December 31, 2013, the Company had \$1.2 million of restricted cash, of which \$0.1 million was from the reserve for payment of outstanding bankruptcy claims (the "Cash Claims Reserve") established on the Effective Date, \$0.4 million was reserved for broadband build-out in New Hampshire and \$0.7 million was restricted for other purposes. During 2013, \$0.6 million of the Cash Claims Reserve was released due to favorable resolution of claims, \$2.8 million of restricted cash reserved for broadband build-out in Vermont was utilized and \$2.9 million of restricted cash reserved for broadband build-out in New Hampshire was utilized.

**(d) Magnitude of Bankruptcy Claims**

Claims totaling \$4.9 billion were filed with the Bankruptcy Court against the Company. As of February 27, 2015, through the claim resolution process, \$3.8 billion of these claims have been settled and \$1.1 billion of these claims have been disallowed by the Bankruptcy Court. Additionally, \$15.2 million of these claims have been withdrawn by the respective creditors. There is one tax claimant that still has pending claims in the amount of \$0.2 million that were remanded back to the state court or have been disallowed and have been appealed by the claimant for the second time.

**(19) Quarterly Financial Information (Unaudited)**

The quarterly information presented below represents selected quarterly financial results for the quarters ended March 31, June 30, September 30, and December 31, 2014 and 2013 (in thousands, except per share data).

2014:	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenue	\$ 230,557	\$ 225,597	\$ 228,120	\$ 217,122
Net loss	(32,237)	(22,680)	(37,778)	(43,624)
Loss per share:				
Basic	\$ (1.22)	\$ (0.86)	\$ (1.43)	\$ (1.65)
Diluted	\$ (1.22)	\$ (0.86)	\$ (1.43)	\$ (1.65)
2013:	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenue	\$ 235,469	\$ 234,500	\$ 235,989	\$ 233,396
Gain on sale of discontinued operations, net of tax	10,044	—	—	—
Net income (loss)	(47,485)	(43,108)	(8,960)	6,103
(Loss) earnings per share, basic:				
Continuing operations	\$ (2.20)	\$ (1.64)	\$ (0.34)	\$ 0.23
Discontinued operations	0.38	—	—	—
(Loss) earnings per share, basic	\$ (1.82)	\$ (1.64)	\$ (0.34)	\$ 0.23
(Loss) earnings per share, diluted:				
Continuing operations	\$ (2.20)	\$ (1.64)	\$ (0.34)	\$ 0.23
Discontinued operations	0.38	—	—	—
(Loss) earnings per share, diluted	\$ (1.82)	\$ (1.64)	\$ (0.34)	\$ 0.23

## **(20) Subsequent Events**

On February 22, 2015, the Company entered into collective bargaining agreements with two of its labor unions in northern New England covering approximately 1,700 employees in the aggregate. The qualified defined benefit pension plan for represented employees is closed for new employees. For existing employees, past accruals have been frozen and future defined benefit accruals will be at 50% of prior rates and capped after 30 years of total credited service. In addition, the post-retirement healthcare plan for active represented employees has been eliminated, except for a transitional monthly stipend for eligible employees who elect to retire in the first 30 months of the contract period. To be eligible for the stipend, an employee must, among other criteria, have been granted a pension under the qualified defined benefit pension plan.

As a result of the changes to the Company's employee benefits resulting from the collective bargaining agreements, the pension and post-retirement healthcare plans will be remeasured and adjusted in the first quarter of 2015. The Company expects this to result in a decrease in the associated liabilities. Had the terms of the collective bargaining agreements relative to pension and post-retirement healthcare plans been used to value the Company's pension and post-retirement healthcare obligations at December 31, 2014, assuming all assumptions used to value the obligations on that date (including the discount rates) remained unchanged, the Company estimates that the accrued pension obligations on the consolidated balance sheet would have been lower by approximately \$35 million to \$45 million and the accrued post-retirement healthcare obligations on the consolidated balance sheet would have been lower by approximately \$620 million to \$640 million. In addition, the Company estimates a decrease in the deferred income tax asset associated with the qualified pension and post-retirement healthcare obligations, partially offset by a decrease in the valuation allowance, of approximately \$30 million to \$40 million as of December 31, 2014. The Company does not expect any impact on its net operating loss carryforwards. Estimates as of December 31, 2014 are presented for comparative purposes only. The obligations for the Company's qualified pension plan for represented employees and our post-retirement healthcare plan will each be remeasured and, therefore the actual results may differ materially from our December 31, 2014 estimates for reasons that may include, among others, changes in discount rates, changes in census data and/or changes in other assumptions.

## **ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

### **ITEM 9A. CONTROLS AND PROCEDURES**

#### ***(a) Evaluation of Disclosure Controls and Procedures***

As of the end of the period covered by this Annual Report, we carried out an evaluation under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, of the effectiveness of our "disclosure controls and procedures" (as defined in Rule 13a-15(e) of the Exchange Act). Disclosure controls and procedures are controls and other procedures of an issuer that are designed to ensure that information required to be disclosed by the issuer in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC.

Based upon this evaluation, our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures were effective as of December 31, 2014.

#### ***(b) Changes in Internal Control Over Financial Reporting***

We are committed to continuing to improve our internal control processes and will continue to review our financial reporting controls and procedures. As we continue to evaluate and work to improve our internal control over financial reporting, we may identify additional measures to address previous material weaknesses and other deficiencies. Our management, with the oversight of the audit committee of our board of directors, will continue to assess and take steps to enhance the overall design and capability of our control environment in the future.

There have been no changes in our internal control over financial reporting during the year ended December 31, 2014 that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

See "Item 8. Financial Statements and Supplementary Data" included elsewhere in this Annual Report for the Report of Management on Internal Control over Financial Reporting and the Report of Independent Registered Public Accounting Firm on Internal Control over Financial Reporting, each of which is incorporated herein by reference.

### **ITEM 9B. OTHER INFORMATION**

Not applicable.

## **PART III**

### **ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

The information required by Items 401, 405, 406 and 407(c)(3), (d)(4) and (d)(5) of Regulation S-K is incorporated herein by reference to our definitive proxy statement to be filed with the SEC pursuant to Regulation 14A under the Exchange Act.

### **ITEM 11. EXECUTIVE COMPENSATION**

The information required by Item 402 and paragraph (e)(4) and (e)(5) of Item 407 of Regulation S-K is incorporated herein by reference to our definitive proxy statement to be filed with the SEC pursuant to Regulation 14A under the Exchange Act.

### **ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

The information required by Item 201(d) of Regulation S-K is incorporated herein by reference to "Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities—Securities Authorized for Issuance under Equity Compensation Plans" included elsewhere in this Annual Report. The information required by Item 403 of Regulation S-K is incorporated herein by reference to our definitive proxy statement to be filed with the SEC pursuant to Regulation 14A under the Exchange Act.

### **ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

The information required by Items 404 and 407(a) of Regulation S-K is incorporated herein by reference to our definitive proxy statement to be filed with the SEC pursuant to Regulation 14A under the Exchange Act.

### **ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES**

The information required by Item 9(e) of Schedule 14A is incorporated herein by reference to our definitive proxy statement to be filed with the SEC pursuant to Regulation 14A under the Exchange Act.

## **PART IV**

### **ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES**

#### ***(a) Financial Statements***

The financial statements filed as part of this Annual Report are listed in the index to the financial statements under "Item 8. Financial Statements and Supplementary Data" included elsewhere in this Annual Report, which index to the financial statements is incorporated herein by reference.

#### ***(b) Exhibits***

The exhibits filed as part of this Annual Report are listed in the index to exhibits found hereafter, which index to exhibits is incorporated herein by reference.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

FAIRPOINT COMMUNICATIONS, INC.

By: /s/ Paul H. Sunu Date: March 4, 2015  
Paul H. Sunu, Chief Executive Officer and Director

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By: /s/ Paul H. Sunu Date: March 4, 2015  
Paul H. Sunu, Chief Executive Officer and Director  
(Principal Executive Officer)

By: /s/ Ajay Sabherwal Date: March 4, 2015  
Ajay Sabherwal, Executive Vice President and Chief Financial Officer  
(Principal Financial Officer)

By: /s/ John T. Hogshire Date: March 4, 2015  
John T. Hogshire, Senior Vice President and Controller  
(Principal Accounting Officer)

By: /s/ Peter D. Aquino Date: March 4, 2015  
Peter D. Aquino, Director

By: /s/ Dennis J. Austin Date: March 4, 2015  
Dennis J. Austin, Director

By: /s/ Peter C. Gingold Date: March 4, 2015  
Peter C. Gingold, Director

By: /s/ Edward D. Horowitz Date: March 4, 2015  
Edward D. Horowitz, Chairman of the Board of Directors

By: /s/ Michael J. Mahoney Date: March 4, 2015  
Michael J. Mahoney, Director

By: /s/ Michael K. Robinson Date: March 4, 2015  
Michael K. Robinson, Director

By: /s/ David L. Treadwell Date: March 4, 2015  
David L. Treadwell, Director

By: /s/ Wayne Wilson Date: March 4, 2015  
Wayne Wilson, Director

## Exhibit Index

Exhibit No.	Description
2.1	Third Amended Joint Plan of Reorganization Under Chapter 11 of the Bankruptcy Code.(1)
3.1	Ninth Amended and Restated Certificate of Incorporation of FairPoint.(2)
3.2	Second Amended and Restated By Laws of FairPoint.(2)
4.1	Warrant Agreement, dated as of January 24, 2011, by and between FairPoint and The Bank of New York Mellon.(3)
4.2	Specimen Stock Certificate.(2)
4.3	Specimen Warrant Certificate.(3)
4.4	Indenture, dated as February 14, 2013, among FairPoint, the subsidiary guarantors party thereto, U.S. Bank National Association, as trustee, and U.S. Bank National Association, as collateral agent. (18)
4.5	First Supplemental Indenture, dated as of September 16, 2013, among FairPoint, the subsidiary guarantors party thereto and U.S. Bank National Association, as trustee. (21)
10.1	Security Agreement, dated as of February 14, 2013, among FairPoint, the subsidiary guarantors party thereto and U.S. Bank National Association, as collateral agent.(18)
10.2	Pledge Agreement, dated as of February 14, 2013, among FairPoint, the subsidiary guarantors party thereto and U.S. Bank National Association, as collateral agent.(18)
10.3	Credit Agreement, dated as of February 14, 2013, among FairPoint, the lenders party thereto from time to time and Morgan Stanley Senior Funding, Inc., as administrative agent and letter of credit issuer. (18)
10.4	Pledge Agreement, dated as of February 14, 2013, made by FairPoint and the subsidiary guarantors party thereto in favor of Morgan Stanley Senior Funding, Inc., as administrative agent. (18)
10.5	Security Agreement, dated as of February 14, 2013, among FairPoint, the subsidiary guarantors party thereto and Morgan Stanley Senior Funding, Inc., as administrative agent. (18)
10.6	Continuing Guaranty, dated as of February 14, 2013, made by the subsidiary guarantors party thereto in favor of Morgan Stanley Senior Funding, Inc., as administrative agent. (18)
10.7	Registration Rights Agreement, dated as of January 24, 2011, by and between FairPoint Communications, Inc. and Angelo, Gordon & Co., L.P.(3)
10.8	FairPoint Litigation Trust Agreement, dated as of January 24, 2011.(3)
10.9	Form of Director Indemnity Agreement.(4)
10.10	Amended and Restated Tax Sharing Agreement, dated as of November 9, 2000, by and among FairPoint and its subsidiaries.(5)
10.11	Amended and Restated Employment Agreement, dated as of April 9, 2013, by and between FairPoint and Paul H. Sunu.†(20)
10.12	Employment Agreement, made and entered into as of January 22, 2013, by and between FairPoint and Ajay Sabherwal. † (19)
10.13	Employment Agreement, made and entered into as of January 22, 2013, by and between FairPoint and Shirley J. Linn. † (19)
10.14	Employment Agreement, made and entered into as of January 22, 2013, by and between FairPoint and Peter G. Nixon. † (19)
10.15	Employment Agreement, made and entered into as of November 15, 2012, by and between FairPoint and Anthony A. Tomae. † (19)
10.16	Employment Agreement, made and entered into as of July 1, 2011 by and between FairPoint and Kenneth W. Amburn. † (22)

