FairPoint communications
The Power of Choice

TN REGULATORY AUTH.
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OFFICE OF THE EXECUTIVE SECRETARY

September 7, 2000

Mr. David Waddell
Office of the Executive Secretary
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, Tennessee 37243-0505

Re: TRA Docket No. 99-00947 – Application of FairPoint Communications Solutions Corp. (FairPoint) for a Certificate to Provide Competing Local Telecommunications Services in the State of Tennessee

Dear Mr. Waddell:

In response to the Tennessee Regulatory Authority's request for additional information, FairPoint Communications Solutions Corp. hereby submits the following original and thirteen (13) copies of the requested documentation in order to correct the deficiencies in the above referenced docket. Below is the requested information:

- Sworn pre-filed testimony (See Attachment A)
- Financial Information (See Attachment B). *Please treat this information as Proprietary & Confidential.*
- FairPoint will provide a copy of its tariff for approval before commencing operations in Tennessee.
- FairPoint will need to obtain an NXX code in each rate center in order to comply with Local Number Portability. Several markets are within the same rate center; therefore, FairPoint will only need one NXX for the particular markets. Attached is a list of the proposed markets, which FairPoint will be entering. (See Attachment C)
- FairPoint will comply with the financial requirements of TCA §65-4-125.

6324 Fairview Road ▸ 4th Floor ▸ Charlotte, NC 28210 ▸ phone (704) 414-2500 ▸ fax (704) 414-2501 ▸ www.fairpoint.com

- FairPoint does not plan to offer services in areas served by any incumbent local exchange telephone company with fewer than 100,000 total access lines. FairPoint only plans on offering services in the BellSouth and Sprint service areas.

In summary, FairPoint hereby submits this requested information in order to comply with the requirements of the Tennessee Regulatory Authority.

If you have any questions or concerns please call me at 704-414-2565.

Very truly yours,

Chad Pifer

Chad Pifer
Regulatory Manager
Southeast Region

Attachments

Cc: April Ingram

ATTACHMENT A

BEFORE THE TENNESSEE REGULAROTY AUTHORITY

APPLICATION OF FAIRPOINT COMMUNICAITIONS	)	
SOLUTIONS CORP. (FORMERLY FAIRPOINT	)	
COMMUNICATIONS CORP.) FOR A CERTIFICATE	)	
OF PUBLIC CONVENIENCE AND NECESSITY	)	DOCKET NO. 99-00947
TO PROVIDE LOCAL EXCHANGE	)	
TELECOMMUNICATIONS SERVICES IN	)	
THE STATE OF TENNESSEE	)	

PREFILED TESTIMONY

OF

RAYMOND CHAD PIFER

1Q: Please state your name and business address.

A: My name is Raymond Chad Pifer and my business address is 6324 Fairview Rd, 4th Floor, Charlotte, North Carolina 28210.

2Q: By whom are you employed and in what position?

A: I am employed by FairPoint Communications Solutions Corp. ("FairPoint") as the Regulatory Affairs Manager for the Southeast Region.

3Q: Please give a brief description of your job responsibilities and your background experience.

A: I graduated from Hendrix College in 1993 and received my law degree from the University of Arkansas at Little Rock in 1996. I am admitted to practice law in the State of Arkansas. Prior to joining FairPoint in February 2000, I was employed with ALLTEL Communications Inc. ("ALLTEL") for approximately four years. My primary responsibility at ALLTEL was the negotiation of local service interconnection agreements between ALLTEL's ILEC properties and competitive local exchange carriers ("CLECs"), as well as supporting ALLTEL's involvement in numerous regulatory proceedings, including ILEC compliance with interconnection agreements. I am currently responsible for advising FairPoint in connection with the full range of regulatory matters, which impact the company's operations as a CLEC.

4Q: Are you familiar with the Application of FairPoint for a Certificate of Convenience and Necessity to provide Competitive Local Exchange Services in the exchanges served by BellSouth Telephone Company ("BST") and United Telephone-Southeast, Incorporated ("Sprint")?

A: Yes, I am.

5Q: What is the purpose of your testimony?

A: The purpose of my testimony is to support FairPoint's Application and provide evidence regarding the financial, technical, and managerial ability of FairPoint to provide Local exchange telecommunications service including all ancillary services, such as interexchange and dedicated services, local telecommunications services, including ADSL, point-to-point T1, and other data communications services in Tennessee, and to discuss the services FairPoint proposes to offer.

6Q: Has FairPoint registered to do business in Tennessee?

A: Yes, FairPoint is a Delaware corporation and is registered in Tennessee as a foreign corporation. Attached to our Application are Articles of Incorporation and certificate to Transact Business in the State of Tennessee.

7Q: Describe FairPoint's financial ability to operate as a local exchange telecommunications service provider.

A: FairPoint has sufficient financial ability to provide the requested telecommunication services in Tennessee, the financial capability to maintain these services and the financial capability to meet its lease and ownership obligations. FairPoint's financial information will be provided to the Tennessee Regulatory Authority ("TRA") pursuant to a Protective Order. The financial information will demonstrate that FairPoint fully meets the financial requirements to provide competitive local exchange services in Tennessee.

8Q: Do you believe FairPoint is capable of delivering its proposed services in Tennessee?

A: Yes, in addition to having sufficient financial resources, FairPoint has assembled an outstanding team of experienced managers and technical staff. Descriptions of the telecommunications and managerial experience of FairPoint's key personnel are attached to the Application.

9Q: Will FairPoint's tariffs contain all of its rates and charges as required for intrastate telephone services?

A: Yes, all rate elements will be set forth in a readily ascertainable form. FairPoint's local exchange tariff will list specific rate levels for each service and service element and will otherwise comply with the TRA's Rules. However, FairPoint is requesting a waiver of the tariff filing requirements at this time because final interconnection agreements have not been entered into with the incumbent LECs.

10Q: Will FairPoint offer service to all consumers within its service area?

A: FairPoint will initially serve business customers subject to the provisions of its end user tariff, in a non-discriminatory manner.

11Q: Will FairPoint provide other services or service options?

A: Yes, in accordance with Tennessee law the rules of the TRA, FairPoint intends to offer the following additional services and service options.

1) FairPoint plans to provide basic local service options, including all ancillary services associated with local telecommunications service such as custom calling services, directory assistance, and operator services;

2) FairPoint further plans to provide interLATA, interexchange (long-distance) service in accordance with applicable state and federal requirements;

3) Directory assistance service, telephone directory listings (through BellSouth's directory) and free 900 prefix call blocking;

4) Services for the Hearing Impaired;

5) Emergency or 911 service; and

6) FairPoint will offer intraLATA equal access at the same time it begins to offer its basic local exchange service. The company will be bound by the intraLATA dialing parity standard.

12Q: Will FairPoint comply with all of the requirements of the TRA?

A: Yes, FairPoint is familiar with and will comply with the rules and regulations of the TRA, including:

1) Reporting requirements;

2) Quality of service standards;

3) Contributions to the Tennessee Universal Service Fund and if applicable, the Tennessee High Cost Fund;

4) Anti-slamming requirements

13Q: Will FairPoint provide 911 service?

A: Yes, when FairPoint is providing switched voice services, FairPoint will provide access to 911 and enhanced 911 emergency services where they are currently available. Where requested, FairPoint will collect 911 service surcharges from its customers in order to contribute to the funding of these emergency services. FairPoint will negotiate an E911/911 interconnection agreement with the applicable incumbent local exchange carrier that will allow it to complete 911 calls for its customers.

14Q: Will FairPoint provide telecommunications relay services?

A: FairPoint will provide access to Telecommunications Relay Services from communications to and from persons using TDD equipment. These calls will be routed directly to the existing Tennessee Dual Party Relay Center. FairPoint proposes to contribute to the cost of services in the same manner as the incumbent licensed local exchange carriers.

15Q: What is the geographic delineation of the FairPoint's target market?

A: Initially, FairPoint seeks operating authority to service the zone and exchange areas throughout the State of Tennessee in which BST and Sprint are the incumbent local exchange carriers. FairPoint has chosen to mirror the maps and descriptions contained in the incumbent carrier's tariffs which will be filed with the TRA once interconnection agreements have been entered into.

16Q: How will FairPoint handle billing?

A: FairPoint will bill its end user customers directly.

17Q: Will FairPoint maintain logs of customer complaints?

A: Yes, FairPoint will utilize a system for logging customer complaints. The system will record all relevant information concerning a complaint and permit tracking, documentation, and storage of information.

18Q: Are you familiar with the contempt authority of the TRA?

A: Yes.

19Q: In your opinion, will the granting of this Application promote the public interest?

A: Yes, by granting this Application the TRA will authorize a high quality telecommunications service provider to commence offering local exchange telecommunications service. Competition in the local exchange market will promote efficiency in performance, innovations, and market responsiveness to consumer demands and desires.

20Q: Will other witnesses be testifying on behalf of FairPoint?

A: No.

21Q: Does that conclude your testimony?

A: Yes it does.

E. LYNN JONES
NOTARY PUBLIC
MECKLENBURG, CO., NC

SUBSCRIBED AND SWORN BEFORE ME THIS 28 DAY OF August, 2000

E. Lynn Jones
(NOTARY PUBLIC)

Expires: 2/2/2004

ATTACHMENT B

ATTACHMENT B – 1

YEAR-END AUDITED FINANCIAL FOR 1999

KPMG

FAIRPOINT COMMUNICATIONS CORP.

Financial Statements

December 31, 1999 and 1998

(With Independent Auditors' Report Thereon)

KPMG

233 South 13th Street, Suite 1600
Lincoln, NE 68508-2041

Two Central Park Plaza
Suite 1501
Omaha, NE 68102

Independent Auditors' Report

The Board of Directors
FairPoint Communications Corp.

We have audited the accompanying balance sheets of FairPoint Communications Corp. as of December 31, 1999 and 1998 and the related statements of operations, stockholder's equity, and cash flows for the year ended December 31, 1999 and for the period from January 22, 1998 (inception) to December 31, 1998. 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 generally accepted auditing standards. 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 financial position of FairPoint Communications Corp. as of December 31, 1999 and 1998, and the results of their operations and their cash flows for the year ended December 31, 1999 and for the period from January 22, 1998 (inception) to December 31, 1998, in conformity with generally accepted accounting principles.

KPMG LLP

March 1, 2000, except as to the second paragraph
of note 4 which is as of March 27, 2000
Lincoln, Nebraska

FAIRPOINT COMMUNICATIONS CORP.

