Attachment 2

Amendment No. 7

to

Form S-1

of the Securities and Exchange Commission

As filed with the Securities and Exchange Commission on December 16, 2004

Registration No. 333-113937

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

AMENDMENT NO. 7
to
FORM S-1

**REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933**

FAIRPOINT COMMUNICATIONS, INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware	**4813**	**13-3725229**
(State or Other Jurisdiction of Incorporation or Organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification Number)

**521 East Morehead Street, Suite 250
Charlotte, North Carolina 28202
(704) 344-8150**
(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

**Shirley J. Linn, Esq.
Senior Vice President and General Counsel
FairPoint Communications, Inc.
521 East Morehead Street, Suite 250
Charlotte, North Carolina 28202
(704) 344-8150**
(Name, address, including zip code, and telephone number, including area code, of agent for service)

SEE TABLE OF ADDITIONAL REGISTRANTS

**Marie Censoplano, Esq.
Jeffrey J. Pellegrino, Esq.
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75 East 55th Street
New York, New York 10022
(212) 318-6000**

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Debevoise & Plimpton LLP
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New York, New York 10022
(212) 909-6000**

Approximate date of commencement of sale of the securities to the public:
As soon as practicable after this registration statement becomes effective.

If any of the securities being registered on this Form are being offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933 check the following box: ☐

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. ☐

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered(1)	Proposed Maximum Aggregate Offering Price(2)	Amount of Registration Fee
Common Stock, $0.01 par value(3)	$575,000,000	$67,677.50(4)

(1) This registration statement, as originally filed, applied to income deposit securities representing senior subordinated notes and class A common stock and separate (not in the form of income deposit securities) senior subordinated notes. With this Amendment No. 7, the registrant hereby amends this registration statement to apply solely to common stock. No income deposit securities or separate senior subordinated notes are to be registered under this registration statement.

(2) Estimated solely for the purpose of calculating the amount of the registration fee pursuant to Rule 457(o) under the Securities Act of 1933, as amended.

(Continued on next page)

(Continued from previous page)

(3) Includes shares of common stock subject to the underwriters' over-allotment option.

(4) A registration fee of $95,025 was previously paid in connection with the initial filing of this Registration Statement on March 25, 2004. An additional registration fee of $14,693.30 was paid with the filing of Amendment No. 3 to this Registration Statement on July 13, 2004. The adjusted registration fee, based on the revised proposed maximum aggregate offering amount, is $67,677.50.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a) of the Securities Act of 1933, may determine.

SUBJECT TO COMPLETION, DATED DECEMBER 16, 2004

PROSPECTUS

Shares

FairPoint communications, inc.

Common Stock

This is an initial public offering of common stock of FairPoint Communications, Inc. We anticipate that the public offering price per share of common stock will be between $ and $.

We intend to list our common stock on the New York Stock Exchange under the trading symbol "FRP."

Investing in our common stock involves risks. See "Risk Factors" beginning on page 9.

	Per Share	Total
Public offering price	$	$
Underwriting discount	$	$
Proceeds, before expenses, to FairPoint Communications, Inc.	$	$

Certain of our stockholders have granted the underwriters an option to purchase up to additional shares of common stock at the public offering price, less the underwriting discount, within 30 days from the date of this prospectus to cover over-allotments, if any. We will not receive any of the proceeds from any sale of shares by the selling stockholders.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The underwriters expect to deliver the shares of common stock to purchasers on or about , 2005.

Morgan Stanley **Goldman, Sachs & Co.**

Banc of America Securities LLC **Deutsche Bank Securities**

The date of this prospectus is , 2005.

[Map of United States indicating the locations of our operations and the names by which certain companies do business]

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Prospectus Summary

The following is a summary of the principal features of this offering of common stock and should be read together with more detailed information and financial data and statements contained elsewhere in this prospectus.

Our Company

Overview

We are a leading provider of communications services to rural communities, offering an array of services, including local and long distance voice, data, Internet and broadband product offerings. We are one of the largest telephone companies in the United States focused on serving rural communities, and we are the 17th largest local telephone company, in each case based on number of access lines. We operate in 17 states with approximately 272,691 access line equivalents (including voice access lines and digital subscriber lines) in service as of September 30, 2004.

We were incorporated in February 1991 for the purpose of operating and acquiring incumbent telephone companies in rural markets. We have acquired 30 such businesses, 26 of which we continue to own and operate. Many of our telephone companies have served their respective communities for over 75 years. The majority of the rural communities we serve have fewer than 2,500 residents. All of our telephone company subsidiaries qualify as rural local exchange carriers under the Telecommunications Act of 1996.

Rural local exchange carriers generally are characterized by stable operating results and strong cash flow margins and operate in supportive regulatory environments. In particular, existing state and federal regulations permit us to charge rates that enable us to recover our operating costs, plus a reasonable rate of return on our invested capital (as determined by relevant regulatory authorities). Competition is typically limited because rural local exchange carriers primarily serve sparsely populated rural communities with predominantly residential customers, and the cost of operations and capital investment requirements for new entrants is high.

Our Competitive Strengths

We believe we are distinguished by the following competitive strengths:

- **Consistent and predictable cash flows and strong margins.** We have the leading market position in the rural communities we serve, with limited competition. Demand for telephone services from our residential and local business customers has historically been very stable despite changing economic conditions. Additionally, our telephone companies operate in generally supportive regulatory environments. These factors have permitted us to generate consistent cash flows and strong margins.
- **Geographically diversified markets**. We currently operate 26 rural local exchange carriers in 17 states, clustered in five regions, enabling us to capitalize on economies of scale and operating efficiencies and enhance our cash flow stability by limiting our exposure to competition, local economic downturns and state regulatory changes.
- **Technologically advanced infrastructure.** Our advanced network infrastructure enables us to provide a wide array of communications services, including digital subscriber lines. As of September 30, 2004, approximately 96% of our exchanges were capable of providing broadband services.
- **Broadest service offerings in our markets.** We believe that, as a result of our advanced network and switching infrastructure, we offer the only comprehensive suite of communications services in our markets, including local and long distance voice, data and Internet services.

- **Management team with proven track record.** Our experienced management team, which has an average of 21 years of experience working with a variety of telephone companies, has successfully integrated 30 business acquisitions since 1993, improving revenues and cash flow significantly while enhancing service quality and broadening service offerings.

Our Strategy

The key elements of our strategy are to:

- **Increase revenue per customer.** We are focused on increasing our revenues by introducing innovative product offerings and marketing strategies for enhanced and ancillary services and successfully cross-selling broadband and value-added services, such as digital subscriber lines, long distance, Internet dial-up, voicemail and other services, to our customers.
- **Continue to improve operating efficiencies and profitability.** We intend to continue to increase our operating efficiencies by consolidating various administrative functions and implementing best practices across all of our regions.
- **Enhance customer loyalty.** We intend to continue to build our customer relationships by offering an array of communications services and quality customer care.
- **Grow through selective acquisitions.** We will continue to evaluate and pursue acquisitions which provide the opportunity to enhance our revenues and cash flows.

The Transactions

Concurrently with this offering, we will enter into a new senior secured $690.0 million credit facility, which we refer to as our new credit facility, consisting of a revolving facility in an aggregate principal amount of up to $100.0 million and a term facility in an aggregate principal amount of $590.0 million. While our new credit facility will permit us to pay dividends to holders of our common stock, it will contain significant restrictions on our ability to do so. See “Dividend Policy and Restrictions” and “Description of Certain Indebtedness—New Credit Facility.”

We expect to receive gross proceeds from this offering of approximately $475.0 million, assuming an initial public offering price of $ per share of our common stock, which represents the mid-point of the range set forth on the cover page of this prospectus. These proceeds, together with approximately $590.0 million in borrowings we expect to receive under the term facility of our new credit facility, primarily will be used to:

- Repay in full all $185.1 million of outstanding loans under our existing credit facility.
- Consummate tender offers and consent solicitations for all of our outstanding $115.2 million aggregate principal amount of 9½% senior subordinated notes due 2008, which we refer to as the 9½% notes; all of our outstanding $75.0 million aggregate principal amount of floating rate callable securities due 2008, which we refer to as the floating rate notes; all of our outstanding $193.0 million aggregate principal amount of 12½% senior subordinated notes due 2010, which we refer to as the 12½% notes; and all of our outstanding $225.0 million aggregate principal amount of 11⅞% senior notes due 2010, which we refer to as the 11⅞% notes.
- Repurchase all of our series A preferred stock (together with accrued and unpaid dividends thereon) from the holders thereof for an aggregate purchase price of $130.8 million. The series A preferred stock was initially issued in May 2002 in exchange for debt of one of our subsidiaries whose operations we discontinued.
- Repay in full all $13.6 million of our subsidiaries’ outstanding long-term debt.

- Repay in full a $7.0 million unsecured promissory note issued by us in connection with a past acquisition.
- Pay fees and expenses, including tender premiums and consent payments, of $109.5 million.

In this prospectus, we refer to this offering, our new credit facility and the transactions described above collectively as the transactions. For additional information concerning the transactions, see "The Transactions," "Use of Proceeds," "Description of Certain Indebtedness" and "Capitalization."

Our Investors

Our issued and outstanding capital stock currently consists of series A preferred stock, class A common stock and class C common stock. The series A preferred stock is held by one of our equity sponsors and by certain former institutional lenders to one of our subsidiaries. The class A common stock is held primarily by our equity sponsors, our directors, our founders and current and former employees (which includes certain of our executive officers named in our management table). The class C common stock is held by certain institutional investors, including an affiliate of one of our underwriters. Upon the closing of this offering, all of our shares of class C common stock will automatically be converted, on a one-for-one basis, into shares of our class A common stock and all of our shares of class A common stock will be reclassified into shares of our common stock.

Upon the closing of this offering, Thomas H. Lee Equity Fund and Kelso & Company will own approximately % and %, respectively, of our common stock. Kelso & Company has granted the underwriters an option to purchase up to additional shares of our common stock at the public offering price, less the underwriting discount, within 30 days from the date of this prospectus, to cover over-allotments. If the over-allotment option is exercised in full, Thomas H. Lee Equity Fund and Kelso & Company will own approximately % and %, respectively, of our common stock.

Where You Can Find Us

We were incorporated in New York in 1991 and reincorporated in Delaware in 1993 as MJD Communications, Inc. In April 2000, we changed our name to FairPoint Communications, Inc. Our principal offices are located at 521 East Morehead Street, Suite 250, Charlotte, North Carolina 28202 and our telephone number is (704) 344-8150. Our web site is located at *www.fairpoint.com*. The information on our web site is not part of this prospectus.

General Information About This Prospectus

Throughout this prospectus, unless otherwise noted, we have assumed:

- no exercise of the underwriters' over-allotment option; and
- that all of the outstanding 9½% notes, floating rate notes, 12½% notes and 11⅞% notes are purchased pursuant to the tender offers for such notes.

In addition, throughout this prospectus, unless otherwise noted, share information excludes shares of common stock issuable upon exercise of outstanding stock options and restricted stock units and gives effect to the following transactions which will occur simultaneously with the closing of this offering:

- the conversion of all of our shares of class C common stock, on a one-for-one basis, into shares of our class A common stock;
- the reclassification of all of our shares of class A common stock into shares of our common stock;
- a for 1 reverse stock split of our common stock; and
- the issuance of shares of restricted stock to be awarded under our 2005 stock incentive plan, which shares will begin to vest on April 1, 2006 and will not be entitled to receive dividends for any period prior to April 1, 2006.

THE OFFERING

Shares of common stock offered by FairPoint Communications, Inc.	shares.
Shares of common stock outstanding following this offering	shares.
Dividends	Our board of directors will adopt a dividend policy, effective upon the closing of this offering, which reflects our judgment that our stockholders would be better served if we distributed a substantial portion of the cash generated by our business in excess of operating needs, interest and principal payments on our indebtedness, dividends on our future senior classes of capital stock, if any, capital expenditures taxes and future reserves, if any, as regular quarterly dividends to our stockholders.

We currently expect to pay dividends quarterly at an initial annual level of $ per share for the first four full fiscal quarters following the closing of this offering, but only if and to the extent dividends are declared by our board of directors and permitted by applicable law and by the terms of our new credit facility. Dividend payments are not guaranteed and our board of directors may decide, in its absolute discretion, at any time and for any reason, not to pay dividends. Dividends on our common stock are not cumulative. Consequently, if dividends on our common stock are not declared and/or paid at the targeted level, our stockholders will not be entitled to receive such payments in the future. See "Dividend Policy and Restrictions."

Our new credit facility restricts our ability to declare and pay dividends based on the amount of our "available cash." Our new credit facility defines available cash as Adjusted EBITDA minus cash interest expense, capital expenditures (unless funded by long-term debt), cash taxes and repayments of our indebtedness. In addition, we expect that our new credit facility will suspend our ability to pay dividends if a default or event of default under the new credit facility has occurred or if our leverage ratio exceeds to 1.00 for our most recently ended fiscal quarter. For a more detailed description of "available cash," and the leverage ratio, see "Description of Certain Indebtedness—New Credit Facility."