Exhibit No.	Description
10.17	First Amendment to July 1, 2011 Employment Agreement, effective as of July 1, 2014, by and between FairPoint and Kenneth W. Amburn. † (24)
10.18	Employment Agreement, made and entered into as of July 1, 2014, by and between FairPoint and John J. Lunny. † (25)
10.19	Employment Agreement, made and entered into as of November 20, 2014, by and between FairPoint and Karen D. Turner. † *
10.20	FairPoint Communications, Inc. Amended and Restated 2010 Long Term Incentive Plan. † (23)
10.21	Form of Non-Incentive Stock Option Award Agreement for directors relating to the FairPoint Communications, Inc. Amended and Restated 2010 Long Term Incentive Plan. † (23)
10.22	Form of Restricted Share Award Agreement for directors relating to the FairPoint Communications, Inc. Amended and Restated 2010 Long Term Incentive Plan. † (23)
10.23	Form of Stock Option Award Agreement for employees relating to the FairPoint Communications, Inc. Amended and Restated 2010 Long Term Incentive Plan. † (23)
10.24	Form of Restricted Share Award Agreement for employees relating to the FairPoint Communications, Inc. Amended and Restated 2010 Long Term Incentive Plan. † (23)
10.25	Form of FairPoint Communications, Inc. Performance Share Award Agreement for Performance Period Beginning January 1, 2015 for employees relating to the FairPoint Communications, Inc. Amended and Restated 2010 Long Term Incentive Plan. † (26)
10.26	Form of Restricted Share Award Agreement relating to the FairPoint Communications, Inc. 2010 Long Term Incentive Plan.†(1)
10.27	Form of Non-Incentive Stock Option Award Agreement relating to the FairPoint Communications, Inc. 2010 Long Term Incentive Plan.†(1)
10.28	FairPoint Communications, Inc. Incentive Recoupment Policy. †(16)
10.29	Stipulation filed with the Maine Public Utilities Commission, dated December 12, 2007.(6)
10.30	Amended Stipulation filed with the Maine Public Utilities Commission dated December 21, 2007.(7)
10.31	Stipulation filed with the Vermont Public Service Board, dated January 8, 2008.(8)
10.32	Stipulation filed with the New Hampshire Public Utilities Commission, dated January 23, 2008.(9)
10.33	Post Filing Regulatory Settlement—New Hampshire, dated as of February 5, 2010, by and between FairPoint and New Hampshire Public Utilities Commission Staff Advocates.(1)
10.34	Post Filing Regulatory Settlement—Maine, dated as of February 9, 2010, by and among FairPoint, Maine Public Utilities Commission and Maine Office of the Public Advocate.(1)
10.35	Post Filing Regulatory Settlement—Vermont, dated as of February 5, 2010, by and between FairPoint and Vermont Department of Public Service.(1)
11	Statement Regarding Computation of Per Share Earnings (included in the financial statements contained in this Annual Report).
14.1	FairPoint Code of Business Conduct and Ethics.(14)
14.2	FairPoint Code of Ethics for Financial Professionals.(10)
21	Subsidiaries of FairPoint.*
23.1	Consent of Ernst & Young LLP.*
31.1	Certification as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
31.2	Certification as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
32.1	Certification required by 18 United States Code Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.‡

Exhibit No.	Description
32.2	Certification required by 18 United States Code Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.†
99.1	Order, dated January 13, 2011, Confirming Debtors' Third Amended Joint Plan of Reorganization Under Chapter 11 of the Bankruptcy Code, dated as of December 29, 2010.(1)
99.2	Order of the Maine Public Utilities Commission, dated February 1, 2008.(11)
99.3	Order of the Vermont Public Service Board, dated February 15, 2008.(12)
99.4	Order of the New Hampshire Public Utilities Commission, dated February 25, 2008.(13)
99.5	FairPoint Insider Trading Policy, as revised October 30, 2014.*
101.INS	XBRL Instance Document.*
101.SCH	XBRL Taxonomy Extension Schema Document.*
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.*
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.*
*	Filed herewith.
†	Indicates a management contract or compensatory plan or arrangement.
‡	Pursuant to SEC Release No. 33-8238, this certification will be treated as "accompanying" this Annual Report on Form 10-K and not "filed" as part of such report for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of Section 18 of the Exchange Act and this certification will not be deemed to be incorporated by reference into any filing under the Securities Act or the Exchange Act, except to the extent that the registrant specifically incorporates it by reference.
(1)	Incorporated by reference to the Current Report on Form 8-K of FairPoint filed on January 14, 2011.
(2)	Incorporated by reference to the Registration Statement on Form 8-A of FairPoint filed on January 24, 2011.
(3)	Incorporated by reference to the Current Report on Form 8-K of FairPoint filed on January 25, 2011, Film Number 11544980.
(4)	Incorporated by reference to the Current Report on Form 8-K of FairPoint filed on January 25, 2011, Film Number 11544991.
(5)	Incorporated by reference to the Quarterly Report on Form 10-Q of FairPoint for the period ended September 30, 2000.
(6)	Incorporated by reference to the Current Report on Form 8-K of FairPoint filed on December 13, 2007.
(7)	Incorporated by reference to the Current Report on Form 8-K of FairPoint filed on April 3, 2008.
(8)	Incorporated by reference to the Current Report on Form 8-K of FairPoint filed on January 8, 2008.
(9)	Incorporated by reference to the Current Report on Form 8-K of FairPoint filed on January 24, 2008.
(10)	Incorporated by reference to the Annual Report on Form 10-K of FairPoint for the year ended December 31, 2004.
(11)	Incorporated by reference to the Current Report on Form 8-K of FairPoint filed on February 6, 2008.
(12)	Incorporated by reference to the Current Report on Form 8-K of FairPoint filed on February 21, 2008.
(13)	Incorporated by reference to the Current Report on Form 8-K of FairPoint filed on February 27, 2008.
(14)	Incorporated by reference to the Annual Report on Form 10-K of FairPoint for the year ended December 31, 2010.
(15)	Incorporated by reference to the Quarterly Report on Form 10-Q of FairPoint for the period ended June 30, 2011.
(16)	Incorporated by reference to the Quarterly Report on Form 10-Q of FairPoint for the period ended March 31, 2012.
(17)	Incorporated by reference to the Current Report on Form 8-K of FairPoint filed on November 13, 2012.
(18)	Incorporated by reference to the Current Report on Form 8-K of FairPoint filed on February 14, 2013.
(19)	Incorporated by reference to the Annual Report on Form 10-K of FairPoint for the year ended December 31, 2012.
(20)	Incorporated by reference to the Quarterly Report on Form 10-Q of FairPoint for the period ended March 31, 2013.
(21)	Incorporated by reference to the Quarterly Report on Form 10-Q of FairPoint for the period ended September 30, 2013.
(22)	Incorporated by reference to the Annual Report on Form 10-K of FairPoint for the year ended December 31,



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- 2013.
- (23) Incorporated by reference to the Current Report on Form 8-K of FairPoint filed on May 12, 2014.
  - (24) Incorporated by reference to the Current Report on Form 8-K of FairPoint filed on July 2, 2014.
  - (25) Incorporated by reference to the Quarterly Report on Form 10-Q of FairPoint for the period ended June 30, 2014.
  - (26) Incorporated by reference to the Current Report on Form 8-K of FairPoint filed on January 22, 2015.

## EMPLOYMENT AGREEMENT

This EMPLOYMENT AGREEMENT (this “Agreement”) is made and entered into as of this 20th day of November, 2014 (the “Commencement Date”) by and between FairPoint Communications, Inc. (the “Company”), a Delaware corporation, and Karen D. Turner (the “Executive”).

### WITNESSETH:

WHEREAS, the Company desires to employ Executive and to enter into this Agreement embodying the terms of such employment, and Executive desires to enter into this Agreement and to accept such employment, subject to the terms and provisions of this Agreement.

NOW, THEREFORE, in consideration of the promises and mutual covenants contained herein and for other good and valuable consideration, the receipt and sufficiency of which are mutually acknowledged, the Company and Executive hereby agree as follows:

#### Section 1. **Definitions.**

(a) “Accrued Obligations” shall mean (i) all accrued but unpaid Base Salary through the date of termination of Executive’s employment, (ii) any unpaid or unreimbursed expenses incurred in accordance with Section 7 hereof, (iii) any benefits provided under the Company’s employee benefit plans upon a termination of employment, in accordance with the terms contained therein, and (iv) any amounts payable under the FairPoint Communications, Inc. Amended and Restated 2010 Long Term Incentive Plan (“LTIP”), in accordance with the terms contained therein.

(b) “Cause” shall mean (i) Executive’s act(s) of gross negligence or willful misconduct in the course of Executive’s employment hereunder, (ii) willful failure or refusal by Executive to perform in any material respect her duties or responsibilities, (iii) misappropriation (or attempted misappropriation) by Executive of any assets or business opportunities of the Company or any other member of the Company Group, (iv) embezzlement or fraud committed (or attempted) by Executive, or at her direction, (v) Executive’s conviction of, indictment for, or pleading “guilty” or “no contest” to, (x) a felony or (y) any other criminal charge that has, or could be reasonably expected to have, an adverse impact on the performance of Executive’s duties to the Company or any other member of the Company Group or otherwise result in material injury to the reputation or business of the Company or any other member of the Company Group, (vi) any material violation by Executive of the policies of the Company, including but not limited to those relating to sexual harassment or business conduct, and those otherwise set forth in the manuals or statements of policy of the Company, which violation has a material adverse effect on the Company, or (vii) Executive’s material breach of this Agreement or material breach of the Non-Interference Agreement.

(c) “Change in Control” shall have the same meaning as defined in the LTIP, as in effect on the date hereof; provided, however, that there shall be no provision for any threatened or anticipated Change in Control that does not actually occur.

(d) “Disability” shall mean any physical or mental disability or infirmity of Executive that prevents the performance of Executive’s duties for a period of (i) ninety (90) consecutive days or (ii) one hundred twenty (120) non-consecutive days during any twelve (12) month period. Any question as to the existence, extent, or potentiality of Executive’s Disability upon which Executive and the Company cannot agree shall be determined by a qualified, independent physician selected by the Company and approved by Executive (which approval shall not be unreasonably withheld). The determination of any such physician shall be final and conclusive for all purposes of this Agreement.

(e) “Good Reason” shall mean, without Executive’s consent, (i) a material reduction in Base Salary set forth in Section 4(a) hereof or Annual Bonus opportunity referred to in Section 4(b) hereof, (ii) the relocation of Executive’s principal place of employment (as provided in Section 3(b) hereof) more than fifty (50) miles from its current location, or (iii) any other material breach of a provision of this Agreement by the Company (other than a provision that is covered by clause (i) or (ii) above). Executive acknowledges and agrees that her exclusive remedy in the event of any breach of this Agreement shall be to assert Good Reason pursuant to the terms and conditions of Section 8(e) hereof. Notwithstanding the foregoing, during the Term of Employment, in the event that the Board reasonably believes that Executive may have engaged in conduct that could constitute Cause hereunder, the Board may, in its sole and absolute discretion, suspend Executive from performing her duties hereunder, and in no event shall any such suspension constitute an event pursuant to which Executive may terminate employment with Good Reason or otherwise constitute a breach hereunder; *provided*, that no such suspension shall alter the Company’s obligations under this Agreement during such period of

suspension.