Balance Sheets

December 31, 1999 and 1998

Assets

	1999	1998
Current assets:		
Cash	$ 653,905	95,899
Accounts receivable, net of allowance for doubtful accounts of $37,629 in 1999 and $56,645 in 1998	3,064,230	433,056
Income taxes recoverable from Parent	4,297,085	1,754,740
Receivables from affiliates	616,448	205,000
Other	346,576	10,000
Total current assets	8,978,244	2,498,695
Property, plant, and equipment, net	16,094,460	1,254,037
Other assets:		
Investments	70,000	—
Debt issue costs, net of accumulated amortization	3,501,184	—
Income taxes recoverable from Parent	1,068,515	—
Other	93,051	—
Total other assets	4,732,750	—
Total assets	$ 29,805,454	3,752,732

Liabilities and Stockholder's Equity

	1999	1998
Current liabilities:		
Accounts payable	$ 3,651,191	1,132,467
Payables to affiliates	601,797	811,568
Accrued payroll	1,119,353	393,559
Other accrued liabilities	519,382	186,096
Total current liabilities	5,891,723	2,523,690
Long-term liabilities:		
Credit facility	21,746,966	—
Deferred income taxes	268,150	51,756
Total long-term liabilities	22,015,116	51,756
Stockholder's equity:		
Common stock, voting, par value $0.01 per share, authorized 10,000,000 shares, issued and outstanding 9,000,000 shares	90,000	90,000
Additional paid-in capital	17,910,000	4,246,279
Accumulated deficit	(16,101,385)	(3,158,993)
Total stockholder's equity	1,898,615	1,177,286
Total liabilities and stockholder's equity	$ 29,805,454	3,752,732

See accompanying notes to financial statements.

FAIRPOINT COMMUNICATIONS CORP.

Statements of Operations

For the Year Ended December 31, 1999 and the
Period From January 22, 1998 (inception) to December 31, 1998

	1999	1998
Operating revenues:		
Telecommunications services	$ 11,388,768	1,116,127
Other	346,421	8,508
Total operating revenues	11,735,189	1,124,635
Operating expenses:		
Network access	10,140,119	1,230,933
Depreciation and amortization	603,600	34,233
Salaries and benefits	12,174,417	2,193,513
Other general and administrative	8,901,467	2,528,754
Total operating expenses	31,819,603	5,987,433
Loss from operations	(20,084,414)	(4,862,798)
Other income (expense):		
Interest expense	(690,469)	—
Other	38,025	821
Total other income (expense)	(652,444)	821
Loss before income taxes	(20,736,858)	(4,861,977)
Income tax benefit	7,794,466	1,702,984
Net loss	$ (12,942,392)	(3,158,993)

See accompanying notes to financial statements.

FAIRPOINT COMMUNICATIONS CORP.

Statements of Stockholder's Equity

For the Year Ended December 31, 1999 and the
Period From January 22, 1998 (inception) to December 31, 1998

	Common stock	Additional paid-in capital	Accumulated deficit	Total stockholder's equity
Balance, January 22, 1998	$ —	—	—	—
Issuance of common stock, including contributed capital	90,000	4,246,279	—	4,336,279
Net loss	—	—	(3,158,993)	(3,158,993)
Balance, December 31, 1998	90,000	4,246,279	(3,158,993)	1,177,286
Contributed capital	—	13,663,721	—	13,663,721
Net loss	—	—	(12,942,392)	(12,942,392)
Balance, December 31, 1999	$ 90,000	17,910,000	(16,101,385)	1,898,615

See accompanying notes to financial statements.

FAIRPOINT COMMUNICATIONS CORP.

Statements of Cash Flows

For the Year Ended December 31, 1999 and the
Period From January 22, 1998 (inception) to December 31, 1998

	1999	1998
Cash flows from operating activities:		
Net loss	$ (12,942,392)	(3,158,993)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	603,600	34,233
Amortization of debt issue costs	137,507	—
Provision for uncollectible revenue	39,553	56,645
Deferred income taxes	216,394	51,756
Loss on sale of assets	2,140	—
Changes in assets and liabilities arising from operations:		
Accounts receivable	(2,670,727)	(489,701)
Receivables from affiliates	(411,448)	(345,783)
Income taxes recoverable from Parent	(3,610,860)	(1,754,740)
Other current assets	(336,576)	(215,000)
Other non-current assets	(93,051)	—
Accounts payable	2,518,724	1,208,468
Payables to affiliates	(209,771)	1,081,350
Accrued payroll	725,794	393,559
Other accrued liabilities	333,286	186,096
Total adjustments	(2,755,435)	206,883
Net cash used in operating activities	(15,697,827)	(2,952,110)
Cash flows used in investing activities:		
Purchase of investments	(70,000)	—
Acquisition of property, plant, and equipment	(15,450,968)	(1,288,270)
Proceeds from sale of equipment	4,805	—
Net cash used in investing activities	(15,516,163)	(1,288,270)
Cash flows provided by financing activities:		
Debt issuance costs	(3,638,691)	—
Proceeds received from credit facility	23,346,966	—
Payments on credit facility	(1,600,000)	—
Net proceeds from issuance of common stock and capital contributions by Parent	13,663,721	4,336,279
Net cash provided by financing activities	31,771,996	4,336,279
Net increase in cash	558,006	95,899
Cash, beginning of period	95,899	—
Cash, end of period	$ 653,905	95,899
Supplemental disclosures of cash flow information - cash paid during the year for interest	$ 480,556	—

See accompanying notes to financial statements.

(1) Organization and Summary of Significant Accounting Policies

Organization

FairPoint Communications Corp. (the Company or FairPoint), an integrated communications provider (ICP), was incorporated under the laws of the state of Delaware on January 22, 1998. The Company is a wholly owned subsidiary of MJD Communications, Inc. (Parent).

The Company is in the business of providing data and voice telecommunications services in markets adjacent to those operated by Parent, mostly in the northeast and northwest United States. The Company offers an array of voice and data telecommunications services, such as high speed data, local and long distance to customers in rural and small urban markets within approximately 200 miles of a Parent-owned local exchange carrier.

Since its inception, the Company has relied upon Parent for cash required to fund its business plan. In October 1999, the Company secured a $100.0 million credit facility to supplement the financing of its business plan. The Parent currently intends to continue its financial support of the Company for the foreseeable future. The Parent's senior credit agreement limits the amount of the Parent's contributions to the Company to $5.0 million per year so long as the Senior Debt Leverage Ratio, as defined in the credit agreement, exceeds 4.5x and $15.0 million per year whenever such leverage ratio is under 4.5x. However, if the Parent's actual contribution is less than the credit agreement's annual limit, the agreement permits the Parent to contribute the aggregate unused limit in the immediately succeeding two fiscal years. In January 2000, the Parent obtained an amendment and waiver on its senior credit agreement to permit the Parent to contribute up to $130.0 million in the Company. The Parent contributed approximately $13.7 million and $4.3 million to the Company during 1999 and 1998, respectively.

Revenue Recognition

Telecommunications services revenue is recognized as services are provided. Unbilled revenue included in accounts receivable represents revenues earned for telecommunications services which will be billed in the succeeding month and approximated $948,000 and $75,000 at December 31, 1999 and 1998, respectively.

Property, Plant, and Equipment

Property, plant, and equipment are recorded at cost and are depreciated on the straight-line basis over their estimated useful lives. Construction, engineering and overhead costs directly related to the development of the Company's networks are capitalized. The Company begins depreciating these costs when the assets become operational. Leasehold improvements are amortized using the straight-line method over the shorter of the estimated life of the asset or the related lease term. Betterments, renewals and extraordinary repairs that extend the life of the asset are capitalized; other repairs and maintenance are expensed as incurred.

(Continued)

Included in property, plant, and equipment is capitalized software development costs. The Company capitalizes software costs incurred in the development of its billing system. The Company capitalizes external direct costs of materials and services consumed and internal direct payroll and payroll related costs incurred in the development of internal use software. Capitalization begins upon the completion of the preliminary project stage and ends when the software is substantially complete and ready for its intended use. Amortization of capitalized software is provided using the straight-line method over the software's estimated useful life. There was no amortization during 1999 as the software implementation had not yet been complete and ready for its intended use.

Asset Impairment

The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. The Company did not record any impairment losses in 1999 and 1998.

Debt Issue Costs

Debt issue costs are being amortized over five years. Accumulated amortization of debt issue costs was $137,507 at December 31, 1999.

Income Taxes

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.

Comprehensive Income

During 1998, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 130, *Reporting Comprehensive Income*, which establishes standards for the reporting and display of comprehensive income and its components in a full set of general purpose financial statements. Comprehensive income includes the reported net income of a company adjusted for items that are currently accounted for as direct entries to equity. The Company does not have any elements of comprehensive income other than the elements currently recognized in the statements of operations.

Stock-Based Compensation

The Company accounts for its stock option plan using the intrinsic value-based method prescribed by Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* (APB No. 25), and related interpretations. As such, compensation expense is recorded on the date of grant only if the current market price of the underlying stock exceeds the exercise price. SFAS No. 123, *Accounting for Stock-Based Compensation*, permits entities to recognize as expense over the vesting period the fair value of all stock-based awards on the date of grant. SFAS No. 123 allows entities to continue to apply the provisions of APB No. 25 and provide pro forma net income disclosures as if the fair-value method defined in SFAS No. 123 had been applied. The Company has elected to continue to apply the intrinsic value-based method of accounting described above, and has adopted the disclosure requirements of SFAS No. 123.

Use of Estimates

Management of the Company has made a number of estimates and assumptions relating to the reporting of assets and liabilities and reported amounts of revenues and expenses, to prepare these financial statements in conformity with generally accepted accounting principles. Actual results could differ from those estimates.

(2) Property, Plant, and Equipment

A summary of property, plant and equipment as of December 31, 1999 and 1998 is shown on the table below:

	Estimated life (in years)	1999	1998
Leasehold improvements	2 – 7	$ 779,627	79,277
Telephone equipment	5 – 15	884,666	195,606
Furniture and equipment	3 – 7	3,917,706	1,001,178
Computer software	3	3,189,686	12,209
Construction work in progress		7,959,640	—
Total property, plant, and equipment		16,731,325	1,288,270
Accumulated depreciation		(636,865)	(34,233)
Net property, plant, and equipment		$ 16,094,460	1,254,037

(3) Income Taxes

The Company joins the Parent and other eligible affiliated companies in filing a consolidated federal income tax return. Income tax expense for the Company is determined on a separate company-basis and the Parent compensates the Company for the value of net operating losses generated and used by the Parent. At December 31, 1999 and 1998, the Company has recorded approximately $5.4 million and $1.8 million, respectively, from the Parent as income taxes recoverable.