	Dividends paid by us, to the extent paid out of our earnings and profits as computed for income tax purposes, will be taxable as dividend income. Under current law, dividend income of individuals is generally taxable at long-term capital gains rates. Dividends paid by us in excess of our earnings and profits will be treated first as a non-taxable return of capital and then as gain from the sale of common stock. For a more complete description, see "Certain United States Federal Tax Considerations."
Listing	We intend to list our shares of common stock on the New York Stock Exchange.

Risk Factors

You should carefully consider the information under the heading "Risk Factors," starting on page 9, and all other information in this prospectus before investing in our common stock.

Summary Historical and Pro Forma Financial Data

The following financial information should be read in conjunction with "Selected Financial Data," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated historical and pro forma financial statements and notes thereto contained elsewhere in this prospectus. Amounts in thousands, except access lines and ratios.

	Year Ended December 31,			Nine Months Ended September 30,		Pro Forma(1)	
	2001	2002	2003	2003	2004	Year Ended December 31, 2003	Nine Months Ended September 30, 2004
				(unaudited)		(unaudited)	
Statement of Operations:							
Revenues	$ 230,176	$ 230,819	$ 231,432	$ 171,663	$ 188,838	$238,663	$188,838
Income from operations	57,995	73,320	72,140	53,858	55,474	70,996	53,855
Income (loss) from continuing operations(2)	(25,422)	(8,694)	(8,250)	(4,653)	(13,597)	44,460	35,151
Income (loss) from discontinued operations(3)	(186,178)	21,933	9,921	9,726	671	9,921	671
Net income (loss)(2)	(211,600)	13,239	1,671	5,073	(12,926)	54,381	35,822
Operating Data:							
EBITDA(4)	$ 106,404	$ 107,654	$ 129,827	$ 96,418	$ 101,256	$130,134	$ 99,637
Adjusted EBITDA(4)	120,951	131,656	132,574	99,778	105,578	135,039	105,578
Capital expenditures	43,175	38,803	33,595	19,613	24,392	34,218	24,392
Access line equivalents(5)	247,862	248,581	264,308	248,589	272,691	264,308	272,691
Residential access lines	191,570	189,803	196,145	187,523	192,353	196,145	192,353
Business access lines	53,056	51,810	50,226	48,795	49,918	50,226	49,978
Digital subscriber lines	3,236	6,968	17,937	12,271	30,420	17,937	30,420
Balance Sheet Data (as of the period end):							
Cash	$ 2,919	$ 5,394	$ 5,603	$ 33,082	$ 6,413		$
Total assets	875,015	829,253	843,068	834,054	830,917		
Total long term debt, including current portion	907,602	804,190	825,560	811,686	813,476		
Preferred shares subject to mandatory redemption	—	90,307	96,699	92,089	111,519		
Total shareholders' equity (deficit)	(149,510)	(146,150)	(147,953)	(145,923)	(162,112)		

(1) Information gives pro forma effect to this offering, our new credit facility, the other transactions described under "The Transactions" and the acquisition of Community Service Telephone Co., or Community Service Telephone, and Commtel Communications, Inc., or Commtel Communications, as if they had each occurred on January 1, 2003. We refer to the acquisition of Community Service Telephone and Commtel Communications herein as the Maine acquisition. The pro forma statement of operations data do not include the subsequent write-off of deferred transaction costs of $5.6 million for the abandonment of our proposed offering of income deposit securities; however, the pro forma balance sheet data include a pro forma adjustment to reflect this write-off.

(2) Interest expense includes amortization of debt issue costs aggregating $4,018, $3,664 and $4,171 for the fiscal years ended December 31, 2001, 2002 and 2003 and $3,118 and $3,452 for the nine months ended September 30, 2003 and 2004, respectively. We prospectively adopted the provisions of SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Liabilities and Equity," effective July 1, 2003. SFAS 150 requires us to classify as a long-term liability our series A preferred stock and to reclassify dividends and accretion from the series A preferred stock as interest expense. Such stock is now described as "Preferred Shares Subject to Mandatory Redemption" in the balance sheet and dividends and accretion on these preferred shares are now included in pre-tax income whereas previously they were presented as a reduction to equity (a dividend), and, therefore, a reduction of net income available to common stockholders. For the year ended December 31, 2003, interest expense includes $9,049 related to dividends and accretion on preferred shares subject to mandatory redemption. For the nine months ended September 30, 2003 and 2004, interest expense includes $4,440 and $14,820, respectively, related to dividends and accretion on preferred shares subject to mandatory redemption.

(3) Income (loss) from discontinued operations reflects (i) the sale by us of all the capital stock of Union Telephone of Harford, Armour Independent Telephone Co., WMW Cable TV Co. and Kadoka Telephone Co. to the Golden West Telephone Properties, Inc. on September 30, 2003, which we refer to as the South Dakota disposition; and (ii) the discontinuation of

our competitive local exchange carrier operations through FairPoint Carrier Services, Inc., or Carrier Services, in November 2001.

(4) EBITDA means net income (loss) before income (loss) from discontinued operations, interest expense, income taxes, and depreciation and amortization. We believe EBITDA is useful to investors because EBITDA is commonly used in the communications industry to analyze companies on the basis of operating performance, liquidity and leverage. We believe EBITDA allows a standardized comparison between companies in the industry, while minimizing the differences from depreciation policies, financial leverage and tax strategies. We also believe that EBITDA is useful as a means to evaluate our ability to pay dividends. While providing useful information, EBITDA should not be considered in isolation or as a substitute for consolidated statement of operations and cash flows data prepared in accordance with generally accepted accounting principles. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources."

A reconciliation of net cash provided by operating activities of continuing operations to EBITDA follows (in thousands):

	Year Ended December 31,			Nine Months Ended September 30,		Pro Forma	
	2001	2002	2003	2003	2004	Year Ended December 31, 2003	Nine Months Ended September 30, 2004
				(unaudited)		(unaudited)	
Net cash provided by operating activities of continuing operations	$ 35,717	$ 55,632	$ 32,834	$ 23,658	$ 32,858	$ 93,611	$ 83,225
Adjustments:							
Depreciation and amortization	(55,081)	(46,310)	(48,089)	(36,181)	(36,876)	(49,325)	(36,876)
Impairment of investments	—	(12,568)	—	—	—	—	—
Other non-cash items	(9,712)	1,281	1,866	3,768	(11,191)	(1,284)	(11,500)
Changes in assets and liabilities arising from continuing operations, net of acquisitions	3,654	(6,729)	5,139	4,102	1,612	1,458	302
Income (loss) from continuing operations	(25,422)	(8,694)	(8,250)	(4,653)	(13,597)	44,460	35,151
Adjustments:							
Interest expense(2)	76,314	69,520	90,224	64,640	77,698	36,442	27,331
Provision (benefit) for income tax expense	431	518	(236)	250	279	(93)	279
Depreciation and amortization	55,081	46,310	48,089	36,181	36,876	49,325	36,876
EBITDA	$ 106,404	$107,654	$129,827	$ 96,418	$ 101,256	$130,134	$ 99,637

Certain covenants in our new credit facility will contain ratios based on Adjusted EBITDA and the restricted payment covenant in our new credit facility regulating the payment of dividends on our common stock will be based on Adjusted EBITDA. Adjusted EBITDA for any period is defined in our new credit facility as (1) the sum of consolidated net income, as defined therein, plus the following to the extent deducted from consolidated net income: provision for taxes, consolidated interest expense, depreciation, amortization and certain other non-cash items, each as defined, minus (2) all non-cash items increasing consolidated net income for the period. If our Adjusted EBITDA were to decline below certain levels, covenants in our new credit facility may be violated and could cause, among other things, a default under our new credit facility, or result in our inability to pay dividends. These covenants are summarized under "Description of Certain Indebtedness—New Credit Facility." A reconciliation of EBITDA to Adjusted EBITDA is as follows (in thousands):

	Year Ended December 31,			Nine Months Ended September 30,		Pro Forma	
						Year Ended December 31,	Nine Months Ended September 30,
	2001	2002	2003	2003	2004	2003	2004
				(unaudited)		(unaudited)	
EBITDA	$106,404	$107,654	$129,827	$96,418	$101,256	$130,134	$ 99,637
Net (gain) loss on sale of investments and other assets	648	(34)	(608)	(595)	240	(608)	240
Impairment on investments	—	12,568	—	—	—	—	—
Equity in net earnings of investees	(4,930)	(7,798)	(10,092)	(7,235)	(7,929)	(10,092)	(7,929)
Distributions from investments(6)	5,013	9,018	10,775	8,650	11,810	10,775	11,810
Realized and unrealized losses on interest rate swaps	12,873	9,577	1,387	1,211	112	1,387	112
Loss on early retirement of debt	—	—	1,503	1,503	—	1,503	—
Non-cash stock based compensation	1,337	924	15	—	133	2,173	1,752
Deferred patronage dividends	(394)	(253)	(233)	(174)	(44)	(233)	(44)
Adjusted EBITDA	$120,951	$131,656	$132,574	$99,778	$105,578	$135,039	$105,578

(5) Total access line equivalents includes both voice access lines and digital subscriber lines.

(6) Includes distributions relating to minority investments and passive partnership interests. We do not control the timing or the amount of such distributions. The $11.8 million in distributions received in the nine months ended September 30, 2004 includes a non-recurring distribution of approximately $2.5 million. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity."

Risk Factors

An investment in our common stock involves a number of risks. In addition to the other information contained in this prospectus, prospective investors should give careful consideration to the following factors. Any of the following risks could materially and adversely affect our business, consolidated financial conditions, results of operations or liquidity. In such case, you may lose all or part of your original investment. The risks described below are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may also materially and adversely affect our business operations.

Risks Related to our Common Stock and our Substantial Indebtedness

You may not receive the level of dividends provided for in the dividend policy our board of directors will adopt upon the closing of this offering or any dividends at all.

Our board of directors will adopt a dividend policy, effective upon the closing of this offering, which reflects an intention to distribute a substantial portion of the cash generated by our business in excess of operating needs, interest and principal payments on our indebtedness, dividends on our future senior classes of capital stock, if any, capital expenditures, taxes and future reserves, if any, as regular quarterly dividends to our stockholders. Our board of directors may, in its discretion, amend or repeal this dividend policy. Our dividend policy is based upon our directors' current assessment of our business and the environment in which we operate, and that assessment could change based on competitive or technological developments (which could, for example, increase our need for capital expenditures) or new growth opportunities. In addition, future dividends with respect to shares of our common stock, if any, will depend on, among other things, our cash flows, cash requirements, financial condition, contractual restrictions, provisions of applicable law and other factors that our board of directors may deem relevant. Our board of directors may decrease the level of dividends provided for in the dividend policy or entirely discontinue the payment of dividends. Our new credit facility contains significant restrictions on our ability to make dividend payments. We cannot assure you that we will generate sufficient cash from continuing operations in the future, or have sufficient surplus or net profits, as the case may be, under Delaware law, to pay dividends on our common stock in accordance with the dividend policy established by our board of directors. If we were to use borrowings under our new credit facility's revolving facility to fund dividends, we would have less cash available for future dividends. The reduction or elimination of dividends may negatively affect the market price of our common stock.

To expand our business through acquisitions and service our indebtedness, we will require a significant amount of cash. Our ability to generate cash depends on many factors beyond our control. We may not generate sufficient funds from operations to consummate acquisitions, pay dividends with respect to shares of our common stock or repay or refinance our indebtedness at maturity or otherwise.

We may not retain a sufficient amount of cash to finance a material expansion of our business, or to fund our operations consistent with past levels of funding in the event of a significant business downturn. In addition, because a substantial portion of cash available to pay dividends will be distributed to holders of our common stock under our dividend policy, our ability to pursue any material expansion of our business, including through acquisitions or increased capital spending, will depend more than it otherwise would on our ability to obtain third party financing. We cannot assure you that such financing will be available to us at all, or at an acceptable cost.

Our ability to consummate acquisitions and to make payments on our indebtedness will depend on our ability to generate cash flow from operations in the future. This ability, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control. We cannot assure you, however, that our business will generate sufficient cash flow from operations or that future borrowings will be available to us in an amount sufficient to enable us to pay our indebtedness or to fund our other liquidity needs.

A significant portion of our cash flow from operations will be dedicated to capital expenditures and debt service. In addition, we currently expect to distribute a significant portion of our cash earnings to our stockholders in the form of quarterly dividends. As a result, we may not retain a sufficient amount of cash to finance growth opportunities, including acquisitions, or unanticipated capital expenditures or to fund our operations. In addition, if we reduce capital expenditures, the regulatory settlement payments we receive may decline.