(f) “Person” shall mean any individual, corporation, partnership, limited liability company, joint venture, association, joint-stock company, trust (charitable or non-charitable), unincorporated organization, or other form of business entity.

## Section 2. **Acceptance and Term of Employment.**

The Company agrees to employ Executive, and Executive agrees to serve the Company, on the terms and conditions set forth herein. The term of employment (the “Term of Employment”) shall commence on the Commencement Date and shall continue during the period ending on the close of business of the three (3) year anniversary of the Commencement Date, unless terminated sooner as provided in Section 8 or unless the Company has provided Executive with notice of its intention to renew the Term of Employment for a specific period of time, such notice to be given not less than one hundred twenty (120) days prior to the expiration of the three (3) year anniversary of the Commencement Date. Following the three year Term of Employment (or the applicable extension term, if any), the Executive shall continue on an at will basis until such time as the Company provides to Executive a written notice of termination pursuant to the provisions of Section 18 hereof.

## Section 3. **Position, Duties, and Responsibilities; Place of Performance.**

(a) Position, Duties and Responsibilities. During the Term of Employment, Executive shall be employed and serve as Vice President, Strategy and Business Support of the Company (with such title subject to change from time to time as determined by the Board of Directors of the Company (the “Board”) together with such other position or positions consistent with Executive’s title as the Chief Executive Officer of the Company (the “CEO”) shall specify from time to time), and shall have such duties and responsibilities commensurate with such title. Executive also agrees to serve, at the request of the CEO, as an officer of any other direct or indirect subsidiary of the Company (each such subsidiary being, together with the Company, a member of the “Company Group”), in each case without additional compensation.

(b) Performance. Executive shall devote her full business time, attention, skill, and best efforts to the performance of her duties under this Agreement and shall not engage in any other business or occupation during the Term of Employment, including, without limitation, any activity that (x) conflicts with the interests of the Company or any other member of the Company Group, (y) interferes with the proper and efficient performance of Executive’s duties for the Company, or (z) interferes with Executive’s exercise of judgment in the Company’s best interests. Notwithstanding the foregoing, nothing herein shall preclude Executive from (i) serving, with the prior written consent of the CEO, as a member of the boards of directors or advisory boards (or their equivalents in the case of a non-corporate entity) of non-competing businesses and charitable organizations, (ii) engaging in charitable activities and community affairs, and (iii) managing personal investments and affairs; *provided, however*, that the activities set out in clauses (i), (ii) and (iii) shall be limited by Executive so as not to interfere, individually or in the aggregate, with the performance of her duties and responsibilities hereunder. Executive’s principal place of employment shall be in Charlotte, North Carolina, although Executive understands and agrees that she may be required to travel from time to time for business reasons.

## Section 4. **Compensation.**

During the Term of Employment, Executive shall be entitled to the following compensation:

(a) Base Salary. Executive shall be paid an annualized base salary (the “Base Salary”), payable in accordance with the regular payroll practices of the Company, of not less than Two Hundred Thousand Dollars (\$200,000), with increases, if any, as may be approved in writing by the Compensation Committee of the Board of Directors (the “Compensation Committee”).

(b) Annual Bonus. Executive shall be eligible for an annual incentive bonus award (the “Annual Bonus”) through participation in the Company’s Annual Incentive Plan in respect of each fiscal year during the Term of Employment, with the actual Annual Bonus payable being based upon the level of achievement of annual Company and individual performance objectives for such fiscal year, as determined by the Compensation Committee and communicated to Executive. The Annual Bonus shall be paid to Executive at the same time as annual bonuses are generally payable to other senior executives of the Company subject to Executive’s continuous employment through the payment date.

(c) Other Plans. Executive shall be eligible for consideration by the Compensation Committee to participate in the benefit and other plans made available generally to senior executives of the Company, including but not limited to the LTIP, subject to the terms and conditions as may be established from time to time by the Compensation Committee and communicated to Executive. Upon the occurrence of a Change in Control, all of Executive’s unvested benefits under the LTIP shall be accelerated and shall vest in full.

(d) Indemnification. The Company shall indemnify Executive and hold Executive harmless in connection with the defense of any lawsuit or other claim to which she is made a party by reason of being an officer or employee of the Company, to the

fullest extent permitted by the laws of the State of Delaware, as in effect at the time of the subject act or omission; *provided* that any settlement, consent to judgment, or similar action taken by Executive without the prior written consent of the Company in respect of any such lawsuit or other claim shall not be subject to indemnification hereunder.

#### **Section 5. Employee Benefits.**

During the Term of Employment, Executive shall be entitled to participate in health, insurance, retirement, and other benefits provided generally to similarly situated employees of the Company. Executive shall also be entitled to the same number of holidays, vacation days, and sick days, as well as any other benefits, in each case as are generally allowed to similarly situated employees of the Company in accordance with the Company policy as in effect from time to time. Nothing contained herein shall be construed to limit the Company's ability to amend, suspend, or terminate any employee benefit plan or policy at any time without providing Executive notice, and the right to do so is expressly reserved.

#### **Section 6. Key-Man Insurance.**

At any time during the Term of Employment, the Company shall have the right to insure the life of Executive for the sole benefit of the Company, in such amounts, and with such terms, as it may determine. All premiums payable thereon shall be the obligation of the Company. Executive shall have no interest in any such policy, but agrees to cooperate with the Company in procuring such insurance by submitting to physical examinations, supplying all information required by the insurance company, and executing all necessary documents, provided that no financial obligation is imposed on Executive by any such documents.

#### **Section 7. Reimbursement of Business Expenses.**

Executive is authorized to incur reasonable business expenses in carrying out her duties and responsibilities under this Agreement, and the Company shall promptly reimburse her for all such reasonable business expenses, subject to documentation in accordance with the Company's policy, as in effect from time to time.

#### **Section 8. Termination of Employment.**

(a) General. The Term of Employment shall terminate upon the earliest to occur of (i) Executive's death, (ii) a termination by reason of a Disability, (iii) a termination by the Company with or without Cause, (iv) a termination by Executive with or without Good Reason, and (v) delivery by the Company to Executive of a termination notice at any time subsequent to the close of business on the last day of the Term of Employment. Upon any termination of Executive's employment for any reason, except as may otherwise be requested by the Company in writing and agreed upon in writing by Executive, Executive shall resign from any and all directorships, committee memberships, and any other positions Executive holds with the Company or any other member of the Company Group. Notwithstanding anything herein to the contrary, the payment (or commencement of a series of payments) hereunder of any nonqualified deferred compensation (within the meaning of Section 409A of the Internal Revenue Code of 1986, as amended, and the rules and regulations promulgated thereunder (the "Code")) upon a termination of employment shall be delayed until such time as Executive has also undergone a "separation from service" as defined in Treas. Reg. 1.409A-1(h), at which time such nonqualified deferred compensation (calculated as of the date of Executive's termination of employment hereunder) shall be paid (or commence to be paid) to Executive on the schedule set forth in this Section 8 as if Executive had undergone such termination of employment (under the same circumstances) on the date of her ultimate "separation from service."

(b) Termination Due to Death or Disability. Executive's employment shall terminate automatically upon her death. The Company may terminate Executive's employment immediately upon the occurrence of a Disability, such termination to be effective upon Executive's receipt of written notice of such termination. Upon Executive's death or in the event that Executive's employment is terminated due to her Disability, Executive or her estate or her beneficiaries, as the case may be, shall be entitled to:

(i) The Accrued Obligations;

(ii) Any unpaid Annual Bonus in respect of any completed fiscal year that has ended prior to the date of such termination, which amount shall be paid at such time annual bonuses are paid to other senior executives of the Company, but in no event later than the date that is 2½ months following the last day of the fiscal year in which such termination occurred.

Following Executive's death or a termination of Executive's employment by reason of a Disability, except as set forth in this Section 8(b), Executive shall have no further rights to any compensation or any other benefits under this Agreement.

#### **(c) Termination by the Company with Cause.**

(i) The Company may terminate Executive's employment at any time with Cause, effective upon Executive's receipt of written notice of such termination; *provided, however*, that with respect to any Cause termination relying on clause

(ii) of the definition of Cause set forth in Section 1(b) hereof, to the extent that such act or acts or failure or failures to act are curable, Executive shall be given not less than ten (10) days' written notice by the Board of its intention to terminate her with Cause, such notice to state in detail the particular act or acts or failure or failures to act that constitute the grounds on which the proposed termination with Cause is based, and such termination shall be effective at the expiration of such ten (10) day notice period unless Executive has fully cured such act or acts or failure or failures to act that give rise to Cause during such period.

(ii) In the event that the Company terminates Executive's employment with Cause, she shall be entitled only to the Accrued Obligations. Following such termination of Executive's employment with Cause, except as set forth in this Section 8(c)(ii), Executive shall have no further rights to any compensation or any other benefits under this Agreement.

(d) Termination by the Company without Cause or upon Delivery of a Termination Notice from the Company to the Executive. The Company may terminate Executive's employment at any time without Cause, effective upon Executive's receipt of written notice of such termination, or by delivery to Executive of a written notice of termination in accordance with the provisions of Section 2 above.

(i) In the event that Executive's employment is terminated by the Company without Cause (other than due to death or Disability) or upon the Company's delivery of a termination notice, in either case prior to the expiration of the Term of Employment (for example, the termination must be effected or the termination notice must be delivered to Executive prior to the expiration of three (3) years from the Commencement Date), Executive shall be entitled to:

- (A) The Accrued Obligations, paid as soon as practicable following Executive's termination of employment, but in no event later than the date that is 2½ months following the last day of the fiscal year in which such termination occurred;
- (B) Any unpaid Annual Bonus in respect of any completed fiscal year that has ended prior to the date of such termination, which amount shall be paid at such time annual bonuses are paid to other senior executives of the Company, but in no event later than the date that is 2½ months following the last day of the fiscal year in which such termination occurred;
- (C) An amount equal to the sum of:
  - (x) two (2) times the amount of Executive's then-current Base Salary, paid as soon as practicable following Executive's termination of employment, but in no event later than the date that is 2½ months following the last day of the fiscal year in which such termination occurred;
  - (y) two (2) times the amount of Executive's average Annual Bonus where such average is determined by reference to the actual Annual Bonus paid to Executive for the immediately two (2) preceding fiscal years, paid as soon as practicable following Executive's termination of employment, but in no event later than the date that is 2½ months following the last day of the fiscal year in which such termination occurred;
  - (z) the cost of continued health and disability insurance coverage for Executive and her covered dependents during the twenty four (24) months following such termination, based on the monthly cost of continuation coverage under COBRA as of the date of termination, as applicable, under the applicable Company benefit plans, such amounts to be paid in accordance with the Company's regular payroll practices; and
- (D) if any such termination is within six (6) months before or six (6) months after a Change in Control, the amount payable under Section 8(d)(i)(C)(y) shall be adjusted to the greater of (A) the amount payable under Section 8(d)(i)(C)(y), or (B) two (2) times the amount of Executive's target Annual Bonus for the current fiscal year. To the extent that the amount payable under this Section 8(d)(i)(D) is greater than the amount payable under Section 8(d)(i)(C), the deficiency shall be paid at the effective time of the occurrence of a Change in Control.