(Continued)

Income tax expense (benefit) consists of the following components at December 31, 1999 and 1998:

	1999	1998
Current:		
Federal	$ (6,862,866)	(1,556,820)
State	(1,147,994)	(197,920)
Total current income tax benefit	(8,010,860)	(1,754,740)
Deferred:		
Federal	196,946	41,936
State	19,448	9,820
Total deferred income tax expense	216,394	51,756
Total income tax benefit	$ (7,794,466)	(1,702,984)

Total income tax benefit at December 31, 1999 and 1998 was different than that computed by applying U.S. federal income tax rates to losses before income taxes. The reasons for the differences are shown below:

	1999	1998
Computed "expected" tax benefit	$ (7,050,532)	(1,653,072)
State income tax benefit, net of federal income tax benefit	(744,840)	(124,146)
Expenses not deductible	24,175	5,577
Other	(23,269)	68,657
Total income tax benefit	$ (7,794,466)	(1,702,984)

The deferred tax liability at December 31, 1999 and 1998 is due to the tax effect of the temporary differences of depreciation expense related to property, plant, and equipment.

(4) Credit Facility

On October 20, 1999, FairPoint closed a $100.0 million convertible senior secured revolving credit facility (the "FairPoint Credit Facility"). Under the FairPoint Credit Facility, funds are available on a revolving basis, for a period up to five years from the date of closing. The interest rate on the FairPoint Credit Facility is variable. At December 31, 1999, the interest rate ranged from 10.75% to 11.75%. Borrowings under the FairPoint Credit Facility are secured by all existing and future assets of FairPoint and by 100% of the stock of the Company. Pursuant to the terms of the FairPoint Credit Facility, FairPoint is required to comply with certain financial covenants. Upon an uncured default of certain covenants or if the debt is not paid at final maturity, the lenders have the option to exchange all outstanding indebtedness plus outstanding and accrued interest for an equal dollar amount of payment in-kind preferred stock issued by the Parent. At December 31, 1999, the Company was in compliance with all financial covenants. On January 20, 2000, the Company repaid the outstanding balance under the FairPoint Credit Facility with funds contributed by Parent.

On March 27, 2000, funds available to the Company under the FairPoint Credit Facility increased to $165.0 million.

(5) Stockholder's Equity

During 1998, the Company issued 100 shares of $0.01 par value common stock to Parent. Parent also contributed a total of approximately $13.7 million and $4.3 million to the Company during 1999 and 1998, respectively.

On February 24, 1999, the Company effected a stock split, in the form of a stock dividend of 89,999 shares for each share of common stock outstanding. The stock split has been given retroactive effect in the accompanying financial statements.

(6) Stock Option Plan

In December of 1998, the Company adopted the FairPoint Communications Corp. Stock and Incentive Plan (the FairPoint Plan) for its employees. Under the FairPoint Plan, participating employees are granted options to purchase common stock of the Company at exercise prices not less than the fair value of the Company's common stock at the date of the grant. The FairPoint Plan authorizes grants of options to purchase up to 1,000,000 shares of authorized, but unissued common stock. All stock options have ten-year terms from the date of grant and vest in 25% increments on the second, third, fourth and fifth anniversaries of an individual grant. In the event of a change in control, outstanding options will vest immediately.

Shares issued to employees under the FairPoint Plan are subject to a call option by the Company. Under the call option, the Company may repurchase those shares held by terminating employees at fair value if the shares were held by the employee for a minimum holding period of not less than six months. The FairPoint Plan also provides for the reacquisition of common shares by the Company in the event of death or disability of the option-holder.

At December 31, 1999, there were options available for grant of 114,500 additional shares under the FairPoint Plan. The per share weighted-average fair value of stock options granted during 1999 was $0.30 on the date of grant using the Black Scholes option-pricing model. Input variables used in the model included no expected dividend yields, a risk-free interest rate of 5.25%, and an estimated option life of ten years. Because the Company was nonpublic on the date of the grant, no assumption as to the volatility of the stock price was made.

The Company applies APB No. 25 in accounting for the FairPoint Plan and, accordingly, no compensation cost has been recognized for its stock options in the financial statements. Had the Company determined compensation cost based on the fair value at the grant date for its stock options under SFAS No. 123, the Company's net income for 1999 would not have been significantly reduced.

No options were granted under the FairPoint Plan in 1998. Stock option activity for 1999 under the FairPoint Plan is summarized as follows:

Outstanding at January 1	—
Granted	970,500
Exercised	—
Canceled	(85,000)
Oustanding at December 31	885,500
Exercisable at December 31	—

All options granted in 1999 under the FairPoint Plan had an exercise price of $0.50.

On February 23, 2000, the Parent's Board of Directors approved a transaction whereby the Parent will grant stock options under the MJD Communications, Inc. Stock Incentive Plan (the 1998 MJD Plan) to employee participants in the FairPoint Plan in consideration of the cancellation of all options previously granted under the FairPoint Plan. The Company also intends to provide a bonus program for option holders in order to maintain the same economic benefits as previously existed under the FairPoint Plan. Under the transaction, which is pending ratification by the Company's option holders, the Parent will grant options to purchase 1,618,820 shares of Parent Class A common stock under the 1998 MJD Plan. As the value of the 1998 MJD Plan options at the grant date will exceed the exercise price, a compensation charge of $15,925,718 will be amortized by the Company over the vesting period of five years. The vesting period may accelerate in the event of a change in control as defined in the agreement. The Company also intends to provide a cash bonus of $5,308,573 to its employees, which will be amortized by the Company over the vesting period of five years. Upon cancellation of the FairPoint Plan options, the FairPoint Plan will be terminated.

(7) Benefit Plan

The Parent sponsors a voluntary 401(k) savings plan (the 401(k) Plan) that covers substantially all eligible employees of the Company. Each 401(k) Plan year, the Company contributes to the 401(k) Plan an amount of matching contributions determined by the Parent at its discretion. For the 401(k) Plan years ended December 31, 1999 and 1998, the Company matched 100% of each employee's contribution up to 3% of compensation and 50% of additional contributions up to 6%. The 401(k) Plan also allows for a profit sharing contribution that is made based upon the Parent's management discretion. Total Company contributions to the 401(k) Plan were approximately $342,200 and $28,200, for the years ended December 31, 1999 and 1998, respectively.

(Continued)

(8) Related Party Transactions

In the normal course of business, the Company enters into various transactions with the Parent and other of its affiliates for various general and administrative activities and for the purchase and resale of long distance services. In 1999 and 1998, the Company incurred related party expenses in the form of Parent management fees of $120,000 and $11,000, respectively, administrative fees to an affiliated long-distance reseller of $60,000 and $40,419, respectively, and allocated labor and accounting expenses of $90,000 and $244,130, respectively, all of which are classified as salaries and benefits expense or other general and administrative expense. The Company also incurred related party expenses in 1999 and 1998 related to cost of long distance services resold of $2,151,890 and $229,759, respectively, which are classified as network access expenses. Management believes that its allocation methods for corporate and other related party expenses results in a reasonable presentation of the Company's operating results.

In 1999 and 1998, a law firm, in which a stockholder of Parent is a partner, provided legal services to the Company for approximately $242,000 and $25,000, respectively.

(9) Disclosures About the Fair Value of Financial Instruments

Cash, Accounts Receivable, Receivables from and Payables to Affiliates, and Accounts Payable

The carrying amount approximates fair value because of the short maturity of these instruments.

Credit Facility

The carrying amount approximates fair value because of the variable rate structure of the credit facility.

Limitations

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

(Continued)

(10) Leases

The Company leases office space and equipment under non-cancelable operating leases. Operating lease expense was approximately $955,000 and $169,000 for the years ended December 31, 1999 and 1998, respectively. Future minimum lease payments under non-cancelable operating leases with original terms of more than one year as of December 31, 1999 are as follows:

2000	$ 1,818,271
2001	1,700,438
2002	1,156,563
2003	905,988
2004	830,649
Thereafter	6,150
	$ 6,418,059

In January 2000, the Company entered into an agreement to lease all of its computer and computer related equipment from a third party. This lease will be accounted for as a sale-leaseback. The sale price of the computer and computer related equipment has not yet been determined. Management believes the gain or loss to be recorded and amortized over the term of the lease will not be significant.

ATTACHMENT B – 2

INTERIM FINANCIALS FOR 2000

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FairPoint Solutions
Income Statement Summary - Budget Comparison
For the period ending June 30, 2000

	CURRENT YEAR	BUDGET	VARIANCE AMOUNT	VARIANCE PERCENTAGE
REVENUES				
Local Revenue - Resale	9,651,326	6,606,957	3,044,369	46.08
Conversion Charges - Resale	112,951	0	112,951	0.00
Local revenue-facility	1,127,125	5,315,885	(4,188,760)	(78.80)
Conversion charges-facility	528	0	528	0.00
Local Revenue - UNE	2,551,910	1,888,229	663,681	35.15
Conversion Charges - UNE	49,353	0	49,353	0.00
ISP Revenues	3,506	266,906	(263,400)	(98.69)
DS1/DS3 Revenues	304,041	633,600	(329,559)	(52.01)
Switched Access Revenues	2,019,865	2,135,644	(115,779)	(5.42)
Long Distance Revenues	6,391,482	3,135,031	3,256,451	103.87
Conference Calling Revenues	6,381	0	6,381	0.00
Other Revenues	858,554	0	858,554	0.00
Uncollectible	(350,706)	(239,641)	(111,065)	46.35
	-----------	-----------	-----------	---------
TOTAL REVENUES	22,726,316	19,742,611	2,983,705	15.11
COST OF GOODS SOLD				
Local COGS - Resale	8,975,229	6,198,246	(2,776,983)	(44.80)
Conversion Charges - Resale	431,772	220,479	(211,293)	(95.83)
Local COGS - Facility	941,763	3,421,965	2,480,202	72.48
Conversion Charges - Facility	37,274	1,148,644	1,111,370	96.76
Local COGS - UNE	1,587,598	1,502,068	(85,530)	(5.69)
Conversion Charges - UNE	20,640	37,543	16,903	45.02
ISP COGS	139	212,858	212,719	99.94
DS1/DS3 COGS	212,610	398,433	185,823	46.64
Long Distance	5,131,407	2,568,350	(2,563,057)	(99.79)
Conference Calling COGS	8,390	0	(8,390)	0.00
Other COGS	243,659	216,788	(26,871)	(12.40)
Depreciation and amortization	54,764	0	(54,764)	0.00
	-----------	-----------	-----------	---------
TOTAL COST OF GOODS SOLD	17,645,245	15,925,374	(1,719,871)	10.80
GROSS PROFIT (LOSS)	5,081,071	3,817,237	1,263,834	33.11
GROSS PROFIT %	20.65 %	18.39 %		
OPERATING EXPENSES				
Salaries & Benefits	18,009,921	17,679,551	(330,370)	(1.87)
Contract Labor	393,432	0	(393,432)	0.00
Billing	180,211	79,917	(100,294)	(125.50)
Consulting	894,674	75,000	(819,674)	(1092.90)
Legal	277,637	102,750	(174,887)	(170.21)
Accounting/auditing/tax	103,722	0	(103,722)	0.00
Marketing and promotion	1,468,345	2,275,811	807,466	35.48
Occupancy	1,418,690	1,308,300	(110,390)	(8.44)
Office expenses	1,631,541	670,550	(960,991)	(143.31)
Recruitment	1,731,692	783,831	(947,861)	(120.93)
Commissions	988,703	794,411	(194,292)	(24.46)
Telephone expense	1,177,660	757,000	(420,660)	(55.57)
Management fees	150,000	99,642	(50,358)	(50.54)
Insurance	2,800	0	(2,800)	0.00
Training	153,395	677,200	523,805	77.35