Borrowings under our new credit facility will bear interest at variable interest rates. Accordingly, if any of the base reference interest rates for the borrowings under our new credit facility increase, our interest expense will increase, which could negatively impact our ability to pay dividends on our common stock. In connection with this offering, we intend to enter into an interest rate swap agreement which will fix the interest rates on a substantial portion of the term loans under our new credit facility. After the interest rate swap agreement expires, our annual debt service obligations on such portion of the term loans will vary from year to year unless we enter into a new interest rate swap or purchase an interest rate cap or other interest rate hedge. If we choose to enter into a new interest rate swap or purchase an interest rate cap or other interest rate hedge in the future, the amount of cash available to pay dividends on our common stock may decrease. However, to the extent interest rates increase in the future, we may not be able to enter into a new interest rate swap or purchase an interest rate cap or other interest rate hedge on acceptable terms.

In addition, prior to the maturity of our new credit facility, we will not be required to make any payments of principal on our new credit facility, and it is not likely that we will generate sufficient funds from operations to repay the principal amount of our indebtedness at maturity. We therefore will need to refinance our debt. We may not be able to refinance our new credit facility, or if refinanced, the refinancing may occur on less favorable terms, which may materially adversely affect our ability to pay dividends. If we were unable to refinance our new credit facility, our failure to repay all amounts due on the maturity date would cause a default under our new credit facility. We expect our required principal repayments under the term loan facility of our new credit facility to be approximately $590.0 million at its maturity in 2012. Our interest expense may increase significantly if we refinance our new credit facility on terms that are less favorable to us than the terms of our new credit facility.

We may also be forced to raise additional capital or sell assets and, if we are forced to pursue any of these options under distressed conditions, our business and the value of your investment in our common stock could be adversely affected. In addition, these alternatives may not be available to us when needed or on satisfactory terms due to prevailing market conditions, a decline in our business, legislative and regulatory factors or restrictions contained in the agreements governing our indebtedness.

If we have insufficient cash flow to cover the expected dividend payments under our dividend policy we would need to reduce or eliminate dividends or, to the extent permitted under the agreements governing our indebtedness, fund a portion of our dividends with additional borrowings.

If we do not have sufficient cash to fund dividend payments, we would either reduce or eliminate dividends or, to the extent we were permitted to do so under our new credit facility and the agreements governing future indebtedness we may incur, fund a portion of our dividends with borrowings or from other sources. If we were to use working capital or permanent borrowings under our new credit facility's revolving facility to fund dividends, we would have less cash available for future dividends and other purposes, which could negatively impact our financial condition, our results of operations and our ability to maintain or expand our business.

Our substantial indebtedness could restrict our ability to pay dividends on our common stock and have an adverse impact on our financing options and liquidity position.

As of September 30, 2004, after giving pro forma effect to the transactions, we would have had approximately $590.0 million of total consolidated indebtedness. Our substantial indebtedness could have important adverse consequences to the holders of our common stock, including:

- limiting our ability to pay dividends on our common stock or make payments in connection with our other obligations, including, under our new credit facility;
- limiting our ability in the future to obtain additional financing for working capital, capital expenditures or acquisitions;
- we may not be able to refinance our indebtedness on terms acceptable to us or at all;
- limiting our flexibility in planning for, or reacting to, changes in our business and the communications industry;
- a significant portion of our cash flow from operations is likely to be dedicated to the payment of the principal of and interest on our indebtedness, thereby reducing funds available for future operations, acquisitions, dividends on our common stock and/or capital expenditures;
- we may be more vulnerable to economic and industry downturns and conditions, including changes in interest rates; and
- placing us at a competitive disadvantage compared to those of our competitors that have less indebtedness.

Despite our substantial indebtedness, we may still be able to incur substantially more indebtedness, which could further exacerbate the risks described above.

Subject to certain covenants, our new credit facility will permit us to incur additional indebtedness. Any additional indebtedness that we may incur would exacerbate the risks described in the preceding risk factor.

Our new credit facility will contain significant limitations on distributions and other payments.

Our new credit facility contains significant restrictions on our ability to pay dividends on our common stock based on meeting a total leverage ratio, satisfying a restricted payment covenant and compliance with other conditions, as described in detail under "Description of Certain Indebtedness—New Credit Facility."

We may amend the terms of our new credit facility, or we may enter into new agreements that govern our indebtedness, and the amended terms or new agreements may further significantly affect our ability to pay dividends to holders of our common stock.

As a result of general economic conditions, conditions in the lending markets, the results of our business or for any other reason, we may elect or be required to amend or refinance our new credit facility, at or prior to maturity, or enter into additional agreements for indebtedness. Any such amendment, refinancing or additional agreement may contain covenants which could limit in a significant manner our ability to pay dividends to you.

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

FairPoint Communications, Inc., or FairPoint, is a holding company and conducts all of its operations through its operating subsidiaries. FairPoint currently has no significant assets other than equity interests in its first tier subsidiaries. These first tier subsidiaries have no significant assets other than a direct or indirect equity interest in FairPoint's operating subsidiaries. As a result, FairPoint will rely on dividends and other payments or distributions from its operating subsidiaries to pay dividends with respect to its common stock and to meet its debt service obligations generally. The ability of FairPoint's subsidiaries to pay dividends or make other payments or distributions to FairPoint will depend on their respective operating results and may be restricted by, among other things:

- the laws of their jurisdiction of organization, which may limit the amount of funds available for the payment of dividends;
- agreements of those subsidiaries;
- the terms of FairPoint's new credit facility; and
- the covenants of any future outstanding indebtedness FairPoint or its subsidiaries incur.

FairPoint's operating subsidiaries have no obligation, contingent or otherwise, to make funds available to FairPoint, whether in the form of loans, dividends or other distributions. In addition, we have a number of minority investments and passive partnership interests from which we receive distributions. For example, in 2003 and the nine months ended September 30, 2004, we received $10.8 million and $11.8 million, respectively, of distributions from such investments and interests, which represented a material portion of our cash flow. The $11.8 million received in the nine months ended September 30, 2004 includes a non-recurring $2.5 million distribution. We do not control the timing or amount of distributions from such investments or interests and we may not have access to the cash flows of these entities.

Accordingly, our ability to pay dividends with respect to shares of our common stock and to repay our new credit facility at maturity or otherwise may be dependent upon factors beyond our control. Subject to limitations in our new credit facility, FairPoint's subsidiaries may also enter into agreements that contain covenants prohibiting them from distributing or advancing funds or transferring assets to FairPoint under certain circumstances, including to pay dividends.

Our new credit facility contains covenants that limit our business flexibility by imposing operating and financial restrictions on our operations.

Covenants in our new credit facility impose significant operating and financial restrictions on us. These restrictions prohibit or limit, among other things:

- the incurrence of additional indebtedness and the issuance by our subsidiaries of preferred stock;
- the payment of dividends on, and purchases or redemptions of, capital stock;
- a number of other restricted payments, including investments;
- the creation of liens;
- the ability of our subsidiaries to guarantee our and their indebtedness;
- specified sales of assets;
- the creation of encumbrances or restrictions on the ability of our subsidiaries to distribute and advance funds or transfer assets to us or any other subsidiary;

- specified transactions with affiliates;
- sale and leaseback transactions;
- our ability to enter lines of business outside the communications business; and
- certain consolidations, mergers and sales and transfers of assets by or involving us.

Our new credit facility also contains covenants which require us to maintain specified financial ratios and satisfy financial condition tests, including, without limitation, a maximum total leverage ratio and a minimum interest coverage ratio.

If we are unable to comply with the covenants in the agreements governing our indebtedness, we could be in default under our indebtedness which could result in our inability to make dividend payments on our common stock.

Our ability to comply with the covenants, ratios or tests contained in our new credit facility or in the agreements governing our future indebtedness may be affected by events beyond our control, including prevailing economic, financial and industry conditions. A breach of any of these covenants, ratios or tests could result in a default under our new credit facility. Certain events of default under our new credit facility would prohibit us from making dividend payments on our common stock. In addition, upon the occurrence of an event of default under our new credit facility, the lenders could elect to declare all amounts outstanding under our new credit facility, together with accrued interest, to be immediately due and payable. If we were unable to repay those amounts, the lenders could proceed against the security granted to them to secure that indebtedness. If the lenders accelerate the payment of the indebtedness under our new credit facility, our assets may not be sufficient to repay in full the indebtedness under our new credit facility and our other indebtedness, if any.

Limitations on usage of net operating loss carry forwards, and other factors requiring us to pay cash taxes in future periods, may affect our ability to pay dividends to you.

The transactions will result in an “ownership change” within the meaning of the U.S. federal income tax laws addressing net operating loss carry forwards, alternative minimum tax credits and other similar tax attributes. As a result of such ownership change, there will be specific limitations on our ability to use our net operating loss carry forwards and other tax attributes from periods prior to the transactions. Although it is not expected that such limitations will materially affect our U.S. federal and state income tax liability in the near-term, it is possible in the future that such limitations could limit our ability to utilize such tax attributes and, therefore, result in an increase in our U.S. federal and state income tax liability. In addition, in the future we may be required to pay cash income taxes because all of our net operating loss carry forwards have been used or have expired. Limitations on our usage of net operating loss carry forwards, and other factors requiring us to pay cash taxes in the future, would reduce the funds available for the payment of dividends and might require us to reduce or eliminate the dividends on our common stock.

Before this offering, there has not been a public market for our common stock. The price of our common stock may fluctuate substantially, which could negatively affect holders of our common stock.

The initial public offering price of our common stock has been determined by negotiations among us, our existing equity investors and the representatives of the underwriters and may not be indicative of the market price for our common stock in the future. It is possible that an active trading market for our common stock will not develop or be sustained after this offering. Even if a trading market develops, the market price of our common stock may fluctuate widely as a result of various factors, such as period-to-period fluctuations in our operating results, sales of our common stock by principal stockholders, developments in the telecommunications industry, the failure of securities analysts to cover our common stock after this offering or changes in financial estimates by analysts, competitive factors, regulatory developments, economic and other external factors, general market conditions and market conditions affecting the stock of telecommunications companies in particular. Telecommunications companies have in the past experienced extreme volatility in the trading prices and volumes of their securities, which has often been unrelated to operating performance. Any such market volatility may have a significant adverse effect on the market price of our common stock.

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

Future sales, or the availability for sale in the public market, of substantial amounts of our common stock could adversely affect the prevailing market price of our common stock, and could impair our ability to raise capital through future sales of equity securities.

Upon consummation of this offering, there will be shares of our common stock outstanding (including shares of restricted stock which will begin to vest on April 1, 2006). The shares of our common stock sold in this offering will be freely transferable without restriction or further registration under the Securities Act. The shares of our common stock owned as of the closing of this offering by our existing equity investors, our directors, certain members of our management and our current and former employees will be restricted securities within the meaning of Rule 144 under the Securities Act, but will be eligible for resale subject to applicable volume, manner of sale, holding period and other limitations of Rule 144. We, our executive officers and directors and all of our significant equity holders have agreed to a “lock-up,” meaning that, subject to specified exceptions, neither we nor they will sell any shares without the prior consent of the representatives of the underwriters for 180 days after the date of this prospectus. Following the expiration of this 180-day lock-up period, all of these shares of our common stock will be eligible for future sale, subject to the applicable volume, manner of sale, holding period and other limitations of Rule 144. In addition, following this offering, members of our management and other employees will hold fully vested options to purchase a total of shares of our common stock. Finally, our existing equity investors and certain members of management have certain registration rights with respect to the common stock that they will retain, or may acquire upon the exercise of options, following this offering. See “Shares Eligible for Future Sale” for a discussion of the shares of common stock that may be sold into the public market in the future.

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

If you purchase shares of our common stock, you will experience immediate and substantial dilution.

Investors purchasing shares of our common stock in the offering will experience immediate and substantial dilution in the net tangible book value of their shares. At the initial public offering price of $ per share, dilution to new investors is $ per share. Additional dilution will occur upon exercise of outstanding stock options. If we seek additional capital in the future, the issuance of shares of our common stock or securities convertible into shares of our common stock in order to obtain such capital may lead to further dilution of your equity investment. See “Dilution.”

Our restated certificate of incorporation and amended and restated by-laws and several other factors could limit another party's ability to acquire us and deprive our investors of the opportunity to obtain a takeover premium for their securities.

A number of provisions in our restated certificate of incorporation and amended and restated by-laws will make it difficult for another company to acquire us and for you to receive any related takeover premium for your securities. For example, our restated certificate of incorporation provides that certain provisions of our restated certificate of incorporation can only be amended by a vote of two-thirds or more in voting power of all the outstanding shares of capital stock and that stockholders generally may not act by written consent and only stockholders representing at least 50% in voting power may request that our board of directors call a special meeting. Our restated certificate of incorporation provides for a classified board of directors and authorizes the issuance of preferred stock without stockholder approval and upon such terms as the board of directors may determine. The rights of the holders of shares of our common stock will be subject to, and may be adversely affected by, the rights of holders of any class or series of preferred stock that may be issued in the future.