(ii) In the event that Executive's employment is terminated by the Company without Cause (other than due to death or Disability) or upon the Company's delivery of a termination notice, in either case after the expiration of the Term of Employment (for example, the termination is effected or the termination notice is delivered to Executive subsequent to the expiration of three (3) years from the Commencement Date, herein an "At Will Termination"), Executive shall be entitled to the Accrued Obligations only; provided, however, if the At Will Termination is effected within six (6) months prior to a Change in Control, Executive shall be entitled to each of the payments and benefits described in clauses (B), (C) and (D) above.

Notwithstanding the foregoing, the payments and benefits described in clauses (B), (C) and (D) above shall immediately terminate, and the Company shall have no further obligations to Executive with respect thereto, in the event that Executive breaches any provision of the Non-Interference Agreement.

Following such termination of Executive's employment by the Company without Cause or upon the Company's delivery to Executive of a termination notice, except as set forth in this Section 8(d), Executive shall have no further rights to any compensation or any other benefits under this Agreement.

For the avoidance of doubt, Executive's sole and exclusive remedy upon a termination of employment by the Company without Cause or upon the expiration of the Term of Employment, in either case following the Company's delivery to Executive of a termination notice which termination is effected or where the termination notice is delivered prior to the expiration of the date that is three (3) years subsequent to the Commencement Date, shall be receipt of the Severance Benefits and the Accrued Obligations.

(e) Termination by Executive with Good Reason. Executive may terminate her employment with Good Reason by providing the Company thirty (30) days' written notice setting forth in reasonable specificity the event that constitutes Good Reason, which written notice, to be effective, must be provided to the Company within sixty (60) days of the initial occurrence of such event. During such thirty (30) day notice period, the Company shall have a cure right (if curable), and if not cured within such period, Executive's termination will be effective upon the expiration of such cure period. Executive shall be entitled to the same payments and benefits as provided in Section 8(d) hereof for a termination by the Company without Cause, subject to the same conditions on payment and benefits as described in Section 8(d) hereof; provided, however, that Executive shall also be entitled to accelerated vesting of the next tranche of benefits payable under the LTIP. Following such termination of Executive's employment by Executive with Good Reason, except as set forth in this Section 8(e), Executive shall have no further rights to any compensation or any other benefits under this Agreement. For the avoidance of doubt, Executive's sole and exclusive remedy upon a termination of employment with Good Reason shall be receipt of the amounts as set forth in this Section 8(e).

(f) Termination by Executive without Good Reason or upon Delivery by Executive to Company of a Termination Notice. Executive may terminate her employment without Good Reason by providing the Company thirty (30) days' written notice of such termination or by delivery of a written termination notice in accordance with the provisions of Section 2 above. In the event of a termination of employment by Executive under this Section 8(f), Executive shall be entitled only to the Accrued Obligations. In the event of termination of Executive's employment without Good Reason, the Company may, in its sole and absolute discretion, by written notice accelerate such date of termination without changing the characterization of such termination as a termination by Executive without Good Reason. Following such termination of Executive's employment by Executive without Good Reason or upon Executive's delivery to Company of a termination notice, except as set forth in this Section 8(f), Executive shall have no further rights to any compensation or any other benefits under this Agreement.

(g) Release. Notwithstanding any provision herein to the contrary, the payment of any amount or provision of any benefit pursuant to subsection (b), (d), or (e) of this Section 8 (other than the Accrued Obligations) (collectively, the "Severance Benefits") shall be conditioned upon Executive's execution, delivery to the Company, and non-revocation of a release of claims (under a release of claims form, the form and content of which are acceptable to the Company, and the expiration of any revocation period contained in such release of claims) within sixty (60) days following the date of Executive's termination of employment hereunder. If Executive fails to execute the release of claims in such a timely manner so as to permit any revocation period to expire prior to the end of such sixty (60) day period, or timely revokes her acceptance of such release following its execution, Executive shall not be entitled to any of the Severance Benefits. Further, to the extent that any of the Severance Benefits constitutes "nonqualified deferred compensation" for purposes of Section 409A of the Code, any payment of any amount or provision of any benefit otherwise scheduled to occur prior to the sixtieth (60<sup>th</sup>) day following the date of Executive's termination of employment hereunder, but for the condition on executing the release of claims as set forth herein, shall not be made until the first regularly scheduled payroll date following such sixtieth (60<sup>th</sup>) day, after which any remaining Severance Benefits shall thereafter be provided to Executive according to the applicable schedule set forth herein. For the avoidance of doubt, in the event of a termination due to Executive's death or Disability, Executive's obligations herein to execute and not revoke the release of claims may be satisfied on her behalf by her estate or a person having legal power of attorney over her affairs.

## **Section 9. Non-Interference Agreement.**

As a condition to receipt of the benefits set forth under this Agreement, to which Executive acknowledges are incremental to the benefits and compensation available to Executive immediately prior to the Commencement Date, Executive shall have executed and delivered to the Company a non-interference agreement (the "Non-Interference Agreement") in the form of the Confidentiality, Non-Interference and Invention Assignment Agreement attached hereto as Exhibit A. The parties hereto acknowledge and agree that this Agreement and the Non-Interference Agreement shall be considered separate contracts.

## **Section 10. Representations and Warranties of Executive.**

Executive represents and warrants to the Company that:

(a) Executive is entering into this Agreement voluntarily and that her employment hereunder and compliance with the terms and conditions hereof will not conflict with or result in the breach by her of any agreement to which she is a party or by which she may be bound;

(b) Executive has not violated, and in connection with her employment with the Company will not violate, any non-solicitation, non-competition, or other similar covenant or agreement of a prior employer by which she is or may be bound; and

(c) in connection with her employment with the Company, Executive will not use any confidential or proprietary information she may have obtained in connection with employment with any prior employer.

#### **Section 11. Taxes.**

The Company may withhold from any payments made under this Agreement all applicable taxes, including but not limited to income, employment, and social insurance taxes, as shall be required by law. Executive acknowledges and represents that the Company has not provided any tax advice to her in connection with this Agreement and that she has been advised by the Company to seek tax advice from her own tax advisors regarding this Agreement and payments that may be made to her pursuant to this Agreement, including specifically, the application of the provisions of Section 409A of the Code to such payments.

#### **Section 12. Mitigation; Company Recovery Rights.**

Executive shall not be required to mitigate the amount of any payment provided pursuant to this Agreement by seeking other employment or otherwise, and the amount of any payment provided for pursuant to this Agreement shall not be reduced by any compensation earned as a result of Executive's other employment or otherwise. Any payment pursuant to this Agreement shall, however, be subject to any rights the Company may have under Section 304(b) of the Sarbanes-Oxley Act of 2002 or Section 954 of the Dodd-Frank Wall Street Reform and Consumer Protection Act.

#### **Section 13. Additional Section 409A Provisions.**

Notwithstanding any provision in this Agreement to the contrary:

(a) Any payment otherwise required to be made hereunder to Executive at any date as a result of the termination of Executive's employment shall be delayed for such period of time as may be necessary to meet the requirements of Section 409A(a)(2)(B)(i) of the Code (the "Delay Period"). On the first business day following the expiration of the Delay Period, Executive shall be paid, in a single cash lump sum, an amount equal to the aggregate amount of all payments delayed pursuant to the preceding sentence, and any remaining payments not so delayed shall continue to be paid pursuant to the payment schedule set forth herein.

(b) Each payment in a series of payments hereunder shall be deemed to be a separate payment for purposes of Section 409A of the Code.

(c) To the extent that any right to reimbursement of expenses or payment of any benefit in-kind under this Agreement constitutes nonqualified deferred compensation (within the meaning of Section 409A of the Code), (i) any such expense reimbursement shall be made by the Company no later than the last day of the taxable year following the taxable year in which such expense was incurred by Executive, (ii) the right to reimbursement or in-kind benefits shall not be subject to liquidation or exchange for another benefit, and (iii) the amount of expenses eligible for reimbursement or in-kind benefits provided during any taxable year shall not affect the expenses eligible for reimbursement or in-kind benefits to be provided in any other taxable year; *provided*, that the foregoing clause shall not be violated with regard to expenses reimbursed under any arrangement covered by Section 105(b) of the Code solely because such expenses are subject to a limit related to the period the arrangement is in effect.

(d) While the payments and benefits provided hereunder are intended to be structured in a manner to avoid the implication of any penalty taxes under Section 409A of the Code, in no event whatsoever shall the Company or any member of the Company Group be liable for any additional tax, interest, or penalties that may be imposed on Executive as a result of Section 409A of the Code or any damages for failing to comply with Section 409A of the Code (other than for withholding obligations or other obligations applicable to employers, if any, under Section 409A of the Code).

#### **Section 14. Successors and Assigns; No Third-Party Beneficiaries.**

(a) The Company. This Agreement shall inure to the benefit of the Company and its respective successors and assigns. Neither this Agreement nor any of the rights, obligations, or interests arising hereunder may be assigned by the Company to a Person (other than another member of the Company Group, or its or their respective successors) without Executive's prior written consent

(which shall not be unreasonably withheld, delayed, or conditioned); *provided, however*, that in the event of a sale of all or substantially all of the assets of the Company, the Company may provide that this Agreement will be assigned to, and assumed by, the acquiror of such assets, it being agreed that in such circumstances, Executive's consent will not be required in connection therewith.

(b) Executive. Executive's rights and obligations under this Agreement shall not be transferable by Executive by assignment or otherwise, without the prior written consent of the Company; *provided, however*, upon Executive's death, all amounts then payable to Executive hereunder shall be paid in accordance with the terms of this Agreement to Executive's devisee, legatee, or other designee, or if there be no such designee, to Executive's estate.

(c) No Third-Party Beneficiaries. Except as otherwise set forth in Section 8(b) or Section 14(b) hereof, nothing expressed or referred to in this Agreement will be construed to give any Person other than the Company, the other members of the Company Group, and Executive any legal or equitable right, remedy, or claim under or with respect to this Agreement or any provision of this Agreement.

#### Section 15. **Waiver and Amendments.**

Any waiver, alteration, amendment, or modification of any of the terms of this Agreement shall be valid only if made in writing and signed by each of the parties hereto; *provided, however*, that any such waiver, alteration, amendment, or modification must be consented to on the Company's behalf by the Board. No waiver by either of the parties hereto of their rights hereunder shall be deemed to constitute a waiver with respect to any subsequent occurrences or transactions hereunder unless such waiver specifically states that it is to be construed as a continuing waiver.

#### Section 16. **Severability.**

If any covenants or such other provisions of this Agreement are found to be invalid or unenforceable by a final determination of a court of competent jurisdiction, (a) the remaining terms and provisions hereof shall be unimpaired, and (b) the invalid or unenforceable term or provision hereof shall be deemed replaced by a term or provision that is valid and enforceable and that comes closest to expressing the intention of the invalid or unenforceable term or provision hereof.

#### Section 17. **Governing Law and Jurisdiction.**

THIS AGREEMENT IS GOVERNED BY AND IS TO BE CONSTRUED UNDER THE LAWS OF THE STATE OF NORTH CAROLINA, WITHOUT REGARD TO CONFLICT OF LAWS RULES. ANY DISPUTE OR CLAIM ARISING OUT OF OR RELATING TO THIS AGREEMENT OR CLAIM OF BREACH HEREOF SHALL BE BROUGHT EXCLUSIVELY IN FEDERAL COURT IN THE STATE OF NORTH CAROLINA. BY EXECUTION OF THE AGREEMENT, THE PARTIES HERETO, AND THEIR RESPECTIVE AFFILIATES, CONSENT TO THE EXCLUSIVE JURISDICTION OF SUCH COURT, AND WAIVE ANY RIGHT TO CHALLENGE JURISDICTION OR VENUE IN SUCH COURT WITH REGARD TO ANY SUIT, ACTION, OR PROCEEDING UNDER OR IN CONNECTION WITH THE AGREEMENT. EACH PARTY TO THIS AGREEMENT ALSO HEREBY WAIVES ANY RIGHT TO TRIAL BY JURY IN CONNECTION WITH ANY SUIT, ACTION, OR PROCEEDING UNDER OR IN CONNECTION WITH THIS AGREEMENT.