FairPoint Solutions
Income Statement Summary - Budget Comparison
For the period ending June 30, 2000

	CURRENT YEAR	BUDGET	VARIANCE AMOUNT	VARIANCE PERCENTAGE
Travel and entertainment	2,310,815	1,758,210	(552,605)	(31.43)
Depreciation and amortization	1,466,074	2,013,072	546,998	27.17
Operating Taxes	216,999	198,943	(18,056)	(9.08)
Miscellaneous	1,255,794	453,320	(802,474)	(177.02)
TOTAL OPERATING EXPENSES	33,832,105	29,727,508	(4,104,597)	(13.81)
OPERATING INCOME (LOSS)	(28,751,034)	(25,910,271)	(2,840,763)	(10.96)
OTHER INCOME AND (EXPENSE)				
Interest income	57,966	0	57,966	0.00
Other non-operating income	(70,965)	0	(70,965)	0.00
Interest Expense	(1,624,889)	(375,000)	(1,249,889)	(333.30)
INCOME (LOSS) BEFORE TAXES	(30,388,922)	(26,285,271)	(4,103,651)	(15.61)
Income tax benefit (expense)	11,291,657	0	11,291,657	0.00
NET INCOME (LOSS)	(19,097,265)	(26,285,271)	7,188,006	27.35

FairPoint Comm Solution Corp
Balance Sheet
June 30, 2000

	CURRENT YEAR
ASSETS	
Current assets	
Cash and cash equivalents	(2,656,693)
Trade accounts receivable	9,951,369
Related party receivables	244,137
Other assets	1,000,990
Income tax recoverable	14,185,761
Total current assets	22,725,565
Property,plant and equipment	
Plant under construction	11,243,470
Property,plant and equipment	21,602,705
Less accum depreciation	(2,163,082)
Net property,plant,equipment	30,683,093
Noncurrent assets	
Other investments	397,994
Loan origination, net amort	4,484,464
Other assets	254,727
Total noncurrent assets	5,137,185
Total assets	58,545,843

FairPoint Comm Solution Corp
Balance Sheet
June 30, 2000

LIABILITIES AND EQUITY	CURRENT YEAR
Current liabilities	
Accounts payable	5,665,067
Related party payables	895,674
Accrued interest payable	7,204
Other accrued liabilities	4,138,140
Total current liabilities	10,706,085
Long term liabilities	
Long term debt,net current	7,000,000
Long term capital lease	1,431,655
Deferred income taxes	391,531
Total long term liabilities	8,823,186
Stockholders' equity	
Common stock	90,000
Additional paid in capital	88,990,289
Stock incentive options	(14,713,660)
Retained earnings	(35,350,056)
Total stockholders' equity	39,016,572
Total liabilities and equity	58,545,843

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2000

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 333-56365

FAIRPOINT COMMUNICATIONS, INC.
(Exact Name of Registrant as Specified in its Charter)

Delaware (State or Other Jurisdiction of Incorporation or Organization)	**13-3725229** (IRS Employer Identification No.)
521 East Morehead Street, Suite 250 **Charlotte, North Carolina** (Address of Principal Executive Offices)	**28202** (Zip Code)

Registrant's Telephone Number, Including Area Code:
(704) 344-8150

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 ☐

As of August 1, 2000, the registrant had outstanding 11,979,806 shares of Class A common stock, 12,543,728 shares of Class B common stock and 4,269,440 shares of Class C common stock.

FAIRPOINT COMMUNICATIONS, INC.

QUARTERLY REPORT FOR THE PERIOD ENDED JUNE 30, 2000

INDEX

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

FairPoint Communications, Inc. and Subsidiaries

Condensed Consolidated Balance Sheets

	June 30, 2000	December 31, 1999
	(unaudited)	
	(Dollars in thousands)	
Assets		
Current assets:		
Cash and cash equivalents	$ 15,792	$ 9,923
Accounts receivable and other	51,314	40,257
Total current assets	67,106	50,180
Property, plant, and equipment, net	270,309	178,296
Other assets:		
Investments	48,957	36,246
Goodwill, net of accumulated amortization	414,207	229,389
Deferred charges and other assets	31,775	23,924
Total other assets	494,939	289,559
Total assets	$832,354	518,035
Liabilities and Stockholders' Equity (Deficit)		
Current liabilities:		
Accounts payable	$ 22,219	$ 12,778
Current portion of long-term debt and other long-term liabilities	5,235	5,102
Demand notes payable	640	752
Accrued interest payable	8,539	4,396
Other accrued liabilities	12,867	11,492
Total current liabilities	49,500	34,520
Long-term liabilities:		
Long-term debt, net of current portion	611,687	458,529
Deferred credits and other long-term liabilities	41,516	33,124
Total long-term liabilities	653,203	491,653
Minority interest	16	443
Common stock subject to put option	—	3,000
Stockholders' equity (deficit):		
Preferred stock	215	—
Common stock	288	345
Additional paid-in capital	236,156	48,868
Unearned compensation	(14,714)	—
Accumulated other comprehensive income	2,873	4,187
Accumulated deficit	(95,183)	(64,981)
Total stockholders' equity (deficit)	129,635	(11,581)
Total liabilities and stockholders' equity (deficit)	$832,354	$518,035

See accompanying notes to condensed consolidated financial statements.

FairPoint Communications, Inc. and Subsidiaries
Condensed Consolidated Statements of Operations
(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2000	1999	2000	1999
	(Dollars in thousands)			
Revenues	$ 59,630	$35,496	$104,548	$ 68,324
Operating expenses:				
Network operating costs	30,678	11,032	51,823	20,505
Selling, general and administrative	20,337	12,555	35,433	22,306
Depreciation and amortization	12,889	7,782	21,885	14,964
Stock-based compensation expense	1,376	49	13,699	99
Total operating expenses	65,280	31,418	122,840	57,874
Income (loss) from operations	(5,650)	4,078	(18,292)	10,450
Other income (expense):				
Net gain on sale of investments	2,637	20	2,843	226
Interest income	162	115	892	280
Dividend income	308	187	490	592
Interest expense	(17,094)	(9,565)	(27,259)	(18,899)
Other, net	2,565	933	3,246	1,073
Total other expense	(11,422)	(8,310)	(19,788)	(16,728)
Loss before income taxes	(17,072)	(4,232)	(38,080)	(6,278)
Income tax benefit	4,978	1,287	7,804	1,518
Minority interest in income of subsidiaries	—	(13)	(1)	(39)
Net loss	$(12,094)	$(2,958)	$(30,277)	$ (4,799)

See accompanying notes to condensed consolidated financial statements.

FairPoint Communications, Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows

(Unaudited)

	Six months ended June 30, 2000	Six months ended June 30, 1999
	(Dollars in thousands)	
Cash flows from operating activities:		
Net loss	$(30,277)	$ (4,799)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Amortization of debt issue costs	1,446	972
Depreciation and amortization	21,885	14,964
Other non cash items	6,100	(2,647)
Changes in assets and liabilities arising from operations, net of acquisitions:		
Accounts receivable	(6,778)	(1,286)
Accounts payable and accrued expenses	3,271	(924)
Income taxes recoverable	(2,709)	(698)
Total adjustments	23,215	10,381
Net cash provided by (used in) operating activities	(7,062)	5,582
Cash flows from investing activities:		
Net capital additions	(25,621)	(8,195)
Acquisitions of telephone properties	(190,833)	(22,932)
Other, net	8,362	7,824
Net cash used in investing activities	(208,092)	(23,303)
Cash flows from financing activities:		
Loan origination costs	(8,869)	(2)
Proceeds from issuance of long-term debt	461,261	24,279
Repayment of long-term debt	(389,626)	(9,877)
Net proceeds from the issuance of common stock	158,934	(15)
Other, net	(677)	112
Net cash provided by financing activities	221,023	14,497
Net increase (decrease) in cash and cash equivalents	5,869	(3,224)
Cash and cash equivalents, beginning of period	9,923	13,241
Cash and cash equivalents, end of period	$ 15,792	$ 10,017

See accompanying notes to condensed consolidated financial statements.

(1) Organization and Basis of Financial Reporting

In April 2000, MJD Communications, Inc. (the "Company") changed its name to FairPoint Communications, Inc.

In the opinion of the management, the accompanying financial statements reflect all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of results of operations, financial position, and cash flows. The results of operations for the interim periods are not necessarily indicative of the results of operations which might be expected for the entire year. The condensed consolidated financial statements should be read in conjunction with the Company's 1999 Annual Report on Form 10-K, as amended. Certain amounts from 1999 have been reclassified to conform to the current period presentation.

(2) Acquisitions

The Company acquired traditional telephone properties through a number of acquisitions in 1999. On February 1, 1999, the Company acquired 100% of the common stock of Ravenswood Communications, Inc. and its subsidiaries. On February 16, 1999, the Company acquired 100% of the common stock of Columbus Grove Telephone Company and its subsidiary. On April 30, 1999, the Company acquired 100% of the common stock of Union Telephone Company of Hartford, Armour Independent Telephone Co. and its subsidiaries, Bridgewater-Canistota Independent Telephone Co. and WMW Cable TV Co. (collectively, "Union"). On September 1, 1999, the Company acquired 100% of the common stock of Yates City Telephone Company. On December 17, 1999 the Company acquired 100% of the common stock of The Orwell Telephone Company. The aggregate purchase price for these acquisitions was $82.7 million, which includes $7.4 million of acquired debt. Acquisition costs were approximately $0.9 million. These acquisitions have been accounted for under the purchase method of accounting for business combinations and, accordingly, the acquired assets and liabilities have been recorded at their estimated fair values at the dates of acquisition, and the results of operations has been included in the accompanying consolidated financial statements from the dates of acquisition. Goodwill recognized in connection with these acquisitions was approximately $36.7 million and will be amortized over an estimated useful life of 40 years.