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

Our restated certificate of incorporation will provide that so long as we hold any authorization, license, permit, order, filing or consent from the Federal Communications Commission or any state regulatory commission having jurisdiction over us, we will have the right to request certain information from our stockholders. If any stockholder from whom such information is requested should fail to respond to such a request or we conclude that the ownership of, or the existence or exercise of any rights of stock ownership with respect to, shares of our capital stock by such stockholder, could result in any inconsistency with, or violation of, any applicable communications law, we may suspend those rights of stock ownership the existence or exercise of which would result in any inconsistency with, or violation of, any applicable communications law, and we may exercise any and all appropriate remedies, at law or in equity, in any court of competent jurisdiction, against any stockholder, with a view towards obtaining such information or preventing or curing any situation which would cause an inconsistency with, or violation of, any provision of any applicable communications law. See "Description of Capital Stock—Regulatory Ownership Provisions."

Risks Related to our Business

We provide services to our customers over access lines, and if we lose access lines, our business and results of operations may be adversely affected.

Our business generates revenue by delivering voice and data services over access lines. We have experienced net voice access line loss of 0.5% for the period from December 31, 2000 through December 31, 2003 and 2.6% for the period from September 30, 2003 through September 30, 2004 due to challenging economic conditions, increased competition and the introduction of digital subscriber line services. We may continue to experience net access line loss in our markets. Our inability to retain access lines could adversely affect our business and results of operations.

We are subject to competition that may adversely impact us.

As an incumbent carrier, we historically have experienced little competition in our rural telephone company markets. Nevertheless, the market for telecommunications services is highly competitive. Regulation and technological innovation change quickly in the telecommunications industry, and changes in these factors historically have had, and may in the future have, a significant impact on competitive dynamics. In certain of our rural markets, we face competition from wireless telephone system operators, which may increase as wireless technology improves. We also face competition from cable television operators. We may face additional competition from new market entrants, such as providers of wireless broadband, voice over internet protocol, satellite telecommunications and electric utilities. The Internet services market is also highly competitive, and we expect that competition will intensify. Some of our competitors have brand recognition and financial, personnel, marketing and other resources that are significantly greater than ours. In addition, consolidation and strategic alliances within the communications industry or the development of new technologies could affect our competitive position. We cannot predict the number of competitors that will emerge, especially as a result of existing or new federal and state regulatory or legislative actions, but increased competition from existing and new entities could have a material adverse effect on our business.

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

- loss of customers (in general, when we lose a customer for local service we also lose that customer for all related services);
- reduced usage of our network by our existing customers who may use alternative providers for long distance and data services;
- reductions in the prices for our services which may be necessary to meet competition; and/or
- increases in marketing expenditures and discount and promotional campaigns.

In addition, our provision of long distance service is subject to a highly competitive market served by large nation-wide carriers that enjoy brand name recognition.

We may not be able to successfully integrate new technologies, respond effectively to customer requirements or provide new services.

The communications industry is subject to rapid and significant changes in technology, frequent new service introductions and evolving industry standards. We cannot predict the effect of these changes on our competitive position, profitability or industry. Technological developments may reduce the competitiveness of our networks and require unbudgeted upgrades or the procurement of additional products that could be expensive and time consuming. In addition, new products and services arising out of technological developments may reduce the attractiveness of our services. If we fail to adapt successfully to technological changes or obsolescence or fail to obtain access to important new technologies, we could lose customers and be limited in our ability to attract new customers and/or sell new services to our existing customers. An element of our business strategy is to deliver enhanced and ancillary services to customers. The successful delivery of new services is uncertain and dependent on many factors, and we may not generate anticipated revenues from such services.

We rely on a limited number of key suppliers and vendors to operate our business. If these suppliers or vendors experience problems or favor our competitors, we could fail to obtain sufficient quantities of products and services we require to operate our business successfully.

We depend on a limited number of suppliers and vendors for equipment and services relating to our network infrastructure. If these suppliers experience interruptions or other problems delivering these network components on a timely basis, subscriber growth and our operating results could suffer significantly. If proprietary technology of a supplier is an integral component of our network, we could be effectively locked into one of a few suppliers for key network components. As a result we have become reliant upon a limited number of network equipment manufacturers, including Nortel Networks Corporation and Siemens Information and Communication Networks, Inc. In addition, when our new billing platform is completed, we will rely on a single outsourced supplier to support our billing and related customer care services. In the event it becomes necessary to seek alternative suppliers and vendors, we may be unable to obtain satisfactory replacement suppliers or vendors on economically attractive terms, on a timely basis, or at all, which could increase costs and may cause disruptions in services.

Our relationships with other telecommunications companies are material to our operations and their financial difficulties may adversely affect our business and results of operations.

We originate and terminate calls for long distance carriers and other interexchange carriers over our network and for that service we receive payments for access charges. These payments represent a significant portion of our revenues. Should these carriers go bankrupt or experience substantial financial difficulties, our inability to then collect access charges from them could have a negative effect on our business and results of operations.

We face risks associated with acquired businesses and potential acquisitions.

We have grown rapidly by acquiring other businesses. Since 1993, we have acquired 30 rural telephone businesses and we continue to own and operate 26 such businesses. We expect that a portion of our future growth will result from additional acquisitions, some of which may be material. Growth through acquisitions entails numerous risks, including:

- strain on our financial, management and operational resources, including the distraction of our management team in identifying potential acquisition targets, conducting due diligence and negotiating acquisition agreements;
- difficulties in integrating the network, operations, personnel, products, technologies and financial, computer, payroll and other systems of acquired businesses;
- difficulties in enhancing our customer support resources to adequately service our existing customers and the customers of acquired businesses;
- the potential loss of key employees or customers of the acquired businesses;
- unanticipated liabilities or contingencies of acquired businesses;
- not achieving projected cost savings or cash flow from acquired businesses;
- fluctuations in our operating results caused by incurring considerable expenses to acquire businesses before receiving the anticipated revenues expected to result from the acquisitions;
- difficulties in finding suitable acquisition candidates;
- difficulties in making acquisitions based on attractive terms due to increased competitiveness; and
- difficulties in obtaining and maintaining any required regulatory authorizations in connection with acquisitions.

In addition, future acquisitions by us could result in the incurrence of indebtedness or contingent liabilities, which could have a material adverse effect on our business and our ability to pay dividends on our common stock, provide adequate working capital and service our indebtedness.

We cannot assure you that we will be able to successfully complete the integration of the businesses that we have already acquired or successfully integrate any businesses that we might acquire in the future. If we fail to do so, or if we do so but at greater cost than we anticipated, or if our acquired businesses do not experience significant growth, there will be a risk that our business may be adversely affected.

We may need additional capital to continue growing through acquisitions.

We may need additional financing to continue growing through acquisitions. Such additional financing may be in the form of additional debt, which would increase our leverage. We may not be able to raise sufficient additional capital at all or on terms that we consider acceptable.

A system failure could cause delays or interruptions of service, which could cause us to lose customers.

To be successful, we will need to continue to provide our customers reliable service over our network. Some of the risks to our network and infrastructure include:

- physical damage to access lines;
- power surges or outages;
- software defects; and
- disruptions beyond our control.

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

Our new integrated billing platform may not be completed on time or may not function properly.

We are in the process of converting our six regional billing systems into a single integrated billing platform for our customers. As of September 30, 2004, we had made capital expenditures of approximately $2.2 million with respect to such conversion. We expect to make an additional $6.5 million of capital expenditures to complete such conversion. The conversion is expected to be completed in the second quarter of 2006. The failure to successfully complete this conversion could disrupt our billing process, which could have a material adverse effect on our business, financial condition and results of operations.

We depend on third parties for our provision of long distance services.

Our provision of long distance services is dependent on underlying agreements with other carriers that provide us with transport and termination services. These agreements are based, in part, on our estimate of future supply and demand and may contain minimum volume commitments. If we overestimate demand, we may be forced to pay for services we do not need. If we underestimate demand, we may need to acquire additional capacity on a short-term basis at unfavorable prices, assuming additional capacity is available. If additional capacity is not available, we will not be able to meet this demand. In addition, if we cannot meet any minimum volume commitments, we may be subject to underutilization charges, termination charges, or rate increases which may adversely affect our results of operations.

We may not be able to maintain the necessary rights-of-way for our networks.

We are dependent on rights-of-way and other permits from railroads, utilities, state highway authorities, local governments and transit authorities to install conduit and related telecommunications equipment for any expansion of our networks. We may need to renew current rights-of-way for our networks and cannot assure you that we would be successful in renewing these agreements on acceptable terms. Some of our agreements may be short-term, revocable at will, or subject to termination upon customary default provisions, and we may not have access to existing rights-of-way after they have expired or terminated. If any of these agreements were terminated or could not be renewed, we may be required to remove our existing facilities from under the streets or abandon our networks. Similarly, we may not be able to obtain right-of-way agreements on favorable terms, or at all, in new service areas, and, if we are unable to do so, our ability to expand our networks, if we decide to do so, could be impaired.

Our success depends on our ability to attract and retain qualified management and other personnel.

Our success depends upon the talents and efforts of our senior management team. With the exception of Eugene Johnson, our Chairman and Chief Executive Officer, none of these senior executives are employed by us pursuant to an employment agreement. The loss of any such management personnel, due to retirement or otherwise, and the inability to attract and retain highly qualified technical and management personnel in the future, could have a material adverse effect on our business, financial condition and results of operations.

We may face significant future liabilities or compliance costs in connection with environmental and worker health and safety matters.

Our operations and properties are subject to federal, state and local laws and regulations relating to protection of the environment, natural resources, and worker health and safety, including laws and regulations governing the management, storage and disposal of hazardous substances, materials and wastes. Under certain environmental laws, we could be held liable, jointly and severally and without regard to fault, for the costs of investigating and remediating any contamination at owned or operated properties; or for contamination arising from the disposal by us or our predecessors of hazardous wastes at formerly-owned properties or at third-party waste disposal sites. In addition, we could be held responsible for third-party property or personal injury claims relating to any such contamination or relating to violations of environmental laws. Changes in existing laws or regulations or future acquisitions of businesses could require us to incur substantial costs in the future relating to such matters.

We will be exposed to risks relating to evaluations of controls required by Section 404 of the Sarbanes-Oxley Act of 2002.

Changing laws, regulations and standards relating to corporate governance and public disclosure, including the Sarbanes-Oxley Act of 2002 and related regulations implemented by the Securities and Exchange Commission, the New York Stock Exchange and the Public Company Accounting Oversight Board, are creating uncertainty for public companies, increasing legal and financial compliance costs and making some activities more time consuming. We will be evaluating our internal controls systems to allow management to report on, and our independent auditors to attest to, our internal controls. We will be performing the system and process evaluation and testing (and any necessary remediation) required to comply with the management certification and auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act. While we anticipate being able to fully implement the requirements relating to internal controls and all other aspects of Section 404 by our December 31, 2005 deadline, we cannot be certain as to the timing of completion of our evaluation, testing and remediation actions or the impact of the same on our operations. If we are not able to implement the requirements of Section 404 in a timely manner or with adequate compliance, we might be subject to sanctions or investigation by regulatory authorities, such as the Securities and Exchange Commission, the New York Stock Exchange or the Public Company Accounting Oversight Board. Any such action could adversely affect our financial results or investors' confidence in us, and could cause our stock price to fall. In addition, the controls and procedures that we will implement may not comply with all of the relevant rules and regulations of the Securities and Exchange Commission, the New York Stock Exchange and the Public Company Accounting Oversight Board. If we fail to develop and maintain effective controls and procedures, we may be unable to provide financial information in a timely and reliable manner.

Risks Related to our Regulatory Environment

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

We operate in a heavily regulated industry, and the majority of our revenues generally have been supported by regulations, including access revenue and Universal Service Fund support for the provision of telephone services in rural areas. Laws and regulations applicable to us and our competitors may be, and have been, challenged in the courts, and could be changed by Congress or regulators. In addition, any of the following have the potential to have a significant impact on us:

Risk of loss or reduction of network access charge revenues. Almost 48% of our revenues come from network access charges, which are paid to us by intrastate and interstate long distance carriers for originating and terminating calls in the regions served. This 48% also includes Universal Service Fund payments for local switching support, long term support and interstate common line support. In recent years, several of these long distance carriers have declared bankruptcy. Future declarations of bankruptcy by a carrier that utilizes our access services could negatively impact our financial results. The amount of access charge revenues that we receive is based on rates set by federal and state regulatory bodies, and such rates could change. Further, from time to time federal and state regulatory bodies conduct rate cases and/or "earnings" reviews, which may result in rate changes. The Federal Communications Commission has reformed and continues to reform the federal access charge system. States often mirror these federal rules in establishing intrastate access charges. In October 2001, the Federal Communications Commission reformed the system to reduce interstate access charges and shift a portion of cost recovery, which historically have been based on minutes-of-use, to flat-rate, monthly per line charges on end-user customers rather than long distance carriers. As a result, the aggregate amount of access charges paid by long distance carriers to access providers, such as our rural local exchange carriers, has decreased and may continue to decrease. Although these changes were implemented on a revenue neutral basis (with commensurate increases in other charges and Universal Service Fund support), there is no assurance that future changes in access charge rates will be implemented on a revenue neutral basis. It is unknown at this time what additional changes, if any, the Federal Communications Commission may eventually adopt. Furthermore, to the extent our rural local exchange carriers become subject to competition, such access charges could be paid to competing communications providers rather than to us. Additionally, the intrastate access charges we receive may be reduced as a result of wireless competition. Regulatory developments of this type could adversely affect our business, revenue or profitability.