#### Section 18. **Notices.**

(a) Place of Delivery. Every notice or other communication relating to this Agreement shall be in writing, and shall be mailed to or delivered to the party for whom or which it is intended at such address as may from time to time be designated by it in a notice mailed or delivered to the other party as herein provided; *provided*, that unless and until some other address be so designated, all notices and communications by Executive to the Company shall be mailed or delivered to the Company at its principal executive office, Attention: General Counsel, and all notices and communications by the Company to Executive may be given to Executive personally or may be mailed to Executive at Executive's last known address, as reflected in the Company's records.

(b) Date of Delivery. Any notice so addressed shall be deemed to be given (i) if delivered by hand, on the date of such delivery, (ii) if mailed by courier or by overnight mail, on the first business day following the date of such mailing, and (iii) if mailed by registered or certified mail, on the third business day after the date of such mailing.

#### Section 19. **Section Headings.**

The headings of the sections and subsections of this Agreement are inserted for convenience only and shall not be deemed to constitute a part thereof or affect the meaning or interpretation of this Agreement or of any term or provision hereof.

#### Section 20. **Entire Agreement.**

This Agreement, together with any exhibits attached hereto, constitutes the entire understanding and agreement of the



parties hereto regarding the employment of Executive. This Agreement supersedes all prior negotiations, discussions, correspondence, communications, understandings, and agreements between the parties relating to the subject matter of this Agreement.

**Section 21. Survival of Operative Sections.**

Upon any termination of Executive's employment, the provisions of Section 8 through Section 22 of this Agreement (together with any related definitions set forth in Section 1 hereof) shall survive to the extent necessary to give effect to the provisions thereof.

**Section 22. Counterparts.**

This Agreement may be executed in two or more counterparts, each of which shall be deemed to be an original but all of which together shall constitute one and the same instrument. The execution of this Agreement may be by actual or facsimile signature.

\* \* \*

[Signatures to appear on the following page.]

IN WITNESS WHEREOF, the undersigned have executed this Agreement as of the date first above written.

FAIRPOINT COMMUNICATIONS, INC.

/s/ Paul H. Sunu  
By: Paul H. Sunu  
Title: Chief Executive Officer

EXECUTIVE

/s/ Karen D. Turner  
Karen D. Turner

**CONFIDENTIALITY, NON-INTERFERENCE, AND INVENTION ASSIGNMENT AGREEMENT**

In consideration of FairPoint Communications, Inc., a Delaware corporation (the "Company"), providing me with an employment agreement of even date herewith, and my receipt of the compensation now and hereafter paid to me by the Company, including the additional benefits and compensation provided to me under my employment agreement, I agree to the following:

**Section 1. Confidential Information.**

(g) Company Group Information. I acknowledge that, during the course of my employment, I will have access to information about the Company and its direct and indirect subsidiaries and affiliates (collectively, the "Company Group") and that my employment with the Company shall bring me into close contact with confidential and proprietary information of the Company Group. In recognition of the foregoing, I agree, at all times during the term of my employment with the Company and for the three (3) year period following my termination of my employment for any reason, to hold in confidence, and not to use, except for the benefit of the Company Group, or to disclose to any person, firm, corporation, or other entity without written authorization of the Company, any Confidential Information that I obtain or create. I understand that "Confidential Information" means information that the Company Group has developed, acquired, created, compiled, discovered, or owned or will develop, acquire, create, compile, discover, or own, that has value in or to the business of the Company Group that is not generally known and that the Company wishes to maintain as confidential. I understand that Confidential Information includes, but is not limited to, any and all non-public information that relates to the actual or anticipated business and/or products, research, or development of the Company, or to the Company's technical data, trade secrets, or know-how, including, but not limited to, research, product plans, or other information regarding the Company's products or services and markets, customer lists, and customers (including, but not limited to, customers of the Company on whom I called or with whom I may become acquainted during the term of my employment), software, developments, inventions, processes, formulas, technology, designs, drawings, engineering, hardware configuration information, marketing, finances, and other business information

disclosed by the Company either directly or indirectly in writing, orally, or by drawings or inspection of premises, parts, equipment, or other Company property. Notwithstanding the foregoing, Confidential Information shall not include (i) any of the foregoing items that have become publicly known through no unauthorized disclosure by me or others who were under confidentiality obligations as to the item or items involved, (ii) any information that I am required to disclose to, or by, any governmental or judicial authority, (iii) any information known to me prior to my employment with the Company, other than information acquired in preparation for my service to the Company, or (iv) any information developed independently by me that does not relate to the business of the Company Group; *provided, however*, that in the event of such requirement to disclose I will give the Company prompt written notice thereof so that the Company Group may seek an appropriate protective order and/or waive in writing compliance with the confidentiality provisions of this Confidentiality, Non-Interference, and Invention Assignment Agreement (the “Non-Interference Agreement”).

(h) Former Employer Information. I represent that my performance of all of the terms of this Non-Interference Agreement as an employee of the Company has not breached and will not breach any agreement to keep in confidence proprietary information, knowledge, or data acquired by me in confidence or trust prior or subsequent to the commencement of my employment with the Company, and I will not disclose to any member of the Company Group, or induce any member of the Company Group to use, any developments, or confidential or proprietary information or material I may have obtained in connection with employment with any prior employer in violation of a confidentiality agreement, nondisclosure agreement, or similar agreement with such prior employer.

## Section 2. **Developments.**

(a) Developments Retained and Licensed. If, during any period during which I perform or performed services for the Company Group (the “Assignment Period”), whether as an officer, employee, director, independent contractor, consultant, or agent, or in any other capacity, I incorporate (or have incorporated) into a Company Group product or process any development, original work of authorship, improvement, or trade secret that I created or owned prior to the commencement of my employment or in which I have an interest (collectively referred to as “Prior Developments”), I hereby grant the Company, and the Company Group shall have, a non-exclusive, royalty-free, irrevocable, perpetual, transferable worldwide license (with the right to sublicense) to make, have made, copy, modify, make derivative works of, use, sell, and otherwise distribute such Prior Development as part of or in connection with such product or process.

(b) Assignment of Developments. I agree that I will, without additional compensation, promptly make full written disclosure to the Company, and will hold in trust for the sole right and benefit of the Company all developments, original works of authorship, inventions, concepts, know-how, improvements, trade secrets, and similar proprietary rights, whether or not patentable or registrable under copyright or similar laws, which I may solely or jointly conceive or develop or reduce to practice, or have solely or jointly conceived or developed or reduced to practice, or have caused or may cause to be conceived or developed or reduced to practice, during the Assignment Period, whether or not during regular working hours, provided they either (i) relate at the time of conception, development or reduction to practice to the business of any member of the Company Group, or the actual or anticipated research or development of any member of the Company Group; (ii) result from or relate to any work performed for any member of the Company Group; or (iii) are developed through the use of equipment, supplies, or facilities of any member of the Company Group, or any Confidential Information, or in consultation with personnel of any member of the Company Group (collectively referred to as “Developments”). I further acknowledge that all Developments made by me (solely or jointly with others) within the scope of and during the Assignment Period are “works made for hire” (to the greatest extent permitted by applicable law) for which I am, in part, compensated by my salary, unless regulated otherwise by law, but that, in the event any such Development is deemed not to be a work made for hire, I hereby assign to the Company, or its designee, all my right, title, and interest throughout the world in and to any such Development.

(c) Maintenance of Records. I agree to keep and maintain adequate and current written records of all Developments made by me (solely or jointly with others) during the Assignment Period. The records may be in the form of notes, sketches, drawings, flow charts, electronic data or recordings, and any other format. The records will be available to and remain the sole property of the Company Group at all times. I agree not to remove such records from the Company’s place of business except as expressly permitted by Company Group policy, which may, from time to time, be revised at the sole election of the Company Group for the purpose of furthering the business of the Company Group.

(d) Intellectual Property Rights. I agree to assist the Company, or its designee, at the Company’s expense, in every way to secure the rights of the Company Group in the Developments and any copyrights, patents, trademarks, service marks, database rights, domain names, mask work rights, moral rights, and other intellectual property rights relating thereto in any and all countries, including the disclosure to the Company of all pertinent information and data with respect thereto, the execution of all applications, specifications, oaths, assignments, recordations, and all other instruments that the Company shall deem necessary in order to apply for, obtain, maintain, and transfer such rights and in order to assign and convey to the Company Group the sole and exclusive right, title, and interest in and to such Developments, and any intellectual property and other proprietary rights relating thereto. I further agree that my obligation to execute or cause to be executed, when it is in my power to do so, any such instrument or papers shall continue after

the termination of the Assignment Period until the expiration of the last such intellectual property right to expire in any country of the world; *provided, however*, the Company shall reimburse me for my reasonable expenses incurred in connection with carrying out the foregoing obligation. If the Company is unable because of my mental or physical incapacity or unavailability for any other reason to secure my signature to apply for or to pursue any application for any United States or foreign patents or copyright registrations covering Developments or original works of authorship assigned to the Company as above, then I hereby irrevocably designate and appoint the Company and its duly authorized officers and agents as my agent and attorney in fact to act for and in my behalf and stead to execute and file any such applications or records and to do all other lawfully permitted acts to further the application for, prosecution, issuance, maintenance, and transfer of letters patent or registrations thereon with the same legal force and effect as if originally executed by me. I hereby waive and irrevocably quitclaim to the Company any and all claims, of any nature whatsoever, that I now or hereafter have for past, present, or future infringement of any and all proprietary rights assigned to the Company.

### Section 3. **Returning Company Group Documents.**

I agree that, at the time of termination of my employment with the Company for any reason, I will deliver to the Company (and will not keep in my possession, recreate, or deliver to anyone else) any and all Confidential Information and all other documents, materials, information, and property developed by me pursuant to my employment or otherwise belonging to the Company. I agree further that any property situated on the Company's premises and owned by the Company (or any other member of the Company Group), including disks and other storage media, filing cabinets, and other work areas, is subject to inspection by personnel of any member of the Company Group at any time with or without notice.

### Section 4. **Disclosure of Agreement.**

As long as it remains in effect, I will disclose the existence of this Non-Interference Agreement to any prospective employer, partner, co-venturer, investor, or lender prior to entering into an employment, partnership, or other business relationship with such person or entity.

### Section 5. **Restrictions on Interfering.**

(a) Non-Competition. During the period of my employment with the Company (the "Employment Period") and the Post-Termination Non-Compete Period, I shall not, directly or indirectly, individually or on behalf of any person, company, enterprise, or entity, or as a sole proprietor, partner, stockholder, director, officer, principal, agent, or executive, or in any other capacity or relationship, engage in any Competitive Activities.

(b) Non-Interference. During the Employment Period and the Post-Termination Non-Interference Period, I shall not, directly or indirectly for my own account or for the account of any other individual or entity, engage in Interfering Activities; *provided, however*, that I shall not be deemed to violate this subsection (b) to the extent that any employee of any subsequent employer of mine, in the ordinary course of business, conducts any activity described in subsection (c)(iii)(C) below as to any Business Relation, provided that I have not directed or instructed any such employee (either personally or through another) to contact any such Business Relation.

(c) Definitions. For purposes of this Non-Interference Agreement :

(i) "Business Relation" shall mean any current or prospective client, customer, licensee, or other business relation of the Company Group, or any such relation that was a client, customer, licensee, or other business relation within the six (6) month period prior to the expiration of the Employment Period, in each case, to whom I provided services, or with whom I transacted business, or whose identity became known to me in connection with my relationship with or employment by the Company and is not publicly known.