On April 3, 2000, the Company acquired 100% of the common stock of TPG Communications, Inc. and Peoples Mutual Telephone Company. On June 1, 2000, the Company acquired 100% of the common stock of Fremont Telcom Co. On July 3, 2000, the Company acquired 100% of the common stock of Comerco, Inc. The approximate aggregate purchase price for these acquisitions was $364.3 million, which includes $86.7 million of acquired debt. The Fremont acquisition was completed using cash and the issuance of 457,318 shares of common stock of the Company. These acquisitions have been accounted for under the purchase method of accounting for business combinations and, accordingly, the acquired assets and liabilities have been recorded at their estimated fair values at the dates of acquisition, and the results of operations will be included in the Company's results from the date of acquisition. Goodwill of approximately $201.9 million was recorded in connection with these acquisitions of traditional telephone properties and will be amortized over an estimated useful life of 40 years. The allocation of the purchase price is preliminary, however, as the working capital adjustment to the purchase price for these acquisitions have not been determined.

The following unaudited pro forma information presents the combined results of operations of the Company as though the completed acquisitions referred to in the preceding paragraphs occurred on

January 1, 1999. These combined results include certain adjustments, including amortization of goodwill, increased interest expense on debt related to the acquisitions, certain preacquisition transaction costs, and related income tax effects. The pro forma financial information does not necessarily reflect the results of operations that would have been achieved had the acquisitions been consummated as of the assumed dates, nor are the results necessarily indicative of the Company's future results of operations.

	PRO FORMA SIX MONTHS ENDED JUNE 30,	
	2000	1999
	(Unaudited) (Dollars in thousands)	
Revenues	$122,816	100,904
Net loss	(35,137)	(9,494)

(3) Compensation Expense

In January 2000, the Company recognized aggregate compensation expense of $12,323,293 related to transactions involving employee stock options. Those transactions included the modification of options to purchase 40,600 shares of Class A common stock ($463,002), the settlement of options to purchase 260,340 shares of Class A common stock for cash ($3,349,665), and settlement of compensatory cash payment obligations with employee-shareholders ($8,510,626).

In addition, the Company's board of directors approved the issuance of compensatory stock options ($15,925,718) and cash bonus commitments ($5,308,573) to participants in a subsidiary's stock option plan in exchange for the cancellation of all existing stock options issued by the subsidiary. The compensatory options and cash bonuses will be recognized in expense over the five-year vesting period. The transaction was formally ratified by the participants in the subsidiary's stock option plan in April 2000. In April 2000, the Company issued 1,620,465 options to purchase Class A common stock of the Company at an exercise price of $3.28 per share and 73,200 options at an exercise price of $13.12 per share. Compensation expense of $1.4 million was recognized for these options and accrued bonuses during the three months ended June 30, 2000.

(4) 2000 Stock Incentive Plan

In May 2000, the Company adopted the 2000 Employee Stock Option Plan. The 2000 Plan provides for grants to members of management of up to 10,019,200 options to purchase common stock, at the discretion of the compensation committee. Options granted under the 2000 Plan may be of two types: (i) incentive stock options and (ii) nonstatutory stock options. Unless the compensation committee shall otherwise specify at the time of grant, any option granted under the 2000 Plan shall be a nonstatutory stock option. The maximum number of shares of common stock subject to options granted to any single participant in any calendar year is 1,500,000. The Company has granted 4,939,054 options under the plan as of June 30, 2000.

Unless otherwise determined by the compensation committee at the time of grant, options granted pursuant to the 2000 Plan will have an exercise price which is not less than the fair market value of a share of our common stock on the date the option is granted. Options have a term of ten years from date of grant. Options vest in increments of 10% on the first anniversary, 15% on the second anniversary, and 25% on the third, fourth and fifth anniversaries of an individual grant. Subject to certain provisions, in the event of a change of control, we will cancel each option in exchange for a payment in cash of an amount equal to the excess, if any, of the highest price per share of common stock offered in conjunction with any transaction resulting in a change of control over the exercise price for such option.

(5) Long Term Debt

In May 2000, the Company issued $200.0 million aggregate principal amount of 12½% senior subordinated notes. Interest on these notes is payable on May 1 and November 1 of each year, beginning on November 1, 2000. These notes will mature on May 1, 2010. These notes are unsecured senior subordinated obligations and rank equally with all of the Company's other unsecured senior subordinated indebtedness which is subordinated in right of payment to all of the Company's senior indebtedness.

(6) Reportable Segments

The Company has two reportable segments: traditional telephone operations and competitive communications operations. The traditional telephone operations provide local, long distance and other communications services to customers in rural communities in which competition is typically limited or currently does not exist for local telecommunications services. The competitive operations provide local, long distance, Internet, and other communications services to customers in markets outside of the Company's traditional telephone markets.

The Company utilizes the following information for purposes of making decisions about allocating resources to a segment and assessing a segment's performance:

	Traditional telephone operations	Competitive communications operations (Unaudited) (Dollars in thousands)	Total
Six months ended June 30, 2000:			
Revenues from external customers	$83,336	$21,212	$104,548
Intersegment revenues	—	1,514	1,514
Adjusted EBITDA	29,296	(4,534)	24,762
Six months ended June 30, 1999:			
Revenues from external customers	$63,775	$ 4,549	$ 68,324
Intersegment revenues	—	593	593
Adjusted EBITDA	34,166	(6,521)	27,645

A reconciliation of Adjusted EBITDA to the Company's net loss for the six months ended June 30, 2000 and 1999 is as follows:

	2000	1999
	(Dollars in thousands)	
Adjusted EBITDA to net loss:		
Adjusted EBITDA	$ 24,762	$27,645
Other components of net loss		
Depreciation and amortization	(21,885)	(14,964)
Interest expense	(27,259)	(18,899)
Stock-based compensation expense	(13,699)	(99)
Income tax benefit	7,804	1,518
Net loss	$(30,277)	$(4,799)

(7) Comprehensive Losses

Comprehensive losses consist of the Company's net losses and the unrealized holding gains, net of the related tax effect, on the Company's investments classified as available-for-sale. The comprehensive loss for the three months ended June 30, 2000 was $11.3 million and $29.0 million for the six months ended June 30, 2000. The Company did not have any investments available-for-sale during the six months ended June 30, 1999.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion and analysis provides information that management believes is relevant to an assessment and understanding of the consolidated results of operations and financial condition of FairPoint Communications, Inc. and its Subsidiaries (collectively, the "Company" or "FairPoint"). The discussion should be read in conjunction with the Company's Consolidated Financial Statements for the year ended December 31, 1999 included in the Company's Annual Report on Form 10-K, as amended.

Certain statements included in this document are forward-looking, such as statements relating to estimates of operating and capital expenditure requirements, future revenue and operating income, and cash flow and liquidity. Such forward-looking statements are based on the Company's current expectations and are subject to a number of risks and uncertainties that could cause actual results in the future to differ significantly from results expressed or implied in any forward-looking statements made by, or on behalf of, the Company. These risks and uncertainties include, but are not limited to, uncertainties relating to economic and business conditions, governmental and regulatory policies, and the competitive environment in which the Company operates. These and other risks are detailed below as well as in other documents filed by the Company with the Securities and Exchange Commission.

Overview

In April 2000, MJD Communications, Inc. changed its name to FairPoint Communications, Inc.

We are a national, facilities-based provider of voice, data and Internet services. We began our business in 1993 for the purpose of acquiring and operating traditional telephone companies in rural markets. Since our inception, we have acquired 28 such companies, which currently operate in 17 states. In early 1998, we launched our competitive communications business by competing for small and medium-sized business customers in Tier IV and select Tier III markets, which typically have populations of less than 100,000. These markets are generally within a 200-mile radius of the areas served by our traditional telephone companies. We refer to this as our "edge-out" strategy, which allows us to leverage our existing network infrastructure, operating systems and management expertise to accelerate the nationwide roll-out of our competitive communications business in a capital-efficient manner. Furthermore, the stable cash flows of our traditional telephone business provide financial capacity to help fund our continued growth.

Historically, our operating results have been primarily related to our traditional telephone business, which is characterized by stable growth and cash flow. In the future, we anticipate that our competitive communications business will have an increasing impact on our operating results. We expect that our revenue growth will accelerate along with the expansion of our competitive communications services and web-enabled services. As we continue to expand our services and enter new markets, we expect network operating costs, selling, general and administrative expenses, capital expenditures and depreciation to increase substantially. We expect to experience operating losses for the next few years as a result of expanding our competitive communications business into new markets.

Revenues

We derive our revenues from:

- *Local calling services.* We receive revenues from providing local exchange telephone services, including monthly recurring charges for basic service, usage charges for local calls and service charges for special calling features.
- *Network access charges.* These revenues consist primarily of charges paid by long distance companies and other customers for access to our networks in connection with the completion of long distance telephone calls both to and from our customers.

- *Long distance services.* We receive revenues from charges to our retail and wholesale long distance customers.

- *Data and Internet services.* We receive revenues from monthly recurring charges for services, including digital subscriber line, Voice over Internet Protocol/Voice Telephony over Asynchronous Transfer Mode, special access, private lines, Internet and other services.

- *Other services.* We receive revenues from other services, including billing and collection, directory services and sale and maintenance of customer premise equipment.

The following summarizes our percentage of revenues from these sources:

Revenue Source	% of Revenue Six-month period ended June 30, 2000	% of Revenue Six-month period ended June 30, 1999
Local calling services	34%	26%
Network access charges	43%	51%
Long distance services	9%	7%
Data and Internet services	5%	4%
Other services	9%	12%

Operating Expenses

Our principal operating expenses are categorized as network operating costs, selling, general and administrative expenses, depreciation and amortization and stock-based compensation expense.

- *Network operating costs* include costs incurred in connection with the operation of our central offices and outside plant facilities and related operations. In addition to the operational costs of owning and operating our own facilities, we also lease and purchase local and long distance services from the regional Bell operating companies, large independent telephone companies and third party long distance providers.

- *Selling, general and administrative expenses* consist of expenses relating to sales and marketing, customer service and administration and corporate and personnel administration.

- *Depreciation and amortization* includes depreciation of our communications network and equipment and amortization of goodwill related to our acquisitions.

- *Stock-based compensation expense* consists of non-cash compensation charges incurred in connection with shareholder appreciation rights agreements granted to a number of executive officers and stock options to employees.

Acquisitions

As we continue to expand into competitive markets, we expect to focus our acquisition efforts on companies that enable us to enhance the implementation of our strategy as a competitive communications provider. Our past acquisitions have had a major impact on our operations. Accordingly, we do not believe that comparing historical results on a period by period basis is meaningful due to the significant number of acquisitions we have made each year.