Risk of loss or reduction of Universal Service Support. We receive Universal Service Fund revenues to support the high cost of our operations in rural markets. For the year ended December 31, 2003, approximately 8% of our revenues resulted from the high cost loop support we received from the Universal Service Fund and was based upon our average cost per loop compared to the national average cost per loop. For example, if the national average cost per loop increases and our operating costs (and average cost per loop) remain constant or decrease, the payments we receive from the Universal Service Fund would decline. Conversely, if the national average cost per loop decreases and our operating costs (and average cost per loop) remain constant or increase, the payments we receive from the Universal Service Fund would increase. Over the past year, the national average cost per loop in relation to our average cost per loop has increased and management believes the national average cost per loop may continue to increase in relation to our average cost per loop and, as a result, the payments we receive from the Universal Service Fund could decline. This support fluctuates based upon the historical costs of our operating companies. In addition to the Universal Service Fund high cost loop support, we also receive Universal Service Fund support payments, which include local switching support, long term support, and interstate common line support that used to be included in our interstate access charge revenues (the Federal Communications Commission has recently merged long term support into interstate common line support). If our rural local exchange carriers were unable to receive support from the Universal Service Fund, or if such support was reduced, many of our rural local exchange carriers would be unable to operate as profitably as they have historically, in the absence of our implementation of increases in charges for other services. Moreover, if we raise prices for services to offset loss of Universal Service Fund payments, the increased pricing of our services may disadvantage us competitively in the marketplace, resulting in additional potential revenue loss.

The Telecommunications Act of 1996, or the Telecommunications Act, provides that eligible telecommunications carriers, including competitors to rural local exchange carriers, may obtain the same per line support as the rural local exchange carriers receive if a state commission determines that granting such support to competitors would be in the public interest. In fact, wireless telecommunications providers in certain of our markets have obtained matching support payments from the Universal Service Fund, but that has not led to a loss of revenues for our rural local exchange carriers under existing regulations. Any shift in universal service regulation, however, could have an adverse effect on our business, revenue or profitability.

During the last three years, pursuant to recommendations made by the Multi-Association Group and the Rural Task Force, the Federal Communications Commission has made certain modifications to the universal service support system that changed the sources of support and the method for determining the level of support. These changes have been revenue neutral to our operations. It is unclear whether the changes in methodology will continue to accurately reflect the costs incurred by our rural local exchange carriers, and whether it will provide for the same amount of universal service support that our rural local exchange carriers have received in the past. In addition, several parties have raised objections to the size of the universal service support fund and the types of services eligible for support. A number of issues regarding the source and amount of contributions to, and eligibility for payments from, the Universal Service Fund are pending and will likely be addressed by the Federal Communications Commission or Congress in the near future. The outcome of any regulatory proceedings or legislative changes could affect the amount of universal service support that we receive, and could have an adverse effect on our business, revenue or profitability.

The Federal State Joint Board has recently issued recommendations for the resolution of portability of Universal Service Fund support. The Federal State Joint Board recommended that:

- a set of permissive federal guidelines be developed to ensure that the public interest is served before eligible telecommunications carriers are designated;
- support be limited to a single connection that provides access to the public telephone network; and
- the basis for providing support be considered and further clarified during the comprehensive review of the Universal Service Fund to be completed in 2006.

The Federal Communications Commission statutorily must act on these recommendations by February 27, 2005. In addition, the Federal Communications Commission is considering resolution of the method by which contributions to the Universal Service Fund are determined.

Risk of loss of statutory exemption from burdensome interconnection rules imposed on incumbent local exchange carriers. Our rural local exchange carriers are exempt from the Telecommunications Act's more burdensome requirements governing the rights of competitors to interconnect to incumbent local exchange carrier networks and to utilize discrete network elements of the incumbent's network at favorable rates. If state regulators decide that it is in the public's interest to impose these more burdensome interconnection requirements on us, we would be required to provide unbundled network elements to competitors. As a result, more competitors could enter our traditional telephone markets than are currently expected and we could incur additional administrative and regulatory expenses, and experience additional revenue losses.

Risks posed by costs of regulatory compliance. Regulations create significant compliance costs for us. Our subsidiaries that provide intrastate services are generally subject to certification, tariff filing and other ongoing regulatory requirements by state regulators. Our interstate access services are provided in accordance with tariffs filed with the Federal Communications Commission. Challenges to our tariffs by regulators or third parties or delays in obtaining certifications and regulatory approvals could cause us to incur substantial legal and administrative expenses, and, if successful, such challenges could adversely affect the rates that we are able to charge our customers.

Our business also may be impacted by legislation and regulation imposing new or greater obligations related to assisting law enforcement, bolstering homeland security, minimizing environmental impacts, or addressing other issues that impact our business. For example, existing provisions of the Communications Assistance for Law Enforcement Act and Federal Communications Commission regulations implementing the Communications Assistance for Law Enforcement Act require telecommunications carriers to ensure that their equipment, facilities, and services are able to facilitate authorized electronic surveillance. We cannot predict whether and when the Federal Communications Commission might modify its Communications Assistance for Law Enforcement Act rules or any other rules or what compliance with new rules might cost. Similarly, we cannot predict whether or when federal or state legislators or regulators might impose new security, environmental or other obligations on our business.

For a more thorough discussion of the regulatory issues that may affect our business, see "Regulation."

Regulatory changes in the telecommunications industry could adversely affect our business by facilitating greater competition against us, reducing potential revenues or raising our costs.

The Telecommunications Act provides for significant changes and increased competition in the telecommunications industry, including the local telecommunications and long distance industries. This statute and the Federal Communications Commission's implementing regulations remain subject to judicial review and additional rulemakings of the Federal Communications Commission, thus making it difficult to predict what effect the legislation will have on us, including our operations and our revenues and expenses, and our competitors. Several regulatory and judicial proceedings have recently concluded, are underway or may soon be commenced, that address issues affecting our operations and those of our competitors. We cannot predict the outcome of these developments, nor can we assure that these changes will not have a material adverse effect on us or our industry.

For a more thorough discussion of the regulatory issues that may affect our business, see "Regulation."

The failure to obtain necessary regulatory approvals could impede the consummation of a potential acquisition.

Our acquisitions likely will be subject to federal, state and local regulatory approvals. We cannot assure you that we will be able to obtain any necessary approvals, in which case a potential acquisition could be delayed or not consummated. For example, in June 2003, we executed an agreement and plan of merger with respect to the acquisition of Berkshire Telephone Corporation and we have not yet received the regulatory approvals required to consummate that transaction.

Forward-Looking Statements

Some statements in this prospectus are known as "forward-looking statements". Forward-looking statements may relate to, among other things:

- our dividend policy and expectations regarding dividend payments,
- minimum Adjusted EBITDA estimates,
- future performance generally,
- business development activities,
- future capital expenditures,
- distributions from minority investments and passive partnership interests,
- net operating loss carry forwards,
- technological developments and changes in the telecommunications industry,
- financing sources and availability,
- regulatory support payments, and
- the effects of regulation and competition.

Many statements under the captions "Prospectus Summary," "Risk Factors," "Dividend Policy and Restrictions," "Use of Proceeds," "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Business," "Regulation" and elsewhere in this prospectus are "forward-looking statements." These forward-looking statements include, but are not limited to, statements about our plans, objectives, expectations and intentions and other statements contained in the prospectus that are not historical facts. When used in this prospectus, the words "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates" and similar expressions are generally intended to identify forward-looking statements. Because these forward-looking statements involve risks and uncertainties, there are important factors that could cause actual results to differ materially from those expressed or implied by these forward-looking statements, including our plans, objectives, expectations and intentions and other factors discussed under "Risk Factors" and other parts of this prospectus. You should not place undue reliance on these forward-looking statements, which reflect our management's view only as of the date of this prospectus.

Dividend Policy and Restrictions

General

Our board of directors will adopt a dividend policy, effective upon the closing of this offering, under which a substantial portion of the cash generated by our business in excess of operating needs, interest and principal payments on our indebtedness, dividends on our future senior classes of capital stock, if any, capital expenditures, taxes and future reserves, if any, would in general be distributed as regular quarterly dividend payments to the holders of our common stock, rather than retained by us and used for other purposes, including to finance growth opportunities. This policy reflects our judgment that our stockholders would be better served if we distributed to them such substantial portion of the excess cash generated by our business instead of retaining it in our business. However, as described more fully below, you may not receive any dividends as a result of the following factors:

- nothing requires us to pay dividends;
- while our current dividend policy contemplates the distribution of a substantial portion of our cash in excess of operating needs, interest and principal payments on our indebtedness, dividends on our future senior classes of capital stock, if any, capital expenditures, taxes and future reserves, if any, this policy could be modified or revoked by our board of directors at any time;
- even if our dividend policy was not modified or revoked, the actual amount of dividends distributed under this policy and the decision to make any distributions is entirely at the discretion of our board of directors;
- the amount of dividends distributed is subject to covenant restrictions under our new credit facility;
- the amount of dividends distributed is subject to restrictions under Delaware law;
- our stockholders have no contractual or other legal right to receive dividends; and
- we may not have enough cash to pay dividends due to changes in our cash from operations, distributions we receive from minority investments and passive partnership interests, working capital requirements and/or anticipated cash needs.

We believe that our dividend policy will limit, but not preclude, our ability to pursue growth. If we continue paying dividends at the level currently anticipated under our dividend policy, we expect that we would need additional financing to fund significant acquisitions or to pursue growth opportunities requiring capital expenditures significantly beyond our current expectations. However, we intend to retain sufficient cash after the distribution of dividends to permit the pursuit of growth opportunities that do not require material capital investment. For further discussion of the relationship of our dividend policy to our ability to pursue potential growth opportunities, see "—Assumptions and Considerations" below.

In accordance with our dividend policy, we currently intend to pay an initial dividend under this policy of $ per share for the period from the closing date of this offering through March 31, 2005 on or about , 2005, and to continue to pay quarterly dividends at an annual rate of $ per share for the first four full fiscal quarters following the closing of this offering. In respect of the first four full fiscal quarters following the closing of this offering, this would be $ million in the aggregate. This aggregate amount of dividends does not include any dividends with respect to shares of restricted stock to be awarded under our 2005 stock incentive plan on the closing date of this offering, which shares will begin to vest on April 1, 2006 and will not be entitled to receive dividends for any period prior to April 1, 2006. Dividends on our common stock will not be cumulative. Consequently, if dividends on our common stock are not declared and/or paid at the targeted level, our stockholders will not be entitled to receive such payments in the future. In determining our initial dividend level, we reviewed and analyzed, among other things, our operating and financial performance in recent years, the anticipated cash requirements associated with our capital structure, our anticipated capital expenditure requirements, our other anticipated cash needs, the terms of our new credit facility, applicable provisions of Delaware law, other potential sources of liquidity and various other aspects of our business.

We have not paid dividends on our common stock in the past.

Minimum Adjusted EBITDA

We do not as a matter of course make public projections as to future sales, earnings, or other results. However, our management has prepared the estimated financial information set forth below to present the estimated cash available to pay dividends based on minimum Adjusted EBITDA. The accompanying estimated financial information was not prepared with a view toward complying with the Public Company Accounting Oversight Board guidelines with respect to prospective financial information, but, in the view of our management, was prepared on a reasonable basis, reflects the best currently available estimates and judgments, and presents, to the best of management's knowledge and belief, our expected course of action and our expected future financial performance. However, this information is not fact and should not be relied upon as being necessarily indicative of future results, and readers of this prospectus are cautioned not to place undue reliance on the estimated financial information.

Neither our independent registered public accounting firm nor any other independent registered public accounting firm has compiled, examined, or performed any procedures with respect to the estimated financial information contained herein, nor have they expressed any opinion or any other form of assurance on such information or its achievability, and assume no responsibility for, and disclaim any association with, the estimated financial information.

The assumptions and estimates underlying the estimated financial information below are inherently uncertain and, though considered reasonable by our management as of the date of its preparation, are subject to a wide variety of significant business, economic, and competitive risks and uncertainties, including those described under "Risk Factors." Accordingly, there can be no assurance that the estimated financial information is indicative of our future performance or that the actual results will not differ materially from the estimated financial information presented below.