(ii) "Competitive Activities" shall mean telecommunication services provided by a rural exchange carrier business which has substantial business operations in the state of Florida, Maine, New Hampshire, North Carolina, or Vermont.

(iii) "Interfering Activities" shall mean (A) encouraging, soliciting, or inducing, or in any manner attempting to encourage, solicit, or induce, any Person employed by, or providing consulting services to, any member of the Company Group to terminate such Person's employment or services (or in the case of a consultant, materially reducing such services) with the Company Group; (B) hiring any individual who was employed by the Company Group within the six (6) month period prior to the date of such hiring; or (C) encouraging, soliciting, or inducing, or in any manner attempting to encourage, solicit, or induce, any Business Relation to cease doing business with or reduce the amount of business conducted with the Company Group, or in any way interfering with the relationship between any such Business Relation and the Company Group.

(iv) "Person" shall mean any individual, corporation, partnership, limited liability company, joint venture, association, joint-stock company, trust (charitable or non-charitable), unincorporated organization, or other form of business entity.

(v) “Post-Termination Non-Compete Period” shall mean the period commencing on the date of the termination of the Employment Period for any reason and ending on the twelve (12) month anniversary of such date of termination.

(vi) “Post-Termination Non-Interference Period” shall mean the period commencing on the date of the termination of the Employment Period for any reason and ending on the twelve (12) month anniversary of such date of termination.

(d) Non-Disparagement. I agree that during the Employment Period, and at all times thereafter, I will not make any disparaging or defamatory comments regarding any member of the Company Group or its respective current or former directors, officers, or employees in any respect or make any comments concerning any aspect of my relationship with any member of the Company Group or any conduct or events which precipitated any termination of my employment from any member of the Company Group. However, my obligations under this subparagraph (d) shall not apply to disclosures required by applicable law, regulation, or order of a court or governmental agency.

#### **Section 6. Reasonableness of Restrictions.**

I acknowledge and recognize the highly competitive nature of the Company’s business, that access to Confidential Information renders me special and unique within the Company’s industry, and that I will have the opportunity to develop substantial relationships with existing and prospective clients, accounts, customers, consultants, contractors, investors, and strategic partners of the Company Group during the course of and as a result of my employment with the Company. In light of the foregoing, I recognize and acknowledge that the restrictions and limitations set forth in this Non-Interference Agreement are reasonable and valid in geographical and temporal scope and in all other respects and are essential to protect the value of the business and assets of the Company Group. I acknowledge further that the restrictions and limitations set forth in this Non-Interference Agreement will not materially interfere with my ability to earn a living following the termination of my employment with the Company and that my ability to earn a livelihood without violating such restrictions is a material condition to my employment with the Company.

#### **Section 7. Independence; Severability; Blue Pencil.**

Each of the rights enumerated in this Non-Interference Agreement shall be independent of the others and shall be in addition to and not in lieu of any other rights and remedies available to the Company Group at law or in equity. If any of the provisions of this Non-Interference Agreement or any part of any of them is hereafter construed or adjudicated to be invalid or unenforceable, the same shall not affect the remainder of this Non-Interference Agreement, which shall be given full effect without regard to the invalid portions. If any of the covenants contained herein are held to be invalid or unenforceable because of the duration of such provisions or the area or scope covered thereby, I agree that the court making such determination shall have the power to reduce the duration, scope, and/or area of such provision to the maximum and/or broadest duration, scope, and/or area permissible by law, and in its reduced form said provision shall then be enforceable.

#### **Section 8. Injunctive Relief.**

I expressly acknowledge that any breach or threatened breach of any of the terms and/or conditions set forth in this Non-Interference Agreement may result in irreparable injury to the members of the Company Group. Therefore, I hereby agree that, in addition to any other remedy that may be available to the Company, any member of the Company Group shall be entitled to seek injunctive relief, specific performance, or other equitable relief by a court of appropriate jurisdiction in the event of any breach or threatened breach of the terms of this Non-Interference Agreement without the necessity of proving irreparable harm or injury as a result of such breach or threatened breach. Notwithstanding any other provision to the contrary, I acknowledge and agree that the Post-Termination Non-Compete Period, or Post-Termination Non-Interference Period, as applicable, shall be tolled during any period of violation of any of the covenants in Section 5 hereof.

#### **Section 9. Cooperation.**

I agree that, following any termination of my employment, I will continue to provide reasonable cooperation to the Company and/or any other member of the Company Group and its or their respective counsel in connection with any investigation, administrative proceeding, or litigation relating to any matter that occurred during my employment in which I was involved or of which I have knowledge. As a condition of such cooperation, the Company shall reimburse me for reasonable out-of-pocket expenses incurred at the request of the Company with respect to my compliance with this paragraph. I also agree that, in the event that I am subpoenaed by any person or entity (including, but not limited to, any government agency) to give testimony or provide documents (in a deposition, court proceeding, or otherwise) that in any way relates to my employment by the Company and/or any other member of the Company Group, I will give prompt notice of such request to the Company and will make no disclosure until the Company and/or the other member of the Company Group has had a reasonable opportunity to contest the right of the requesting person or entity to such disclosure.

Section 10. **General Provisions.**

(d) Governing Law and Jurisdiction. THIS NON-INTERFERENCE AGREEMENT IS GOVERNED BY AND IS TO BE CONSTRUED UNDER THE LAWS OF THE STATE OF NORTH CAROLINA, WITHOUT REGARD TO CONFLICT OF LAWS RULES. ANY DISPUTE OR CLAIM ARISING OUT OF OR RELATING TO THIS NON-INTERFERENCE AGREEMENT OR CLAIM OF BREACH HEREOF SHALL BE BROUGHT EXCLUSIVELY IN FEDERAL COURT IN THE STATE OF NORTH CAROLINA. BY EXECUTION OF THE NON-INTERFERENCE AGREEMENT, THE PARTIES HERETO, AND THEIR RESPECTIVE AFFILIATES, CONSENT TO THE EXCLUSIVE JURISDICTION OF SUCH COURT, AND WAIVE ANY RIGHT TO CHALLENGE JURISDICTION OR VENUE IN SUCH COURT WITH REGARD TO ANY SUIT, ACTION, OR PROCEEDING UNDER OR IN CONNECTION WITH THE NON-INTERFERENCE AGREEMENT. EACH PARTY TO THIS NON-INTERFERENCE AGREEMENT ALSO HEREBY WAIVES ANY RIGHT TO TRIAL BY JURY IN CONNECTION WITH ANY SUIT, ACTION, OR PROCEEDING UNDER OR IN CONNECTION WITH THIS NON-INTERFERENCE AGREEMENT.

(e) Entire Agreement. This Non-Interference Agreement sets forth the entire agreement and understanding between the Company and me relating to the subject matter herein and merges all prior discussions between us. No modification or amendment to this Non-Interference Agreement, nor any waiver of any rights under this Non-Interference Agreement, will be effective unless in writing signed by the party to be charged. Any subsequent change or changes in my duties, obligations, rights, or compensation will not affect the validity or scope of this Non-Interference Agreement.

(f) No Right of Continued Employment. I acknowledge and agree that nothing contained herein shall be construed as granting me any right to continued employment by the Company, and the right of the Company to terminate my employment at any time and for any reason, with or without cause, is specifically reserved.

(g) Successors and Assigns. This Non-Interference Agreement will be binding upon my heirs, executors, administrators, and other legal representatives and will be for the benefit of the Company, its successors, and its assigns. I expressly acknowledge and agree that this Non-Interference Agreement may be assigned by the Company without my consent to any other member of the Company Group as well as any purchaser of all or substantially all of the assets or stock of the Company, whether by purchase, merger, or other similar corporate transaction, provided that the license granted pursuant to Section 2(a) may be assigned to any third party by the Company without my consent.

(h) Survival. The provisions of this Non-Interference Agreement shall survive the termination of my employment with the Company and/or the assignment of this Non-Interference Agreement by the Company to any successor in interest or other assignee.

\* \* \*

I, Karen D. Turner, have executed this Confidentiality, Non-Interference, and Invention Assignment Agreement on the respective date set forth below:

Date: 11/24/2014      /s/ Karen D. Turner  
(Signature)

**FAIRPOINT COMMUNICATIONS, INC.**  
**(formerly known as MJD Communications, Inc.)**  
**SUBSIDIARIES**

<u><b>Name</b></u>	<u><b>Jurisdiction of Incorporation</b></u>
<b>ST Enterprises, Ltd.</b>	<b>Kansas</b>
FairPoint Vermont, Inc.	Delaware
ST Long Distance, Inc.	Delaware
Sunflower Telephone Company, Inc.	Kansas
Northland Telephone Company of Maine, Inc.	Maine
<b>MJD Ventures, Inc.</b>	<b>Delaware</b>
GTC Communications, Inc. (f/k/a TPG Communications, Inc.)	Delaware
St. Joe Communications, Inc.	Florida
GTC, Inc.	Florida
C-R Communications, Inc.	Illinois
C-R Telephone Company	Illinois
C-R Long Distance, Inc.	Illinois
Community Service Telephone Co.	Maine
Sidney Telephone Company	Maine
Utilities, Inc.	Maine
China Telephone Company	Maine
Maine Telephone Company	Maine
Standish Telephone Company	Maine
UI Long Distance, Inc.	Maine
Berkshire Telephone Corporation	New York
Berkshire Cable Corp.	New York
Berkshire Cellular, Inc.	New York
Berkshire New York Access, Inc.	New York
Chautauqua and Erie Telephone Corporation	New York
Chautauqua & Erie Communications, Inc.	New York
C & E Communications, Ltd.	New York
Taconic Telephone Corp.	New York
Taconic Technology Corp.	New York
Taconic TelCom Corp.	New York
The Columbus Grove Telephone Company	Ohio
Quality One Technologies, Inc.	Ohio
The Germantown Independent Telephone Company	Ohio
Germantown Long Distance Company	Ohio
The Orwell Telephone Company	Ohio
Orwell Communications, Inc.	Ohio
Chouteau Telephone Company	Oklahoma
Bentleyville Communications Corporation	Pennsylvania
BE Mobile Communications, Incorporated	Pennsylvania
Marianna and Scenery Hill Telephone Company	Pennsylvania
Marianna Tel, Inc.	Pennsylvania
Peoples Mutual Telephone Company	Virginia
Peoples Mutual Long Distance Company	Virginia
Comerco, Inc.	Washington
YCOM Networks, Inc.	Washington
Ellensburg Telephone Company	Washington
Elltel Long Distance Corp.	Delaware
<b>MJD Services Corp.</b>	<b>Delaware</b>
Big Sandy Telecom, Inc.	Delaware
Bluestem Telephone Company	Delaware
Columbine Telecom Company (f/k/a Columbine Acquisition Corp.)	Delaware
Odin Telephone Exchange, Inc.	Illinois

Ravenswood Communications, Inc.	Illinois
El Paso Long Distance Company	Illinois
The El Paso Telephone Company	Illinois
FairPoint Communications Missouri, Inc.	Missouri
Unite Communications Systems, Inc.	Missouri
ExOp of Missouri, Inc.	Missouri
<b>FairPoint Carrier Services, Inc.</b>	<b>Delaware</b>
(f/k/a FairPoint Communications Solutions Corp., f/k/a FairPoint Communications Corp.)	
<b>FairPoint Broadband, Inc.</b>	<b>Delaware</b>
<b>Northern New England Telephone Operations LLC</b>	<b>Delaware</b>
Telephone Operating Company of Vermont LLC	Delaware
<b>Enhanced Communications of Northern New England Inc.</b>	<b>Delaware</b>
<b>FairPoint Logistics, Inc.</b> (f/k/a MJD Capital Corp.)	<b>South Dakota</b>
<b>FairPoint Business Services LLC</b>	<b>Delaware</b>

**Consent of Independent Registered Public Accounting Firm**

We consent to the incorporation by reference in the following Registration Statements:

- (1) Registration Statement (Form S-8 No. 333-195886) pertaining to the Amended and Restated 2010 Long Term Incentive Plan of FairPoint Communications, Inc., and
- (2) Registration Statement (Form S-8 No. 333-171835) pertaining to the 2010 Long Term Incentive Plan of FairPoint Communications, Inc.

of our reports dated March 4, 2015, with respect to the consolidated financial statements of FairPoint Communications, Inc. and subsidiaries, and the effectiveness of internal control over financial reporting of FairPoint Communications, Inc. and subsidiaries included in this Annual Report (Form 10-K) for the year ended December 31, 2014.