- In 2000, we acquired four traditional telephone companies for an aggregate purchase price of $364.3 million, which included $86.7 million of acquired debt. At the respective dates of acquisition, these companies served an aggregate of approximately 79,500 access lines.

- In 1999, we acquired seven traditional telephone companies, which we refer to as the 1999 acquisitions, for an aggregate purchase price of $82.7 million, which included $7.4 million of acquired debt. At the respective dates of acquisition, these companies served an aggregate of approximately 14,700 access lines.

Stock-based Compensation Expense

In connection with the January 2000 equity financing and recapitalization, we recognized a non-cash compensation charge of $12.3 million. The charge consisted of compensation expense of $3.8 million recognized in connection with the modification of employee stock options and the settlement of employee stock options for cash by a principal shareholder of the Company. The compensation expense also included the settlement of a cash payment obligation between certain employee-shareholders of the Company and its principal shareholders under their pre-existing shareholders' agreements for $8.5 million.

We are recognizing expense related to the excess of estimated fair market value over the aggregate exercise price of options that were granted to some of our officers and employees in April 2000 in exchange for options to purchase common stock of our subsidiary, FairPoint Communications Solutions Corp. ("FairPoint Solutions"). This excess of $15.9 million of intrinsic value of the options will be amortized over the vesting period of five years. In conjunction with these options, we intend to provide a cash bonus of $5.3 million that will also be recognized over the five-year vesting period. The payment of the cash bonus will be deferred until the underlying options are exercised, with proceeds from exercise being equal to the bonus. Accordingly, there will not be any material cash impact to us from these transactions.

Results of Operations

Three Month Period Ended June 30, 2000 Compared with Three Month Period Ended June 30, 1999

Revenues. Revenues increased $24.1 million to $59.6 million for the three months ended June 30, 2000 from $35.5 million for the three months ended June 30, 1999. $10.6 million of this increase was attributable to the internal growth of our competitive and traditional communications businesses, $11.0 million of the increase was attributable to revenues from companies we acquired in 2000 and $2.5 million of the increase was attributable to revenues from companies we acquired in 1999. These factors contributed to the growth in all of our revenue sources. Local calling services accounted for $11.0 million of this increase, including $6.6 million from new business lines in our competitive markets and increasing access lines in our traditional telephone companies, $3.7 million from companies we acquired in 2000 and $0.7 million from companies we acquired in 1999. Network access charges increased $7.5 million, of which $4.8 million was contributed by companies we acquired in 2000, $1.0 million was contributed by the companies we acquired in 1999 and $1.7 million was from new business lines in our competitive and traditional communications markets. Long distance services revenues increased $2.9 million due mainly to revenues from new long distance retail and wholesale customers. Data and Internet services increased $2.0 million from $1.4 million as a result of increased service offerings to our customers and acquisitions. Other revenues increased $0.7 million primarily due to the companies we acquired in 2000 and 1999.

Operating Expenses.

Network Operating Costs. Network operating costs increased $19.7 million to $30.7 million for the three months ended June 30, 2000 from $11.0 million for the three months ended June 30, 1999. The majority of the increase, $15.3 million, was attributable to operating expenses associated with the expansion into competitive markets and increased growth in local calling, network access and long distance service offerings. Of the remaining increase, the companies we acquired in 2000 account for $3.4 million and the companies we acquired in 1999 account for $1.0 million.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased $7.8 million to $20.3 million for the three months ended June 30, 2000 compared to $12.5 million for the three months ended June 30, 1999. Contributing to this increase were costs of $5.1 million primarily related to expansion of selling, customer support and administration activities to support our growth in competitive markets. The companies we acquired in 2000 contributed $1.8 million to the increase and the companies we acquired in 1999 contributed $0.9 million to the increase.

Depreciation and Amortization. Depreciation and amortization increased $5.1 million to $12.9 million for the three months ended June 30, 2000 from $7.8 million for the three months ended June 30, 1999. This increase consisted of $1.2 million due to the increased investment in our communications network to support the growth of our competitive communications business and $3.9 million related to the acquisitions.

Stock-based Compensation Expense. As discussed above, in connection with the FairPoint Solutions stock options, we recognized non-cash compensation charges of $1.4 million in the second quarter of 2000.

Income (loss) from Operations. Income (loss) from operations decreased $9.7 million to a $5.6 million loss for the three months ended June 30, 2000 from $4.1 million for the three months ended June 30, 1999. This margin decline was primarily attributable to the $1.4 million stock based compensation expense and the expenses associated with the expansion into competitive markets. We expect this trend to continue for the next few years as we build-out our competitive communications business.

Other Income (Expense). Total other expense increased $3.1 million to $11.4 million for the three months ended June 30, 2000 compared to $8.3 million for the three months ended June 30, 1999. The expense consists primarily of interest expense on long-term debt.

Net Loss. Our net loss was $12.1 million for the three months ended June 30, 2000, compared to a loss of $3.0 million for the three months ended June 30, 1999, as a result of the factors discussed above.

Six Month Period Ended June 30, 2000 Compared with Six Month Period Ended June 30, 1999

Revenues. Revenues increased $36.2 million to $104.5 million for the six months ended June 30, 2000 from $68.3 million for the six months ended June 30, 1999. $19.0 million of this increase was attributable to the internal growth of our competitive and traditional communications businesses, $11.0 million of the increase was attributable to revenues from companies we acquired in 2000 and $6.2 million of the increase was attributable to revenues from companies we acquired in 1999. These factors contributed to the growth in all of our revenue sources. Local calling services accounted for $17.2 million of this increase, including $11.7 million from new business lines in our competitive markets and increasing access lines in our traditional telephone companies, $3.7 million from companies we acquired in 2000 and $1.8 million from companies we acquired in 1999. Network access charges increased $10.5 million, of which $4.8 million was contributed by companies we acquired in 2000, $2.7 million was contributed by the companies we acquired in 1999, $2.0 million was from new business lines in our competitive markets and $1.0 million was from universal service revenue increases within our traditional telephone companies. Long distance services revenues increased $4.9 million due mainly to revenues from new long distance retail and wholesale customers. Data and Internet services increased $2.6 million from $2.6 million as a result of increased service offerings to our customers. Other revenues increased $1.0 million primarily due to the companies we acquired in 2000 and 1999.

Operating Expenses.

Network Operating Costs. Network operating costs increased $31.3 million to $51.8 million for the six months ended June 30, 2000 from $20.5 million for the six months ended June 30, 1999. The majority of the increase, $26.0 million, was attributable to operating expenses associated with the expansion into competitive markets and increased growth in local calling, network access and long distance service offerings. Of the remaining increase, the companies we acquired in 2000 account for $3.4 million and the companies we acquired in 1999 account for $1.9 million.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased $13.1 million to $35.4 million for the six months ended June 30, 2000 compared to $22.3 million for the six months ended June 30, 1999. Contributing to this increase were costs of $10.5 million primarily related to expansion of selling, customer support and administration activities to support our growth in competitive markets. The companies we acquired in 2000 contributed $1.8 million to the increase and the companies we acquired in 1999 contributed $0.8 million to the increase.

Depreciation and Amortization. Depreciation and amortization increased $6.9 million to $21.9 million for the six months ended June 30, 2000 from $15.0 million for the six months ended June 30, 1999. This increase consisted of $2.2 million due to the increased investment in our communications network to support the growth of our competitive communications business and $4.7 million related to the acquisitions.

Stock-based Compensation Expense. As discussed above, in connection with our equity recapitalization, we recognized non-cash compensation charges of $12.3 million for the six months ended June 30, 2000. An additional $1.4 million was recognized in association with the FairPoint Solutions employee stock options.

Income (loss) from Operations. Income from operations decreased $28.7 million to a loss of $18.3 million for the six months ended June 30, 2000 from $10.4 million for the six months ended June 30, 1999. This margin decline was primarily attributable to the $13.7 million stock based compensation expense and the expenses associated with the expansion into competitive markets. Except for the effect of the $12.3 million stock-based compensation charge discussed above, we expect this trend to continue for the next few years as we build-out our competitive communications business.

Other Income (Expense). Total other expense increased $3.1 million to $19.8 million for the six months ended June 30, 2000 compared to $16.7 million for the six months ended June 30, 1999. The expense consists primarily of interest expense on long-term debt.

Net Loss. Our net loss was $30.3 million for the six months ended June 30, 2000, compared to a loss of $4.8 million for the six months ended June 30, 1999, as a result of the factors discussed above.

Liquidity and Capital Resources

The Company's cash flow requirements include general corporate expenditures, capital expenditures, debt service requirements and acquisitions. The Company expects that its traditional telephone companies' cash flow from operations and the Credit Facility will fund the capital expenditures, working capital and debt interest payment requirements of its traditional telephone companies for the foreseeable future. The Company will require significant capital resources as it expands its competitive communications business. The Company's capital requirements will include the funding of operations and capital asset expenditures.

Historically, the Company has used the proceeds from institutional and bank debt, private equity offerings, and available cash flow to fund its operations. The Company may secure additional funding through the sale of public or private debt and/or equity securities or enter into another bank credit facility to fund future acquisitions and operations. If the growth of the Company's competitive communications business occurs more rapidly than the Company currently anticipates or if the Company's operating results are below expectations, there can be no assurance that the Company will be successful in raising sufficient additional capital on terms that it considers acceptable, or that the Company's operations will produce positive cash flow in sufficient amounts to meet its liquidity requirements. The failure to raise and generate sufficient funds may require the Company to delay or abandon some of its planned future growth or expenditures, which could have a material adverse effect on the Company's growth and its ability to compete in the communications industry.

Debt Financing

We have utilized a variety of debt instruments to fund our business, including:

The Credit Facility. Our Credit Facility provides for two term facilities, one with approximately $67.2 million principal amount outstanding as of June 30, 2000 that matures on June 30, 2006 and the other with the principal amount of approximately $71.1 million outstanding that matures on June 30, 2007. Our Credit Facility also provides for a revolving facility with a principal amount of $85.0 million that matures on September 30, 2004 and a revolving acquisition facility with a principal amount of $165.0 million that also matures on September 30, 2004. As of June 30, 2000, $46.0 million was outstanding on the revolving acquisition facility and $204.0 million was available for borrowing under the remaining revolving acquisition facility and revolving facility.

Senior Subordinated Notes and Floating Rate Notes issued in 1998. We have outstanding publicly-held debt comprised of $125.0 million aggregate principal amount of 9½% senior subordinated notes and $75.0 million aggregate principal amount of floating rate notes. Interest on the senior subordinated notes and floating rate notes is payable semi-annually in cash on each May 1 and November 1. Both series of notes mature on May 1, 2008. We have entered into interest rate swap agreements to reduce the impact of changes in interest rates on our floating rate notes. These notes are general unsecured obligations, subordinated in right of payment to all existing and future senior debt and effectively subordinated to all existing and future debt and other liabilities of our subsidiaries.