We believe that in order to fund dividend payments to holders of our common stock at the level described above solely from cash generated by our business, our Adjusted EBITDA for the first four full fiscal quarters following the closing of this offering would need to be at least $ million and our Adjusted EBITDA with respect to each such quarter would need to be at least $ million. Based on a review and analysis conducted by our management and our board of directors as described under "—Assumptions and Considerations" below, we believe that our Adjusted EBITDA for the first four full fiscal quarters following the closing of this offering will be at least $ million and our Adjusted EBITDA with respect to each such quarter will be at least $ million. If our Adjusted EBITDA with respect to such periods were at or above these levels, we would be able to make the full targeted dividend payments on our common stock and we would be permitted to make such payments under the leverage ratio and restricted payment covenants in our new credit facility.

The table below sets forth our calculation that $ million of Adjusted EBITDA would be sufficient to fund dividend payments at the targeted levels on our common stock for the first four full fiscal quarters following the closing of this offering and would satisfy the leverage ratio and restricted payment covenants in our new credit facility.

Estimated Cash Available to Pay Dividends on Common Stock Based on Minimum Adjusted EBITDA

	Amount (dollars in thousands)
Minimum Adjusted EBITDA(1)(2)	$
Less:	
Estimated cash interest expense on new credit facility(3)	
Estimated capital expenditures(4)	
Estimated cash income taxes(5)	
Estimated cash available to pay dividends on outstanding common stock(6)	$
Estimated leverage ratio derived from above(7)	

The table below sets forth, for the year ended December 31, 2003 and the four fiscal quarters ended September 30, 2004, the amount of cash that would have been available for distributions to our stockholders, in each case after giving pro forma effect to the Maine acquisition as if it had occurred on January 1, 2003, and subject to the other assumptions described in such table. The information in the table below should be read in conjunction with our consolidated historical and pro forma financial statements and notes thereto contained elsewhere in this prospectus.

Pro Forma Cash Available to Pay Dividends for the Year Ended December 31, 2003 and the Four Fiscal Quarters Ended September 30, 2004

	Year Ended December 31, 2003	Four Fiscal Quarters Ended September 30, 2004
	(dollars in thousands)	
Net cash provided by operating activities of continuing operations	$ 32,834	$ 42,034
Adjustments:		
Depreciation and amortization	(48,089)	(48,784)
Other non-cash items	1,866	(13,093)
Changes in assets and liabilities arising from continuing operations net of acquisitions	5,139	2,649
Loss from continuing operations	(8,250)	(17,194)
Adjustments:		
Interest expense	90,224	103,282
Provision (benefit) for income tax expense	(236)	(207)
Depreciation and amortization	48,089	48,784
Net gain on sale of investments and other assets	(608)	227
Equity in earnings of investee	(10,092)	(10,786)
Distributions from investments (8)	10,775	13,935
Realized and unrealized losses on interest rate swaps	1,387	288
Loss on early retirement of debt	1,503	—
Non-cash stock based compensation	15	148
Deferred patronage dividends	(233)	(103)
Historical Adjusted EBITDA	132,574	138,374
Proforma adjustments for Maine acquisition: (9)		
Net income (loss) from acquisition	59	(289)
Interest expense	1,027	187
Provision (benefit) for income tax expense	143	(177)
Depreciation and amortization	1,236	226
Proforma Adjusted EBITDA	135,039	138,321
Cash interest expense on new credit facility (3)	(34,956)	(34,956)
Capital expenditures (4)(10)(11)	(34,218)	(38,599)
Income tax expense (5)	(650)	(650)
Additional public company costs (2)	(1,000)	(1,000)
Cash that would have been available to pay dividends	64,215	63,116
Cash required to pay dividends on common stock in accordance with our dividend policy		

(1) To pay the targeted dividends on our common stock, our Adjusted EBITDA with respect to each quarter must be at least $ million.

(2) Takes into account estimated incremental ongoing expenses of $1.0 million associated with being a public common stock issuer, including estimated audit fees, director and officer liability insurance premiums, expenses relating to stockholders' meetings, printing expenses, investor relations expenses, registrar and transfer agent fees, directors' fees, additional legal fees and listing fees.

(3) Represents interest of approximately 5.85% per annum on $590.0 million of outstanding borrowings under our new credit facility's term loan facility, and a commitment fee of 0.5% per annum on the average unused balance of $100.0 million under our new credit facility's revolving facility. These assumed rates give effect to an interest rate swap agreement we will enter into upon the closing of this offering that will effectively fix the interest rate we will pay on $442.5 million of the term loans under our new credit facility. Pursuant to this swap, from , 2005 through , 2010, the interest rate on such term loans will be fixed at approximately 5.85%. Our calculation of "estimated cash interest expense on new credit facility" reflects the effect of this swap agreement.

(4) We expect capital expenditures in fiscal 2004 to be approximately $36.6 million, which includes $3.5 million of anticipated non-recurring capital expenditures relating to the conversion of our

billing systems into an integrated billing platform and the centralization of our customer service records and $9.2 million of anticipated non-recurring capital expenditures relating to the final stages of our digital subscriber line initiative. We expect that our annual capital expenditures for our existing operations will be approximately $31.0 million for fiscal 2005 through fiscal 2009. We estimate that approximately $28.0 million of this amount will be used to maintain and enhance our network infrastructure and operate our business. This includes expenditures to meet our network, product offering and customer requirements, such as investments in equipment, central office technology (which includes both hardware and software), inside and outside plant upgrades to meet network capacity requirements and normal repair and maintenance to our infrastructure. In addition, approximately $3.0 million of this amount will be available for one-time or discretionary capital expenditures, such as the billing systems conversion. We expect to fund all of these capital expenditures through our cash flow from operations. If cash is available beyond what is required to support our dividend policy, we may consider additional capital expenditures if we believe they are beneficial. Although the amount of our capital expenditures can fluctuate from quarter to quarter, on an annual basis we do not expect capital expenditures for our existing operations through fiscal 2009 to vary significantly from our estimated amounts. We do not believe that our dividend policy will materially affect our ability to maintain and enhance our network infrastructure and operate our business.

(5) Assuming our pro forma capital structure after giving effect to the transactions, we expect cash taxes during the first four full fiscal quarters following the closing of this offering to be approximately $0.7 million. As of December 31, 2003, we had an aggregate of $250.8 million of net operating loss carry forwards available to us. Based on certain assumptions, our net operating loss carry forwards as of December 31, 2005 would be approximately $ million. We have estimated cash taxes after giving effect to the transactions based on an estimate of our net operating loss carry forwards (including an "ownership change" under Section 382 of the Internal Revenue Code limiting the usage of our net operating loss carry forwards) and interest and amortization of deferred financing fees based on our new capital structure. At such time as our net operating loss carry forwards have been fully used, our cash tax liability will increase and may impact our ability to pay dividends. Our tax liability may also be affected by limitations on the use of our net operating loss carry forwards under Section 382 of the Internal Revenue Code by reason of this offering and earlier ownership changes. See "Risk Factors—Limitations on usage of our net operating loss carry forwards, and other factors requiring us to pay cash taxes in future periods, may affect our ability to pay dividends to you" and "Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies—Accounting for Income Taxes."

(6) The table below sets forth the number of shares of common stock which would be outstanding upon the closing of this offering (excluding the shares of restricted stock to be awarded under our 2005 stock incentive plan on the closing date of this offering, which shares will begin to vest on April 1, 2006 and will not be entitled to receive dividends for any period prior to April 1, 2006) and the estimated per share and aggregate dividend amounts payable on such shares during the first four full fiscal quarters following the closing of this offering. In order to generate cash flow to pay dividends of $ per share of common stock for the first four full fiscal quarters following the closing of this offering, we would require an estimated minimum Adjusted EBITDA of $ million during such period.

	Number of Outstanding Shares	Dividends	
		Per Share	Aggregate (in thousands)
Estimated dividends on our common stock		$	$

(7) The leverage ratio is calculated as total indebtedness divided by pro forma adjusted EBITDA. Under our new credit facility, we may not pay dividends on our common stock if our leverage ratio is above to 1.00. See "—Restrictions on Payment of Dividends."

(8) We have a number of minority investments and passive partnership interests from which we receive distributions. We do not control the amount or timing of such distributions. The $13.9 million of distributions we received in the four fiscal quarters ended September 30, 2004 includes a non-recurring $2.5 million distribution.

(9) Presents Adjusted EBITDA as if the Maine acquisition had occurred on January 1, 2003.

(10) For the year ended December 31, 2003, the information gives effect to the Maine acquisition as if it had occurred on January 1, 2003.

(11) Includes non-recurring capital expenditures of $2.2 million and $2.5 million for the year ended December 31, 2003 and the four fiscal quarters ended September 30, 2004, respectively, related to the conversion of our billing systems into an integrated billing platform and the centralization of our customer service records. Also includes non-recurring capital expenditures of $4.8 million and $9.5 million for the year ended December 31, 2003 and the four fiscal quarters ended September 30, 2004, respectively, related to capital investments in digital subscriber line access multiplexers and other plant upgrades associated with our accelerated digital subscriber line initiative that began during the third quarter of 2003. As a result, 96% of our exchanges are broadband capable as of September 30, 2004 and management expects that digital subscriber line investments will decrease significantly in 2005. Our management views non-recurring capital expenditures as either one-time capital expenditures or discretionary capital expenditures which are not necessary to maintain and enhance our network infrastructure or operate our business, such as the billing systems conversion and the digital subscriber line initiative described above. Our dividend policy may cause us to reduce or eliminate such one-time or discretionary capital expenditures in the future or to incur indebtedness to fund such capital expenditures. To the extent we finance capital expenditures with indebtedness, we will begin to incur incremental interest and principal obligations which would reduce our cash available for future dividend payments and other purposes. In addition, if we reduce or eliminate capital expenditures, the regulatory settlement payments we receive may decline.

Assumptions and Considerations

Based on a review and analysis conducted by our management and our board of directors, we believe that our Adjusted EBITDA for the first four full fiscal quarters following the closing of this offering will be at least $ million and our Adjusted EBITDA with respect to each such quarter will be at least $ million, and we have determined that our assumptions as to capital expenditures, cash interest expense and income taxes in the above tables are reasonable. We considered numerous factors in making such determination, including the following factors which we considered material in making such determination:

- For fiscal years 2003, 2002 and 2001 and the four fiscal quarters ended September 30, 2004, our Adjusted EBITDA was $132.6 million, $131.7 million, $121.0 million and $138.4 million, respectively.
- For fiscal years 2003, 2002 and 2001 and the four fiscal quarters ended September 30, 2004, we received distributions from minority investments and passive partnership interests of $10.8 million, $9.0 million, $5.0 million and $13.9 million, respectively. Although we do not control the amount or timing of such distributions, we believe that distributions from such investments and interests for fiscal 2005 will be consistent with historical levels, except for a non-recurring distribution of $2.5 million we received for the four fiscal quarters ended September 30, 2004.

- For the year ended December 31, 2003 and the four fiscal quarters ended September 30, 2004, our pro forma Adjusted EBITDA (after giving effect to the Maine acquisition) was $135.0 million and $138.3 million, respectively.
- For fiscal years 2003, 2002 and 2001 and the four fiscal quarters ended September 30, 2004, we incurred $33.6 million, $38.8 million, $43.2 million and $38.4 million, respectively, in capital expenditures. For fiscal years 2003, 2002 and 2001 and the four fiscal quarters ended September 30, 2004, we had capital expenditures of $4.7 million, $3.0 million, $2.0 million and $9.5 million, respectively, related to our digital subscriber line initiative. This investment has resulted in 96% of our exchanges being broadband enabled as of September 30, 2004. We expect that the amount of our capital expenditures related to digital subscriber line technology in 2005 will significantly decrease. Capital expenditures for fiscal 2002 and 2001 also include the costs associated with switch and plant upgrades for certain of our exchanges and the purchase of high level digital loop carrier equipment. Such upgrades enable us to provide higher quality service and enhanced features to our customers. The cost to deploy similar technologies has decreased since the implementation of such upgrades. For example, equivalent capacity can be provided on soft switch technology which is less capital intensive than the Time Division Multiplex switches purchased in 2002 and 2001. We expect capital expenditures in fiscal 2004 to be approximately $36.6 million, which includes $3.5 million of anticipated non-recurring capital expenditures relating to the conversion of our billing systems into an integrated platform and the centralization of our customer service records and $9.2 million of anticipated non-recurring capital expenditures relating to the final stages of our digital subscriber line initiative. We expect capital expenditures in fiscal 2005 to be approximately $31.0 million.
- Our analysis of the impact of our new capital structure (including the payment of dividends at the level described above) on our operations and performance in prior years and our determination that the new credit facility's revolving facility would have had sufficient capacity to finance any fluctuations in working capital and other cash needs, including the payment of dividends at the levels described above. We currently do not intend to borrow under our new credit facility's revolving facility to pay dividends.