/s/ Ernst & Young LLP  
Charlotte, North Carolina  
March 4, 2015



## CERTIFICATION

I, Paul H. Sunu, certify that:

1. I have reviewed this Annual Report on Form 10-K of FairPoint Communications, Inc. (the “Company”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;
4. The Company’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in the Securities Exchange Act of 1934, as amended (the “Exchange Act”) Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:
  - (i) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (ii) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (iii) evaluated the effectiveness of the Company’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (iv) disclosed in this report any change in the Company’s internal control over financial reporting that occurred during the Company’s most recent fiscal quarter (the Company’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting;
5. The Company’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company’s auditors and the audit committee of the Company’s board of directors (or persons performing the equivalent functions):
  - (i) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company’s ability to record, process, summarize and report financial information; and
  - (ii) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company’s internal control over financial reporting.

Date: March 4, 2015

/s/ Paul H. Sunu

Paul H. Sunu

Chief Executive Officer

# CERTIFICATION

I, Ajay Sabherwal, certify that:

1. I have reviewed this Annual Report on Form 10-K of FairPoint Communications, Inc. (the “Company”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;
4. The Company’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in the Securities Exchange Act of 1934, as amended (the “Exchange Act”) Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:
  - (i) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (ii) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (iii) evaluated the effectiveness of the Company’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (iv) disclosed in this report any change in the Company’s internal control over financial reporting that occurred during the Company’s most recent fiscal quarter (the Company’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting;
5. The Company’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company’s auditors and the audit committee of the Company’s board of directors (or persons performing the equivalent functions):
  - (i) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company’s ability to record, process, summarize and report financial information; and
  - (ii) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company’s internal control over financial reporting.

Date: March 4, 2015

/s/ Ajay Sabherwal

Ajay Sabherwal

Chief Financial Officer

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report on Form 10-K of FairPoint Communications, Inc. (the "Company") for the year ended December 31, 2014 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Paul H. Sunu, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Paul H. Sunu

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Paul H. Sunu

*Chief Executive Officer*

March 4, 2015

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report on Form 10-K of FairPoint Communications, Inc. (the "Company") for the year ended December 31, 2014 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Ajay Sabherwal, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Ajay Sabherwal

Ajay Sabherwal

*Chief Financial Officer*

March 4, 2015

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

**FAIRPOINT COMMUNICATIONS, INC.**

**INSIDER TRADING POLICY**

**and Guidelines with Respect to  
Certain Transactions in Company Securities**

(January 24, 2011, as revised October 30, 2014)

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This Insider Trading Policy (the “**Policy**”) provides guidelines to employees, officers and directors of FairPoint Communications, Inc. (the “**Company**”) with respect to transactions in the Company’s securities. The Company has adopted this policy and the procedures set forth herein to help prevent insider trading and to assist the Company’s employees, officers and directors in complying with their obligations under the federal securities laws. Employees, officers and directors are individually responsible to understand and comply with this Policy.

**Applicability of Policy**

This Policy applies to all transactions in the Company’s securities, including common stock, restricted stock, restricted stock units, options and warrants to purchase common stock and any other debt or equity securities the Company may issue from time to time, such as bonds, preferred stock and convertible debentures, as well as to derivative securities relating to the Company’s securities, whether or not issued by the Company, such as exchange-traded options. It applies to all employees, officers and directors of the Company and members of their immediate families who reside with them or anyone else who lives in their household and family members who live elsewhere but whose transactions in Company securities are directed by such employees, officers and directors or subject to their influence and control (collectively referred to as “**Family Members**”). This Policy also imposes specific black-out period and pre-clearance procedures on officers, directors and certain other designated employees who receive or have access to Material Nonpublic Information (as defined below) regarding the Company and/or are subject to the reporting provisions and trading restrictions of Section 16 of the Securities Exchange Act of 1934 (the “**Exchange Act**”).

The current “**Insider Trading Compliance Officer**” referred to herein is the General Counsel of the Company.

**Definition of Material Nonpublic Information**

It is not possible to define all categories of material information. However, information should be regarded as material if there is a substantial likelihood that it would be considered important to a reasonable investor in making a voting decision or an investment decision to buy, hold or sell securities. Any information that could be expected to affect the market price of the Company’s securities, whether such information is positive or negative, should be considered material. Because trading that receives scrutiny will be evaluated after the fact with the benefit of hindsight, questions as to the materiality of particular information should be resolved in favor

of materiality, and trading should be avoided. Officers, directors and certain other employees are subject to the Blackout Period provisions described in Section 8.

While it may be difficult under this standard to determine whether particular information is material, there are various categories of information that are particularly sensitive and, as a general rule, should always be considered material. Examples of such information may include:

- Financial results;
- Projections of future earnings or losses;
- News of a pending or proposed merger, acquisition or tender offer;
- News of a pending or proposed acquisition or disposition of significant assets;
- Actions of regulatory agencies;
- News of a pending or proposed acquisition or disposition of a subsidiary;
- Impending bankruptcy or financial liquidity problems;
- Gain or loss of a significant customer or supplier;
- Significant energy generation or supply problems;
- Significant pricing changes;
- Stock splits and stock repurchase programs;
- New equity or debt offerings;
- Significant litigation exposure due to actual or threatened litigation; and
- Changes in senior management.

“**Material Nonpublic Information**” is material information that has not been previously disclosed to the general public through a press release or securities filings and is otherwise not available to the general public.

#### **Statement of Policy** **General Policy**

It is the policy of the Company to oppose the unauthorized disclosure of any nonpublic information acquired in the workplace, the use of Material Nonpublic Information in securities trading and any other violation of applicable securities laws.

#### **Specific Policies**

**1. Trading on Material Nonpublic Information.** No employee, officer or director of the Company and its subsidiaries and no Family Member of any such person, shall engage in any transaction involving a purchase or sale of the Company’s securities, including any offer to purchase or offer to sell (other than pursuant to a trading plan that complies with SEC Rule 10b5-1 pre-cleared by the Company’s Insider Trading Compliance Officer), during any period commencing with the date that he or she possesses Material Nonpublic Information concerning the Company and ending at the close of business on the second Trading Day (as defined below) following the date of public disclosure of that information, or at such time as such nonpublic information is no longer material. As used in this Policy, the term “**Trading Day**” shall mean a day on which national stock exchanges are open for trading. If, for example, the Company were

to make an announcement on a Monday, Designated Insiders (as defined below) shall not trade in the Company's securities until Thursday.

**2. Tipping.** No employee, officer or director of the Company shall disclose or pass on ("tip") Material Nonpublic Information to any other person, including a Family Member or friend, nor shall such person make recommendations or express opinions on the basis of Material Nonpublic Information as to trading in the Company's securities.

**3. Confidentiality of Nonpublic Information.** Nonpublic information relating to the Company is the property of the Company and the unauthorized disclosure of such information is forbidden.

**Potential Criminal and Civil Liability  
and/or Disciplinary Action**

**4. Liability for Insider Trading.** Any employee, officer or director who engages in a transaction in the Company's securities at a time when they have knowledge of Material Nonpublic Information may be subject to penalties and sanctions, including:

- up to 20 years in jail;
- a criminal fine of up to \$5,000,000;
- a civil penalty of up to \$1,000,000 or, if greater, 3 times the profit gained or loss avoided; and
- SEC civil enforcement injunctions.

**5. Liability for Tipping.** Any employee, officer or director who tips ("tippers") a third party (commonly referred to as a "tippee") may also be liable for improper transactions by tippees to whom they have tipped Material Nonpublic Information regarding the Company or to whom they have made recommendations or expressed opinions on the basis of such information as to trading in the Company's securities. Tippers and tippees would be subject to the same penalties and sanctions as described above, and the SEC has imposed large penalties even when the tipper or tippee did not profit from the trading. The SEC, the stock exchanges and NASDAQ use sophisticated electronic surveillance techniques to uncover insider trading.

**6. Control Persons.** The Company and its supervisory personnel, if they fail to take appropriate steps to prevent illegal insider trading, may in certain circumstances, be subject to the following penalties:

- a civil penalty of up to 3 times the profit gained or loss avoided as a result of the employee's violation; and
- a criminal penalty of up to \$25,000,000.

**7. Possible Company-Imposed Disciplinary Actions.** Employees of the Company who violate this Policy shall also be subject to disciplinary action by the Company, which may include ineligibility for future participation in the Company's equity incentive plans or termination of employment.

## **Mandatory Guidelines**

**8. Trading Blackout Period.** To ensure compliance with this Policy and applicable federal securities laws, and to avoid even the appearance of trading on the basis of inside information, the Company requires that officers, directors and all employees in the accounting and finance departments of the Company designated by the Company's Insider Trading Compliance Officer as subject to the Blackout Period (as defined below) prohibitions because of their access to the Company's internal financial statements or other Material Nonpublic Information regarding the Company's performance during annual and quarterly fiscal periods (collectively, "**Designated Insiders**") and Family Members of the foregoing, refrain from conducting transactions involving the purchase or sale of the Company's securities during the Blackout Periods established below. Each of the following periods will constitute a "**Blackout Period**":

The period commencing on the tenth calendar day of the third fiscal month of each of the first three fiscal quarters (i.e. March 10, June 10 and September 10, as applicable) and commencing on the first calendar day of the third fiscal month of the fourth fiscal quarter (i.e. December 1) and, in each case, ending at the close of business on the second Trading Day following the date of public disclosure of the financial results for such fiscal quarter (which is generally 30 to 75 days after the end of such quarter). If such public disclosure occurs on a Trading Day before the markets close, then that day shall be considered the first Trading Day. If such public disclosure occurs after the markets close on a Trading Day, then the date of public disclosure shall not be considered the first Trading Day following the date of public disclosure.

In addition to the Blackout Periods described above, the Company may announce "special" Blackout Periods from time to time. Typically, this will occur when there are nonpublic developments that would be considered material for insider trading law purposes, such as, among other things, developments relating to regulatory proceedings or a major corporate transaction. Depending on the circumstances, a "special" Blackout Period may apply to all Designated Insiders or only a specific group of Designated Insiders. The Insider Trading Compliance Officer will provide written notice to Designated Insiders subject to a "special" Blackout Period. Any person made aware of the existence of a "special" Blackout Period should not disclose the existence of the Blackout Period to any other person. The failure of the Company to designate a person as being subject to a "special" Blackout Period will not relieve that person of the obligation not to trade while aware of Material Nonpublic Information. As used in this Policy, the term "Blackout Period" shall mean all periodic Blackout Periods and all "special" Blackout Periods announced by the Company.