Senior Subordinated Notes issued in 2000. In May 2000, we issued $200.0 million aggregate principal amount of 12½% senior subordinated notes. Interest on these notes is payable on May 1 and November 1 of each year, beginning on November 1, 2000. These notes will mature on May 1, 2010. These notes are general unsecured obligations and rank equally with all of FairPoint's other unsecured senior subordinated indebtedness and are subordinated in right of payment to all of FairPoint's senior indebtedness, whether or not secured, and to all of our subsidiaries' existing or future indebtedness, whether or not secured.

FairPoint Solutions Credit Facility. The FairPoint Solutions Credit Facility provides for a revolving facility with a principal amount of $165.0 million that matures on October 20, 2004. As of June 30, 2000, $7.0 million was outstanding and $158.0 million was available for borrowing under the FairPoint Solutions' credit facility. Amounts under the FairPoint Solutions credit facility bear interest at a base rate or LIBOR, plus a margin up to 4.25%.

Equity Financing

In connection with our January 2000 equity financing and recapitalization transaction, affiliates of Thomas H. Lee Equity Fund IV, L.P. (collectively, "THL"), investment partnerships affiliated with Kelso & Company (collectively, "Kelso"), and certain other institutional investors and members of management acquired an aggregate of $408.8 million of our equity securities. We received $158.9 million of net proceeds in such transaction, which it used to repay debt. In addition, THL committed to invest up to an additional $50 million in our equity securities, subject to various conditions. This commitment expires on December 31, 2000.

Cash Flows

Net cash used by operating activities was $7.0 million for the six months ended June 30, 2000 and net cash provided by operating activities was $5.6 million for the six months ended June 30, 1999. Net cash used in investing activities was $208.1 million and $23.3 million for the six months ended June 30, 2000 and 1999, respectively. These cash flows primarily reflect expenditures relating to traditional telephone company acquisitions of $190.8 million and $22.9 million and capital expenditures of $25.6 million and $8.2 million for the six months ended June 30, 2000 and 1999, respectively. Net cash provided by financing activities was $221.0 million and $14.5 million for the six months ended June 30, 2000 and 1999, respectively. These cash flows for the six months ended June 30, 2000 primarily represent the proceeds from the January equity transaction of $158.9 million and the net issuance of long term debt of $71.6 million. The cash flows for the six months ended June 30, 1999 primarily represent the net issuance of long term debt.

New Accounting Standards

In June 1998, the Financial Accounting Standards Board issued Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"), which establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. SFAS 137, or Accounting for Derivative Instruments and Hedging Activities-Deferral of the Effective Date of FASB Statement No. 133, delays the effective date of this statement to all fiscal years beginning after June 15, 2000. We anticipate adopting this accounting pronouncement in 2001; however, we believe it will not have a significant impact on our consolidated financial statements.

Inflation

We do not believe inflation has a significant effect on our operations.

Year 2000

We did not experience significant disruptions in our operations as a result of the Year 2000 issue.

Item 3a. Quantitative and Qualitative Disclosures about Market Risk

At June 30, 2000, we recorded our marketable equity securities at a fair value of $5.0 million. These securities have exposure to price risk. A hypothetical ten percent adverse change in quoted market prices would decrease the recorded value by approximately $0.5 million.

We have limited our exposure to material future earnings or cash flow exposures from changes in interest rates on long-term debt, since approximately 72% of our debt bears interest at fixed rates or effectively at fixed rates through the use of interest rate swaps. However, our earnings are affected by changes in interest rates as our long-term debt under our senior credit facility has variable interest rates based on either the prime rate or LIBOR. If interest rates on our variable debt averaged 10% more, our interest expense would have increased, and loss before taxes would have increased by approximately $0.7 million for the six months ended June 30, 2000.

We have entered into interest rate swaps to manage our exposure to fluctuations in interest rates on our variable rate debt. The fair value of these swaps was approximately $1.0 million at June 30, 2000. The positive fair value indicates an estimated amount we would be paid to cancel the contracts or transfer them to other parties. In connection with our credit facility, we used an interest rate swap agreement with a notional amount of $25 million to effectively convert a portion of our variable interest rate exposure to a fixed rate of 9.91%. The swap agreement expires on September 29, 2000. In connection with our floating rate notes, we used two interest rate swap agreements, with notional amounts of $50 million and $25 million, respectively, to effectively convert our variable interest rate exposure to a fixed rate of 10.01% and 9.95%, respectively. The swap agreements expire on November 1, 2001 and 2000, respectively.

PART II. OTHER INFORMATION

Item 5. Other Information

None.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

2.1	Stock Purchase Agreement dated as of December 10, 1999 by and among MJD Ventures, Inc., Peoples Mutual Telephone Company and the other parties thereto.(1)
2.2	Stock Purchase Agreement dated as of December 23, 1999 by and among MJD Ventures, Inc., TPG Communications, Inc., TPG Partners, L.P., TPG Parallel I, L.P., J. Milton Lewis and Robert DiPauli.(1)
2.3	Stock Purchase Agreement dated as of January 4, 2000 by and among FairPoint, Thomas H. Lee Equity IV, L.P., Kelso Investment Associates V, L.P., Kelso Equity Partners V, L.P., Carousel Capital Partners, L.P. and certain other signatories thereto.(1)
2.4	Stock Purchase Agreement dated as April 25, 2000 by and among MJD Ventures, Inc., Fremont Telcom Co. and the other parties thereto.(4)
2.5	Stock Purchase Agreement dated as of May 23, 2000 by and among MJD Ventures, Inc., W.B.W. Trust Number One and Comerco, Inc.(4)
3.1	Sixth Amended and Restated Certificate of Incorporation of FairPoint.(2)
3.2	By-Laws of FairPoint.(4)
3.3	Certificate of Designation of Series D Preferred Stock of FairPoint.(1)
4.1	Indenture, dated as of May 5, 1998, between FairPoint and United States Trust Company of New York, relating to FairPoint's $125,000,000 9½% Senior Subordinated Notes due 2008 and $75,000,000 Floating Rate Callable Securities due 2008.(3)
4.2	Indenture, dated as of May 24, 2000, between FairPoint and United States Trust Company of New York, relating to FairPoint's $200,000,000 12½% Senior Subordinated Notes due 2010.(4)
4.3	Form of Initial Fixed Rate Security.(3)
4.4	Form of Initial Floating Rate Security.(3)
4.5	Form of Exchange Fixed Rate Security.(3)
4.6	Form of Exchange Floating Rate Security.(3)
4.7	Form of 144A Senior Subordinated Note due 2010.(4)
4.8	Form of Regulation S Senior Subordinated Note due 2010.(4)
4.9	Registration Rights Agreement dated as of May 19, 2000 between FairPoint and the Initial Purchasers named therein.(4)
10.1	Credit Agreement dated as of March 30, 1998 among FairPoint, various lending institutions, NationsBank of Texas, N.A. and Bankers Trust Company.(3)
10.2	First Amendment to Credit Agreement dated as of April 30, 1998 among FairPoint, NationsBank of Texas, N.A. and Bankers Trust Company.(1)

10.3 Second Amendment to Credit Agreement dated as of May 14, 1999 among FairPoint, NationsBank of Texas, N.A. and Bankers Trust Company.(4)

10.4 Amendment and Waiver dated as of January 12, 2000 among FairPoint, NationsBank of Texas, N.A. and Bankers Trust Company.(4)

10.5 Fourth Amendment and Consent dated as of March 14, 2000 among FairPoint, First Union National Bank, Bank of America, N.A. and Bankers Trust Company.(2)

10.6 Form of B Term Note.(3)

10.7 Form of C Term Note Floating Rate.(3)

10.8 Form of C Term Note Fixed Rate.(3)

10.9 Form of RF Note.(3)

10.10 Form of AF Note.(3)

10.11 Subsidiary Guarantee dated as of March 30, 1998 by MJD Holdings Corp., MJD Ventures, Inc., MJD Services Corp., ST Enterprises, Ltd. for the benefit of Bankers Trust Company.(3)

10.12 Pledge Agreement dated as of March 30, 1998 among MJD Communications, Inc., ST Enterprises, Ltd., MJD Holdings Corp., MJD Services Corp., MJD Ventures, Inc., C-R Communications, Inc., as pledgors, and Bankers Trust Company, as collateral agent and pledgee.(3)

10.13 Stockholders' Agreement dated as of January 20, 2000 of FairPoint.(1)

10.14 Registration Rights Agreement dated as of January 20, 2000 of FairPoint.(1)

10.15 Management Services Agreement dated as of January 20, 2000 by and between FairPoint and THL Equity Advisors IV, LLC.(1)

10.16 Amended and Restated Financial Advisory Agreement dated as of January 20, 2000 by and between FairPoint and Kelso & Company, L.P.(1)

10.17 Non-Competition, Non-Solicitation and Non-Disclosure Agreement dated as of January 20, 2000 by and between FairPoint and JED Communications Associates, Inc.(1)

10.18 Non-Competition, Non-Solicitation and Non-Disclosure Agreement dated as of January 20, 2000 by and between FairPoint and Daniel G. Bergstein.(1)

10.19 Non-Competition, Non-Solicitation and Non-Disclosure Agreement dated as of January 20, 2000 by and between FairPoint and Meyer Haberman.(1)

10.20 Subscription Agreement dated as of January 31, 2000 by and between FairPoint and each of the Subscribers party thereto.(1)

10.21 Employment Agreement dated as of January 20, 2000 by and between FairPoint and Jack Thomas.(1)

10.22 Employment Agreement dated as of January 20, 2000 by and between FairPoint and Eugene Johnson.(1)

10.23 Employment Agreement dated as of January 20, 2000 by and between FairPoint and John P. Duda.(1)

10.24 Employment Agreement dated as of January 20, 2000 by and between FairPoint and Walter E. Leach, Jr.(1)

10.25 Institutional Stock Purchase Agreement dated as of January 20, 2000 by and among FairPoint and the other parties thereto.(1)

10.26 Institutional Stockholders Agreement dated as of January 20, 2000 by and among FairPoint and the other parties thereto.(1)

10.27 FairPoint 1995 Stock Option Plan.(4)

10.28 FairPoint Amended and Restated 1998 Stock Incentive Plan.(4)

10.29 FairPoint 2000 Employee Stock Option Plan.(4)

27.1 Financial Data Schedule*

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* Filed herewith.

(1) Incorporated by reference to the annual report of FairPoint for the year ended 1999, filed on Form 10-K.