We have also assumed:

- that our general business climate, including such factors as consumer demand for our services, the level of competition and our favorable regulatory environment, will remain consistent with previous periods; and
- the absence of extraordinary business events, such as new industry altering technological advances or adverse regulatory developments, that may adversely affect our business, results of operations or anticipated capital expenditures.

If our Adjusted EBITDA with respect to the first four full fiscal quarters after the closing of this offering were to fall below $ million or $ million in any quarter in such period (or if our assumptions as to capital expenditures, principal repayments, interest expense or tax expense were too low), we would need to either reduce or eliminate dividend payments on our common stock or, to the extent we were permitted to do so under our new credit facility, fund a portion of the dividends on our common stock with borrowings or from other sources. If we were to use working capital or permanent borrowings under our new credit facility's revolving facility to fund dividend payments, we would have less cash available for future dividend payments and other purposes, which could negatively impact our financial condition, our results of operations and our ability to maintain or expand our business. In addition, to the extent we finance capital expenditures or acquisitions with indebtedness, we will begin to incur incremental interest and principal obligations.

We cannot assure you that our Adjusted EBITDA will equal or exceed the minimum levels set forth above, and our belief that it will equal or exceed such levels are subject to all of the risks, considerations and factors identified in other sections of this prospectus, including those identified in "Risk Factors."

As noted above, we have presented our initial dividend payment level and our minimum Adjusted EBITDA only for the first four full fiscal quarters following the closing of this offering. Moreover, we cannot assure you that during or following such period that we will pay dividends at the level set forth above, or at all. In the future, our capital and cash needs will invariably change, which could impact the level of any dividends we pay.

We are not required to pay dividends, and our board of directors may modify or revoke our dividend policy at any time. Dividend payments are within the sole discretion of our board of directors and will depend upon, among other things, our results of operations, our financial condition and future developments that could differ materially from our current expectations. We expect that our general policy will be to distribute rather than retain a substantial portion of our cash in excess of operating needs, interest and principal payments on our indebtedness, dividends on our future senior classes of capital stock, if any, capital expenditures, taxes and future reserves, if any. These policies are based upon our current assessment of our business and the environment in which it operates, and that assessment could change based on competitive or technological developments (which could, for example, increase our need for capital expenditures), acquisition opportunities or other factors. We believe that our dividend policy will limit, but not preclude, our ability to pursue growth. If we continue paying dividends at the level currently anticipated under our dividend policy, we expect that we would need additional financing to fund significant acquisitions or to pursue growth opportunities requiring capital expenditures significantly beyond our current expectations. Such additional financing could include, among other transactions, the issuance of additional shares of common stock. However, we intend to retain sufficient cash after the distribution of dividends to permit the pursuit of growth opportunities that do not require material capital investments. In the recent past, such growth opportunities have included investments in the roll-out of new services such as digital subscriber line internet access to our existing customer base and the selective expansion of our business into new and/ or adjacent markets. Management currently has no specific plans to make a significant acquisition or to increase capital spending to expand our business materially. However, management will evaluate potential growth opportunities as they arise and, if our board of directors determines that it is in our best interest to use cash that would otherwise be available for distribution as dividends to pursue an acquisition opportunity, to materially increase capital spending or for some other purpose, the board would be free to depart from or change our dividend policy at any time. Management currently does not anticipate pursuing growth opportunities, including acquisitions, unless they are expected to be at least neutral or accretive to our ability to pay dividends to the holders of our common stock.

Borrowings under our new credit facility will bear interest at variable interest rates. In connection with this offering, we intend to enter into an interest rate swap agreement which will fix the interest rates on $442.5 million of the term loans under our new credit facility for a period of five years after the closing of this offering. After the interest rate swap agreement expires, our annual debt service obligations on such portion of the term loans will vary from year to year unless we enter into a new interest rate swap or purchase an interest rate cap or other interest rate hedge. An increase of one percentage point in the annual interest rate applicable to borrowings under our new credit facility which would be outstanding on the closing date of this offering would result in an increase of approximately $5.9 million in our annual cash interest expense, and a corresponding decrease in cash available to pay dividends on our common stock. If we choose to enter into a new interest rate swap or purchase an interest rate cap or other interest rate hedge in the future, the amount of cash available to pay dividends on our common stock may decrease. However, to the extent interest rates increase in the future, we may not be able to enter into a new interest rate swap or purchase an interest rate cap or other interest rate hedge on acceptable terms. In addition, our new credit facility's revolving facility will need to be refinanced on or prior to , 2011 and our new credit facility's term loan facility will need to be refinanced on or prior to , 2012. We may not be able to refinance our new credit facility, or if refinanced, the refinancing may occur on less favorable terms, which may materially adversely affect our ability to pay dividends. If we were unable to refinance our new credit facility, our failure to repay all amounts due on the maturity date would cause a default under our new credit facility. We expect our required principal repayments under the term loan facility of our new credit facility to be approximately $590.0 million at its maturity in 2012. Our interest expense may increase significantly if we refinance our new credit facility on terms that are less favorable to us than the terms of our new credit facility.

We have the ability to issue additional common stock, other equity securities or preferred stock for such consideration and on such terms and conditions as are established by our board of directors in its sole discretion and without the approval of the holders of our common stock. It is possible that we will fund acquisitions, if any, through the issuance of additional common stock, other equity securities or preferred stock. Holders of any additional common stock or other equity securities issued by us may be entitled to share equally with the holders of the common stock offered hereby in dividend distributions. The certificate of designation of any preferred stock issued by us may provide that the holders of preferred stock are senior to the holders of our common stock with respect to the payment of dividends. If we were to issue additional common stock, other equity securities or preferred stock, it would be necessary for us to generate additional cash in order for us to distribute dividends at the same rate per share as distributed prior to any such additional issuance.

Restrictions on Payment of Dividends

Under Delaware law, our board of directors may declare dividends only to the extent of our "surplus" (which is defined as total assets at fair market value minus total liabilities, minus statutory capital) or, if there is no surplus, out of our net profits for the then current and/or immediately preceding fiscal year. We do not anticipate that we will have (and in prior years we would not have had) sufficient earnings to pay dividends at the levels described above and therefore expect that we will pay dividends out of surplus. Although we believe we will have sufficient surplus to pay dividends at the anticipated levels during the first four full fiscal quarters after the closing of this offering, our board of directors will seek periodically to assure itself of this before actually declaring any dividends.

Our new credit facility restricts our ability to declare and pay dividends on our common stock as follows:

- we will be permitted to pay dividends for the period from the closing date of this offering through March 31, 2005;
- after March 31, 2005, we may use all of our available cash accumulated after , 2005 plus certain incremental funds to pay dividends, but we may not in general pay dividends in excess of such amount. "Available cash" is defined in our new credit facility as Adjusted EBITDA minus cash interest expense, capital expenditures (unless funded by long-term debt), cash taxes and repayments of our indebtedness;
- we may not pay dividends if a default or event of default under our new credit facility has occurred and is continuing or would occur as a consequence of such payment;
- we may not pay dividends if our leverage ratio is above to 1.00; and
- we may not pay dividends if we do not have at least $10 million of cash on hand (including unutilized commitments under our new credit facility's revolving facility).

See "Description of Certain Indebtedness—New Credit Facility."

Available cash (as defined in our new credit facility) does not represent the amount we intend to distribute as dividends for any period but rather is a restriction on the maximum level of dividend payments, if any, that we will be permitted to declare and pay under the terms of our new credit facility.

The Transactions

Concurrently with this offering, we will effect the transactions described below. For additional information concerning the transactions, see "Use of Proceeds," "Description of Certain Indebtedness" and "Capitalization."

New Credit Facility. We will enter into a new senior secured credit facility with a syndicate of financial institutions, including Deutsche Bank Trust Company Americas, as administrative agent. The new credit facility will be comprised of a revolving facility in an aggregate principal amount of up to $100.0 million (less amounts reserved for letters of credit) and a term facility in an aggregate principal amount of up to $590.0 million. While the new credit facility will permit us to pay dividends to common stockholders, it will contain significant restrictions on our ability to make such dividend payments. The revolving facility will have a six year maturity and the term facility will have a seven year maturity.

Repayment of Existing Credit Facility. We will repay all $185.1 million of outstanding loans under our existing credit facility, plus accrued and unpaid interest. The terms of the existing credit facility allow us to prepay loans without premium or penalty.

Tender Offers and Consent Solicitations. We intend to consummate tender offers and consent solicitations with respect to all of the outstanding 9½% notes, floating rate notes, 12½% notes and 11⅞% notes. The closing of this offering is conditioned upon the receipt of the tenders and consents of at least a majority in aggregate principal amount of the outstanding 9½% notes and floating rate notes (voting together as a class), the outstanding 12½% notes and the outstanding 11⅞% notes. Holders of the 9½% notes, floating rate notes, 12½% notes and 11⅞% notes that tender their notes in the tender offers will be obligated to provide consents. To the extent that any holders of 9½% notes and floating rate notes do not tender their notes in the tender offers, we intend to redeem the remaining outstanding 9½% notes and floating rate notes following this offering.

Preferred Stock. We will repurchase all of our series A preferred stock (together with accrued and unpaid dividends thereon) from the holders thereof for an aggregate purchase price of $130.8 million. The series A preferred stock was initially issued in May 2002 in exchange for debt of one of our subsidiaries whose operations we discontinued.

Use of Proceeds

The table below sets forth our estimate of the sources of the funds required to effect the transactions and our uses of such funds, assuming the transactions all occurred on September 30, 2004. We expect to receive $475.0 million of gross proceeds from the sale of our common stock. The estimated sources and uses are based on an assumed initial public offering price of $ per share of common stock. The table assumes that we have repurchased all outstanding 9½% notes, floating rate notes, 12½% notes and 11⅞% notes in the tender offers and consent solicitations for such notes. Actual amounts may vary from the amounts shown below.

	(in millions)
Sources of Funds:	
Common stock offered hereby	$ 475.0
New credit facility(1)	
Term facility(2)	590.0
Revolving facility(3)	—
Total sources of funds	$ 1,065.0
Uses of Funds:	
Repay existing credit facility(4)	$ 185.1
Repurchase 9½% notes, floating rate notes, 12½% notes and 11⅞% notes(5)	608.2
Repurchase series A preferred stock(6)	130.8
Repay subsidiary debt(7)	13.6
Repay promissory note(8)	7.0
Fees and expenses(9)	109.5
Working capital	10.8
Total uses of funds	$ 1,065.0

(1) Our new credit facility will consist of a $590.0 million term facility and a $100.0 million revolving facility.

(2) Loans under our new credit facility's term facility will mature on , 2012 and are expected to bear interest per annum at either a base rate plus % or LIBOR plus %.

(3) Loans under our new credit facility's revolving facility will mature on , 2011 and are expected to bear interest per annum at either a base rate plus % or LIBOR plus %.

(4) Represents all loans under our existing credit facility. All revolving loans under our existing credit facility mature on March 31, 2007 and bear interest per annum at LIBOR plus 4.00%. We used the proceeds from revolving loans to fund acquisitions, capital expenditures and for general corporate purposes. Tranche A term loans under our existing credit facility mature on March 31, 2007 and bear interest per annum at LIBOR plus 4.50%. Tranche C term loans under our existing credit facility mature on March 31, 2007 and bear interest per annum at LIBOR plus 4.50%.

(5) The 9½% notes and the floating rate notes each mature on May 1, 2008. The floating rate notes bear interest at a rate per annum equal to LIBOR plus 418.75 basis points. The 12½% notes mature on May 1, 2010. The 11⅞% notes mature on March 1, 2010.

(6) The series A preferred stock was initially issued in May 2002 in exchange for debt of one of our subsidiaries whose operations we discontinued.

(7) This debt consists of senior secured floating rate notes and fixed rate notes issued by three of our operating subsidiaries which were assumed in connection with our acquisition of these subsidiaries. The maturities of these obligations range from 2005 to 2016. As of September 30, 2004, the interest rate on the floating rate notes ranged from 5.15% to 9.20% per annum and the interest rate on the fixed rate notes ranged from 4.964% to 10.782% per annum.

(8) This note was issued by us in connection with a past acquisition. This note matures in May 2005 and bears interest at a rate of 7% per annum.

(9) Includes $ million of tender premiums and consent payments, the underwriting discount of $ million payable to the underwriters in connection with this offering, $ million payable to the providers of our new credit facility and $ million in other professional fees. Includes a transaction fee of approximately $8.4 million payable to Kelso & Company. See "Certain Relationships and Related Party Transactions—Financial Advisory Agreements."

Capitalization

The following table sets forth our capitalization as of September 30, 2004:

- on an actual basis; and
- on a pro forma as adjusted basis to give effect to the transactions as if they were consummated as of September 30, 2004.

This table should be read in conjunction with our consolidated financial statements and unaudited pro forma condensed consolidated financial statements included elsewhere in this prospectus.