The purpose behind the Blackout Period is to help establish a diligent effort to avoid any improper transactions. Trading in the Company's securities outside a Blackout Period should not be considered a "safe harbor", and all employees, officers and directors and other persons subject to this Policy should use good judgment at all times. Even outside a Blackout Period, any person possessing Material Nonpublic Information concerning the Company should not engage in any transactions in the Company's securities until such information has been known publicly for at



least two Trading Days after the date of announcement. Although the Company may from time to time impose special Blackout Periods, because of developments known to the Company and not yet disclosed to the public, each person is individually responsible at all times for compliance with the prohibitions against insider trading.

**9. Pre-clearance of Trades.** The Company has determined that all executive officers and directors and their Family Members must refrain from trading in the Company's securities, without first complying with the Company's "pre-clearance" process. Each executive officer or director must contact the Company's Insider Trading Compliance Officer not less than two (2) business days prior to commencing any trade in the Company's securities. This pre-clearance requirement applies to any transaction or transfer involving the Company's securities, including a stock plan transaction such as an option exercise, or a gift, transfer to a trust or any other transfer.

The Insider Trading Compliance Officer must pre-clear each proposed trade or transfer. The Insider Trading Compliance Officer is not under any obligation to approve a trade submitted for pre-clearance, and may determine not to permit a trade.

To facilitate the process, the Company has prepared a pre-clearance form, attached hereto as Exhibit A, to be completed and provided to the Insider Trading Compliance Officer. The Insider Trading Compliance Officer will assist with the approval process. No trade or transfer may be effected until the requesting employee, officer or director has received the approved Pre-Clearance Request Form, even if two (2) business days have passed since the Pre-Clearance Request Form was submitted.

The Company may also find it necessary, from time to time, to require compliance with the pre-clearance process from employees designated as Designated Insiders.

Any executive officer and director who wishes to implement a trading plan under SEC Rule 10b5-1 must first pre-clear the plan with the Insider Trading Compliance Officer. As required by Rule 10b5-1, an executive officer or director may enter into a trading plan only when he or she is not in possession of Material Nonpublic Information. In addition, a trading plan may not be entered into during a Blackout Period. Transactions effected pursuant to a pre-cleared trading plan will not require further pre-clearance at the time of the transaction.

**10. Individual Responsibility.** Every employee, officer and director has the individual responsibility to comply with this Policy against insider trading, regardless of whether a transaction is executed outside a Blackout Period or is pre-cleared by the Company. The restrictions and procedures are intended to help avoid inadvertent instances of improper insider trading, but appropriate judgment should always be exercised by each employee, officer and director in connection with any trade in the Company's securities.

An employee, officer or director may, from time to time, have to forego a proposed transaction in the Company's securities even if he or she planned to make the transaction before learning of the Material Nonpublic Information and even though the Insider believes he or she may suffer an economic loss or forego anticipated profit by waiting.

### **Certain Exceptions**

**11. Stock Options Exercises.** For purposes of this Policy, the Company considers that the exercise of stock options under the Company's stock option plans (but not the sale of the underlying stock) to be exempt from this Policy. This Policy does apply, however, to any sale of stock as part of a broker-assisted "cashless" exercise of an option, or any market sale for the purpose of generating the cash needed to pay the exercise price of an option.

**12. 401(k) Plan.** This Policy does not apply to purchases of Company stock in the Company's 401(k) plan resulting from periodic contributions of money to the plan pursuant to payroll deduction elections. This Policy does apply, however, to certain elections that may be made under the 401(k) plan, including (a) an election to increase or decrease the percentage of periodic contributions that will be allocated to the Company stock fund, if any, (b) an election to make an intra-plan transfer of an existing account balance into or out of the Company stock fund, (c) an election to borrow money against a 401(k) plan account if the loan will result in a liquidation of some or all of a participant's Company stock fund balance and (d) an election to pre-pay a plan loan if the pre-payment will result in allocation of loan proceeds to the Company stock fund.

**13. Employee Stock Purchase Plan.** This Policy does not apply to purchases of Company stock in the Company's employee stock purchase plan, if any, resulting from periodic contributions of money to the plan pursuant to the elections made at the time of enrollment in the plan. This Policy also does not apply to purchases of Company stock resulting from lump sum contributions to the plan, provided that the participant elected to participate by lump-sum payment at the beginning of the applicable enrollment period. This Policy does apply to a participant's election to participate in or increase his or her participation in the plan, and to a participant's sales of Company stock purchased pursuant to the plan.

**14. Dividend Reinvestment Plan.** This Policy does not apply to purchases of Company stock under the Company's dividend reinvestment plan, if any, resulting from reinvestment of dividends paid on Company securities. This Policy does apply, however, to voluntary purchases of Company stock that result from additional contributions a participant chooses to make to the plan, and to a participant's election to participate in the plan or increase his level of participation in the plan. This Policy also applies to his sale of any Company stock purchased pursuant to the plan.

### **Applicability of Policy to Inside Information Regarding Other Companies**

This Policy and the guidelines described herein also apply to Material Nonpublic Information relating to other companies, including the Company's customers, vendors or suppliers ("**business partners**"), when that information is obtained in the course of employment with, or other services performed on behalf of, the Company. Civil and criminal penalties, and termination of employment, may result from trading on inside information regarding the Company's business partners. All employees should treat Material Nonpublic Information about

the Company's business partners with the same care required with respect to information related directly to the Company.

### **Section 16 Liability - Directors and Officers**

Certain officers and all directors of the Company must also comply with the reporting obligations and limitations on short-swing profit transactions set forth in Section 16 of the Securities Exchange Act of 1934 (the "**Exchange Act**"). The practical effect of these provisions is that any officer or director who purchases and sells the Company's securities within a six-month period must disgorge all profits to the Company whether or not he or she had knowledge of any Material Nonpublic Information. Under these provisions, and so long as certain other criteria are met, neither the receipt of stock or stock options under the Company's stock plans, nor the exercise of options nor the receipt of stock under the Company's employee stock purchase plan, dividend reinvestment plan or the Company's 401(k) retirement plan is deemed a purchase that can be matched against a sale for Section 16(b) short-swing profit disgorgement purposes; however, the sale of any such shares so obtained is a sale for these purposes. Moreover, no such officer or director may ever make a short sale of the Company's common stock which is unlawful under Section 16(c) of the Exchange Act. The Company will provide separate memoranda and other appropriate materials to the affected officers and directors regarding compliance with Section 16 and its related rules.

**The rules on recovery of short-swing profits are absolute and do not depend on whether a person has Material Nonpublic Information.**

### **Publicly Traded Options**

A transaction in options is, in effect, a bet on the short-term movement of the Company's stock and therefore creates the appearance that the employee, officer or director is trading based on inside information. Transactions in options also may focus the trader's attention on short-term performance at the expense of the Company's long-term objectives. Accordingly, transactions in puts, calls or other derivative securities, on an exchange or in any other organized market, are prohibited. Option positions arising from certain types of hedging transactions are governed by the section below captioned "Hedging or Monetization Transactions."

### **Hedging or Monetization Transactions**

Certain forms of hedging or monetization transactions, such as zero-cost collars and forward sale contracts, allow an employee, officer or director to lock in much of the value of his stock holdings, often in exchange for all or part of the potential for upside appreciation in the stock. These transactions would allow an employee, officer or director to continue to own the covered securities, but without the full risks and rewards of ownership. When that occurs, their interests and the interests of the Company and its shareholders may be misaligned and may signal a message to the trading market that may not be in the best interests of the Company and its shareholders at the time it is conveyed. Accordingly, hedging transactions and all other forms of monetization transactions are prohibited.

### **Margin Accounts and Pledges**

Securities held in a margin account may be sold by the broker without the customer's consent if the customer fails to meet a margin call. Similarly, securities pledged (or hypothecated) as collateral for a loan may be sold in foreclosure if the borrower defaults on the loan. A margin sale or foreclosure sale may occur at a time when the pledgor is aware of Material Nonpublic Information or otherwise is not permitted to trade in Company securities pursuant to Blackout Period restrictions. Thus, employees, officers and directors are prohibited from pledging Company securities as collateral for a loan. Additionally, shares of Company stock may not be held in a margin account.

### **Post-Termination Transactions**

This Policy continues to apply to transactions in Company securities even after an employee, officer or director has resigned or terminated employment. If the person who resigns or separates from the Company is in possession of Material Nonpublic Information at that time, he or she may not trade in Company securities until that information has become public or is no longer material.

### **Communications with the Public**

The Company is subject to the SEC's Regulation FD and must avoid selective disclosure of Material Nonpublic Information. The Company has established procedures for releasing material information in a manner that is designed to achieve broad public dissemination of the information immediately upon its release. Pursuant to Company policy, only the executive officers who have been authorized to engage in communications with the public may disclose information to the public regarding the Company and its business activities and financial affairs. The public includes, without limitation, research analysts, portfolio managers, financial and business reporters, news media and investors. In addition, because of the risks associated with the exchange of information through such communications media, employees are strictly prohibited from posting or responding to messages containing information regarding the Company on Internet "bulletin boards," Internet "chat rooms" or in similar online forums. Employees who inadvertently disclose any Material Nonpublic Information must immediately advise the Insider Trading Compliance Officer so the Company can assess its obligations under Regulation FD and other applicable securities laws.

### **Inquiries**

Please direct questions as to any of the matters discussed in this Policy to the Company's Insider Trading Compliance Officer at the following address:

General Counsel  
FairPoint Communications, Inc.  
521 E. Morehead Street, Suite 500  
Charlotte, NC 28202  
Telephone: (704) 227-3662  
E-mail: slinn@fairpoint.com and ssowell@fairpoint.com

### **Certifications**

All employees, officers and directors of the Company must certify their understanding of, and intent to comply with, this Policy. Please return the enclosed certification immediately to:

General Counsel  
FairPoint Communications, Inc.  
521 E. Morehead Street, Suite 500  
Charlotte, NC 28202  
Fax: (704) 344-1594

### **CERTIFICATIONS**

I certify that:

1. I have received, read and understand the Company's Insider Trading Policy, dated January 24, 2011, as revised October 30, 2014. I understand that the Insider Trading Compliance Officer is available to answer any questions I have regarding the Insider Trading Policy.
2. I will comply with the Insider Trading Policy for as long as I am subject to the Policy.

Signature: \_\_\_\_\_

Print Name: \_\_\_\_\_

Date: \_\_\_\_\_

### **FAIRPOINT COMMUNICATIONS, INC. PRE-CLEARANCE REQUEST FORM**

To: FairPoint Communications, Inc. (the "Company")  
Insider Trading Compliance Officer

From: \_\_\_\_\_

Re: Proposed transaction in the Company's Securities

This is to advise you that the undersigned intends to execute a transaction in the Company's securities on \_\_\_\_\_, 20\_\_\_\_ and thereafter until the trading window shall close and does hereby request that the Company pre-clear the transaction as required by the Company's Insider Trading Policy (the "Policy").

The general nature of the transaction is as follows (i.e. open market purchase of 10,000 shares of common stock through NASDAQ, privately negotiated sale of warrants for the purchase of 5,000 shares of common stock, etc.):

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The undersigned is not in possession of Material Nonpublic Information (as defined in the Insider Trading Policy) about the Company and will not enter into the transaction if the undersigned comes into possession of Material Nonpublic Information about the Company between the date hereof and the proposed trade execution date.

The undersigned has read and understands the Policy and certifies that the above proposed transaction will not violate the Policy.

The undersigned agrees to advise the Company promptly if, as a result of future developments, any of the foregoing information becomes inaccurate or incomplete in any respect. The undersigned understands that the Company may require additional information about the transaction, and agrees to provide such information upon request.

Dated: \_\_\_\_\_ Very truly yours,

[Signature]

[Print Name]

Approved:

Insider Trading Compliance Officer