(2) Incorporated by reference to Amendment No. 1 to the annual report of FairPoint for the year ended 1999, filed on Form 10-K/A.

(3) Incorporated by reference to the registration statement on Form S-4 of FairPoint, declared effective as of October 1, 1998 (file no. 333-56365).

(4) Incorporated by reference to the registration statement on Form S-4 of FairPoint, declared effective as of August 9, 2000 (file no. 333-41462).

(b) Reports on Form 8-K

On February 4, 2000, the Company filed a Current Report on Form 8-K disclosing the consummation of its January 2000 equity financing and recapitalization.

On April 17, 2000, the Company filed a Current Report on Form 8-K disclosing its acquisition of all of the outstanding capital stock of TPG Communications, Inc., pursuant to the terms of a Stock Purchase Agreement, dated as of December 23, 1999, for an aggregate purchase price of approximately $146.3 million.

On May 10, 2000, the Company filed a Current Report on Form 8-K, dated May 9, 2000, announcing its intention to file a registration statement for an underwritten public offering of its common stock.

On May 10, 2000 the Company filed a Current Report on Form 8-K, dated May 9, 2000, announcing its intention to raise $2000 million through a private offering of senior subordinated notes. The senior subordinated notes will have a ten-year term and interest will be paid semi-annually in cash.

On May 10, 2000 the Company filed a Current Report on Form 8-K, dated April 28, 2000 announcing the amendment and restatement of its Certificate of Incorporation to change its legal name from MJD Communications, Inc. to FairPoint Communications, Inc.

On May 31, 2000, the Company filed a Current Report on Form 8-K disclosing the consummation of its May 2000 private placement of $200 million of its 12½% Senior Subordinated Notes due 2010.

ATTACHMENT B – 3

CAPITAL EXPENDITURE BUDGET

FairPoint Communications Solutions Corp
CLEC CAPEX 2000 - 2008
(dollars in millions)

	2000	2001	2002	2003	2004	2005	2006	2007	2008
Computers and Peripherals	$4.5	$4.6	$1.8	$1.7	$2.1	$2.1	$2.3	$2.2	$1.6
Furniture and Fixtures	$1.5	$1.0	$0.5	$0.5	$0.7	$0.8	$1.0	$0.9	$0.6
Office Equipment Startup	$2.9	$1.0	$0.6	$0.6	$0.9	$0.9	$1.1	$0.7	$0.1
Leasehold Improvements	$1.8	$0.5	$0.0	$0.2	$0.3	$0.4	$0.4	$0.3	$0.1
Network Equipment	$52.0	$87.9	$31.0	$14.2	$40.9	$68.3	$76.7	$85.7	$59.2
Fiber & Transmission	$15.5	$8.2	$6.5	$3.0	$1.2	$1.2	$1.2	$1.2	$1.3
ISP	$2.6	$4.3	$5.4	$7.6	$8.5	$7.0	$7.5	$12.0	$13.2
Software and Systems Development	$13.1	$8.9	$5.1	$3.9	$2.7	$9.5	$5.4	$5.2	$5.2
Total CapEx	$93.9	$116.3	$50.9	$31.7	$57.3	$90.1	$95.8	$108.3	$81.4

ATTACHMENT B – 4

EXPLANATION OF GOODWILL & SUBORDINATED DEBT

FairPoint communications

The Power of Choice

❖**MEMORANDUM**

To: Tennessee Regulatory Authority

CC: Chad Pifer

From: Ryan Cure; Vice President and Controller

Date: September 2, 2000

Subject: Requested information

The following represents explanations to the questions from the Tennessee Regulatory Authority:

An explanation of how the losses will be covered in the first three years as stated on the budgeted financial provided for Tennessee.

FairPoint Solutions has in place various means of financing its current and future losses from operations. FairPoint Solutions receives funding from its parent, FairPoint Communications, Inc. up to an amount allowable by the parent company's debt indenture. FairPoint Solutions also has in place a Senior Credit Facility for an amount of $165 million of which approximately $140 million is currently available for use. FairPoint Solutions is also currently negotiating an incremental increase of $135 million to this Senior Credit Facility.

Please provide explanations of Goodwill and subordinated debt amounts on the financials.

FairPoint Communications, Inc. has historically been a merger and acquisition holding company. The goodwill on the parent company balance sheet represents the excess of purchase price over the allocated fair value of the assets purchased in accordance with GAAP and SEC reporting requirements.

The subordinated debt represents publicly traded debt the parent company has obtained to finance their acquisitions as well as FairPoint Solutions. This debt is subordinated in rights to the parent company's Senior Secured Credit Facility.

If any more detail is required on the above topics, feel free to contact me at (704) 414-2500.

ATTACHMENT B – 5

MANAGEME PROFILES

Senior Management Profiles

Brady Buckley, President and CEO, began his career with U.S. Sprint, he also served as Vice President of LDDS Worldcom. Prior to joining FairPoint Communications, Brady served as President of American Telco, Inc.; a Houston-based telecommunications firm that was the first company to provide combined local and long distance phone service in Texas. Under Brady's leadership, the company's revenues increased 50 percent and its asset value rose from $55 million to $130 million in two and a half years. Buckley holds a Bachelor of Arts degree in Economics from St. Lawrence University.

Jeff Tousa, Vice President of Sales, also brings a lengthy career with American Telco, of Texas at which he began 10 years ago as an account representative. As Jeff's career grew he left Dallas for the Houston office where he continued to be on the move until he ended his career with Telco. Upon his departure Jeff held the Vice President of Sales position for 2 years and maintained responsibility for over 200 people. Tousa holds a Bachelor of Arts degree in Political Science from Rice University.

Dan Yamin, Vice President of Marketing and Product Development, was Vice President of Customer Operations/Sales and Marketing for Taconic Telephone Corp. Dan was employed with Taconic since 1989, he previously served as Director of Customer Operations/Sales and Marketing for the company. Prior to Taconic, Dan was an account executive for Rochester Telephone Business Marketing and a telecommunications manager for a Gulf & Western Company. Yamin holds a Bachelor of Science degree with a concentration in Business Management from the Regents State University College of New York.

Thomas Iachetta, Vice President of Information Systems prior position was Vice President of Planning and Business Development for Taconic Telephone Corp. Mr. Iachetta was employed at Taconic since 1985 and previously served as Director of Planning and Business Development. Prior to that, he served as Manager of Network and Information Services. He was responsible for all aspects of corporate planning for Taconic and its subsidiaries while overseeing information systems. He was responsible for Taconic Cellular Corp., Taconet Corp., a sophisticated SS7 network and Taconic TelCom Corp., a long distance service provider. Iachetta holds a Bachelor of Science degree in Management with a concentration in Information Processing from SUNY Albany

Stephen Lagasse - Vice President of Customer Service before his promotion, Lagasse was the Director of FairPoint's Operation Center, responsible for various aspects of Customer Service initiatives. Steve is now responsible for Customer Service, Provisioning, and Repair. Steve brings 14 years of telecommunications experience to his new position, including Engineering responsibilities with Bell Atlantic, and Operations and Market Development positions with NYNEX. Lagasse holds a Bachelor of Science degree in Marketing Management from Virginia Tech.

<u>Patrick L. Eudy, Vice President Business Development</u>, career encompasses operating experience in the communications industry, investment banking, and consulting. Mr. Eudy was Vice President - Business Development for MJD Communications, Inc. While with MJD, Mr. Eudy developed the competitive local exchange business plan, which led to the creation of FairPoint Communications. Mr. Eudy managed the start-up and daily operations of FairPoint from November 1997 until July 1998. From 1994 to 1997, Mr. Eudy was employed in various capacities with CruisePhone, Inc. where most recently he was Vice President - Market Development. Eudy holds a Bachelor of Arts Degree from Vanderbilt University.

<u>Ryan Cure-Vice President, Vice President & Controller</u> comes to FairPoint from KPMG LLP, in Lincoln Nebraska where he was a manager. He was responsible for highly sophisticated financial audits and acquisitions for major companies, including FairPoint's parent company FairPoint Communications Holdings, Inc. Ryan holds a bachelor's degree in Business Administration and Accounting from Nebraska Wesleyan University. He will manage all accounting and financial responsibilities for FairPoint.

ATTACHMENT C

TENNESSEE NPA / NXX

LATA	CLLI CODE	PLACE	RATE CENTER	NPA
468	DYBGTNMA	Dyersburg, TN	Dyersburg	901
468	JCSNTNMA	Jackson, TN	Jackson	901
468	JCSNTNNS	Jackson, TN	Jackson	901
468	PARSTNMA	Paris, TN	Paris	901
470	CLVLTNMA	Clarksville, TN	CLARKSVL	931
470	CLMATNMA	Columbia , TN	Columbia	931
470	DKSNTNMT	Dickson, TN	Dickson	615
470	LRBGTNMA	Lawrenceburg, TN	Lawrenceburg	931
470	MRBOTNMA	Murfreesboro, TN	Murfreesboro	615
470	PLSKTNMA	Pulaski, TN	Pulaski	931
470	SHVLTNMA	Shelbyville, TN	Shelbyville	931
470	SMYRTNMA	Smyrna, TN	Smyrna	615
470	TLLHTNMA	Tullahoma, TN	TULLAHOMA	931
470	WNCHTNMA	Winchester, TN	Winchester	931
472	CHTGTNBR	Chattanooga, TN	Chattanooga	423
472	CHTGTNDT	Chattanooga, TN	Chattanooga	423
472	CHTGTNMV	Chattanooga, TN	Chattanooga	423
472	CHTGTNNS	Chattanooga, TN	Chattanooga	423
472	CHTGTNRB	Chattanooga, TN	Chattanooga	423
472	CHTGTNSE	Chattanooga, TN	Chattanooga	423
472	CLEVTNMA	Cleveland, TN	Cleveland	423
474	ATHNTNMA	Athens, TN	Athens	423
474	KNVLTNBE	Knoxville, TN	Knoxville	423
474	KNVLTNFC	Knoxville, TN	Knoxville	423
474	KNVLTNMA	Knoxville, TN	Knoxville	423
474	KNVLTNWH	Knoxville, TN	Knoxville	423
474	KNVLTNYH	Knoxville, TN	Knoxville	423
474	MRTWTNMA	Morristown, TN	Morristown	423
474	NWPTTNMT	Newport, TN	Newport	423
956	BRSTTNXA	Bristol, TN	Bristol	423
956	GRVLTNXA	Greeneville, TN	Greeneville	423
956	JHCYTNXA	Johnson City, TN	Johnson City	423
956	JHCYTNXC	Johnson City, TN	Johnson City	423
956	KGPTTNXA	Kingsport, TN	Kingsport	423
956	KGPTTNXC	Kingsport, TN	Kingsport	423