	September 30, 2004		
	Actual	Adjustments	Pro Forma as adjusted
	(dollars in thousands)		
Cash and cash equivalents	$ 6,413	$	$
Long-term debt, including current portion:			
New credit facility:			
Term facility	—		
Revolving facility(1)		—	—
Existing credit facility	185,068		—
9½% notes and floating rate notes	190,207		—
12½% notes	193,000		—
11⅞% notes	225,000		—
Other debt(2)	20,588		—
Total consolidated long-term debt, including current portion	813,863		
Series A preferred stock subject to mandatory redemption	111,519		—
Common stock, par value $0.01 per share(3)	499		
Additional paid-in capital	198,198		
Unearned compensation	—		
Accumulated deficit	(360,809)		
Total stockholders' equity (deficit)	(162,112)		
Total capitalization	$ 769,683	$	$

(1) Under the revolving facility, we will have revolving loan availability of up to $100.0 million.

(2) Includes senior secured floating rate notes and fixed rate notes issued by three of our operating subsidiaries which were assumed in connection with our acquisition of these subsidiaries. Also includes a promissory note which was issued by us in connection with a past acquisition.

(3) shares of our common stock authorized and shares outstanding, pro forma as adjusted. This includes shares of restricted stock to be awarded under our 2005 stock incentive plan on the closing date of this offering, which shares will begin to vest on April 1, 2006 and will not be entitled to receive dividends for any period prior to April 1, 2006.

Dilution

Dilution is the amount by which:

- the portion of the offering price paid by the purchasers of our common stock in this offering, exceeds
- the net tangible book value or deficiency per share of our common stock after the offering.

Net tangible book value or deficiency per share of our common stock is determined at any date by subtracting our total liabilities from our total assets less our intangible assets and dividing the difference by the number of shares of common stock deemed to be outstanding at that date.

Our net tangible book deficiency as of September 30, 2004 was approximately $654.4 million, or $ per share of class A common stock and class C common stock. After giving effect to our receipt and intended use of approximately $ million of estimated net proceeds (after deducting estimated underwriting discounts and commissions and offering expenses) from our sale of common stock in this offering and borrowings we expect to receive under our new credit facility, and assuming that all of the outstanding 9½% notes, floating rate notes, 12½% notes and 11⅞% notes are tendered pursuant to the applicable tender offers for such notes, our pro forma as adjusted net tangible book deficiency as of September 30, 2004 would have been approximately $ million (after adjustment for intangible assets, including goodwill, debt issue costs and interest rate cap), or $ per share of common stock. This represents an immediate increase in net tangible book value of $ per share of our common stock to existing stockholders and an immediate dilution of $ per share of our common stock to new investors purchasing our common stock in this offering. This does not include the shares of restricted stock to be issued under our 2005 stock incentive plan.

The following table illustrates this substantial and immediate dilution to new investors:

	Per Share of Common Stock
Initial public offering price per share of our common stock	$
Net tangible book value (deficiency) per share as of September 30, 2004	
Increase per share attributable to cash payments made by investors in this offering	
Pro forma as adjusted net tangible book value (deficiency) after this offering	$
Dilution in net tangible book value per share to new investors	$

The following table sets forth on a pro forma basis as of September 30, 2004, assuming no exercise of the underwriters' over-allotment option and not including the shares of restricted stock to be issued under our 2005 stock incentive plan:

- the total number of shares of our existing class A common stock and class C common stock owned by our existing equity investors and the total number of shares of our common stock to be owned by the new investors purchasing common stock in this offering, as represented by our common stock to be sold in this offering;

- the total consideration paid by our existing equity investors and to be paid by the new investors purchasing common stock in this offering; and
- the average price per share of existing class A common stock and class C common stock paid by our existing equity investors (cash and stock) and the average price per share of common stock to be paid by new investors purchasing common stock in this offering:

	Shares of Common Stock Purchased		Total Consideration		Average Price Per Share of Common Stock
	Number	Percent	Amount	Percent	
Existing stockholders		%		%	$
New investors		%		%	
Total		%	$	%	

Selected Financial Data

Certain of the selected financial data presented below under the captions "Statement of Operations," "Operating Data," "Summary Cash Flow Data" and "Balance Sheet Data" as of December 31, 2002 and 2003, and for each of the years in the three-year period ended December 31, 2003, are derived from the consolidated financial statements of the Company and its subsidiaries, which financial statements have been audited by KPMG LLP, independent registered public accounting firm. The consolidated financial statements as of December 31, 2002 and 2003, and of each of the years in the three-year period ended December 31, 2003, and the report thereon, are included elsewhere in this prospectus. The selected financial data for the nine month periods ended September 30, 2003 and 2004 has been derived from our unaudited consolidated financial statements included elsewhere in this prospectus. In the opinion of management, the unaudited consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements and include all adjustments, which consist only of normal recurring adjustments, necessary for a fair presentation of the financial positions and results of operations for these periods. The following financial information should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and notes thereto contained elsewhere in this prospectus. Amounts in thousands, except access lines and ratios.

	Year Ended December 31,					Nine Months Ended September 30,	
	1999	2000	2001	2002	2003	2003	2004
						(unaudited)	
Statement of Operations:							
Revenues	$ 133,475	$ 190,786	$ 230,176	$ 230,819	$ 231,432	$ 171,663	$ 188,838
Operating expenses:							
Operating expenses	71,214	95,540	115,763	110,265	111,188	81,624	96,355
Depreciation and amortization(1)	29,964	46,146	55,081	46,310	48,089	36,181	36,876
Stock based compensation expense	3,386	12,323	1,337	924	15	—	133
Total operating expenses	104,564	154,009	172,181	157,499	159,292	117,805	133,364
Income from operations	28,911	36,777	57,995	73,320	72,140	53,858	55,474
Interest expense(2)	(50,464)	(59,556)	(76,314)	(69,520)	(90,224)	(64,640)	(77,698)
Other income (expense), net(3)	4,877	13,198	(6,670)	(11,974)	9,600	6,380	8,907
Loss from continuing operations before income taxes	(16,676)	(9,581)	(24,989)	(8,174)	(8,484)	(4,402)	(13,317)
Income tax (expense) benefit(3)	(2,179)	(5,607)	(431)	(518)	236	(250)	(279)
Minority interest in income of subsidiaries	(100)	(3)	(2)	(2)	(2)	(1)	(1)
Loss from continuing operations	(18,955)	(15,191)	(25,422)	(8,694)	(8,250)	(4,653)	(13,597)
Income (loss) from discontinued operations	(10,085)	(73,926)	(186,178)	21,933	9,921	9,726	671
Net income (loss)	(29,040)	(89,117)	(211,600)	13,239	1,671	5,073	(12,926)
Redeemable preferred stock dividends and accretion(2)	—	—	—	(11,918)	(8,892)	(8,892)	—
Gain on repurchase of redeemable preferred stock	—	—	—	—	2,905	2,905	—
Net income (loss) attributable to common shareholders	$ (29,040)	$ (89,117)	$(211,600)	$ 1,321	$ (4,316)	$ (914)	$ (12,926)
Basic and diluted shares outstanding(4)							
Basic and diluted loss from continuing operations per share(4)	$	$	$	$	$	$	$
Operating Data:							
EBITDA(5)	$ 63,652	$ 96,118	$ 106,404	$ 107,654	$ 129,827	$ 96,418	$ 101,256
Adjusted EBITDA(5)	66,241	100,034	120,951	131,656	132,574	99,778	105,578
Capital expenditures	27,773	49,601	43,175	38,803	33,595	19,613	24,392
Access line equivalents(6)	150,612	237,294	247,862	248,581	264,308	248,589	272,691
Residential access lines	120,387	184,798	191,570	189,803	196,145	187,523	192,353
Business access lines	30,225	51,025	53,056	51,810	50,226	48,795	49,918
Digital subscriber lines	—	1,471	3,236	6,968	17,937	12,271	30,420

	Year Ended December 31,					Nine Months Ended September 30,	
	1999	2000	2001	2002	2003	2003	2004
						(unaudited)	
Summary Cash Flow Data:							
Net cash provided by operating activities of continuing operations	$ 26,411	$ 44,706	$ 35,717	$ 55,632	$ 32,834	$ 23,658	$ 32,858
Net cash used in investing activities of continuing operations	(59,986)	(284,953)	(57,161)	(30,258)	(54,010)	(11,160)	(12,079)
Net cash provided by (used in) financing activities of continuing operations	46,979	300,088	101,234	(12,546)	(1,976)	(15,123)	(18,856)
Net cash contributed (from) to continuing operations (to) from discontinued operations	(17,862)	(64,466)	(80,862)	(10,353)	23,361	30,313	(1,113)
Balance Sheet Data (at period end):							
Cash	$ 8,616	$ 3,991	$ 2,919	$ 5,394	$ 5,603	$ 33,082	$ 6,413
Property, plant and equipment, net	157,236	272,228	278,277	271,690	266,706	255,663	253,704
Total assets	517,356	863,547	875,015	829,253	843,068	834,054	830,917
Total long term debt	462,395	756,812	907,602	804,190	825,560	811,686	813,476
Preferred shares subject to mandatory redemption	—	—	—	90,307	96,699	92,089	111,519
Total stockholders' equity (deficit)	(11,581)	64,378	(149,510)	(146,150)	(147,953)	(145,923)	(162,112)

(1) On January 1, 2002, we adopted SFAS No. 142, "Goodwill and Other Intangible Assets." Pursuant to the requirements of SFAS No. 142, we ceased amortizing goodwill beginning January 1, 2002, and instead test for goodwill impairment annually. Amortization expense for goodwill and equity method goodwill was $5,335, $9,762 and $11,962 in fiscal 1999, 2000 and 2001, respectively. Depreciation and amortization excludes amortization of debt issue costs.

(2) Interest expense includes amortization of debt issue costs aggregating $1,575, $2,362, $4,018, $3,664 and $4,171 for the fiscal years ended December 31, 1999, 2000, 2001, 2002 and 2003 and $3,118 and $3,452 for the nine months ended September 30, 2003 and 2004, respectively. In 1999, interest expense includes $13,331 related to the retirement of put warrants of one of our subsidiaries. We prospectively adopted the provisions of SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Liabilities and Equity," effective July 1, 2003. SFAS No. 150 requires us to classify as a long-term liability our series A preferred stock and to reclassify dividends and accretion from the series A preferred stock as interest expense. Such stock is now described as "Preferred Shares Subject to Mandatory Redemption" in the balance sheet and dividends and accretion on these shares are now included in pre-tax income whereas previously they were presented as a reduction to equity (a dividend), and, therefore, a reduction of net income available to common stockholders. For the year ended December 31, 2003, interest expense includes $9,049 related to dividends and accretion on shares subject to mandatory redemption. For the nine months ended September 30, 2003 and 2004, interest expense includes $4,440 and $14,820, respectively, related to dividends and accretion on preferred shares subject to mandatory redemption.

(3) On January 1, 2001, we adopted the provisions of SFAS No. 133, "Accounting for Derivative Instruments and Certain Hedging Activities," as amended by SFAS No. 138. On the date of adoption, the Company recorded a cumulative adjustment of $4,664 in accumulated other comprehensive income for the fair value of interest rate swaps. Because the interest rate swaps do not qualify as accounting hedges under SFAS No. 133, the change in fair value of the interest rate swaps are recorded as non operating gains or losses, which the Company classifies in other income (expense). We also recorded other income (expense) in 2001, 2002 and 2003 for the amortization of the transition adjustment of the swaps initially recognized in accumulated other comprehensive income. In the second quarter of 2002, we adopted SFAS No. 145 "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13 and Technical Corrections." This statement eliminates the requirement that gains and losses from the extinguishment of debt be required to be aggregated and, if material, classified as an extraordinary item, net of related income tax effect. In 2003, other income (expense) includes a $3,465 gain on the extinguishment of debt and a $4,967 loss for the write-off of debt issue costs related to this extinguishment of debt.

(4) In connection with the proposed public offering of our common stock, our board of directors approved a for 1 reverse stock split of our common stock. All share and per share amounts related to our common stock have been restated to reflect the reverse stock split.

(5) EBITDA means net income (loss) before income (loss) from discontinued operations, interest expense, income taxes, and depreciation and amortization. We believe EBITDA is useful to investors because EBITDA is commonly used in the communications industry to analyze companies on the basis of operating performance, liquidity and leverage. We believe EBITDA allows a standardized comparison between companies in the industry, while minimizing the differences from depreciation policies, financial leverage and tax strategies. We also believe that EBITDA is useful as a means to evaluate our

ability to pay dividends. While providing useful information, EBITDA should not be considered in isolation or as a substitute for consolidated statement of operations and cash flows data prepared in accordance with accounting principles generally accepted in the United States of America. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources."

A reconciliation of net cash provided by operating activities of continuing operations to EBITDA follows (in thousands):

	Year Ended December 31,					Nine Months Ended September 30,	
	1999	2000	2001	2002	2003	2003	2004
						(unaudited)	
Net cash provided by operating activities of continuing operations	$ 26,411	$ 44,706	$ 35,717	$ 55,632	$ 32,834	$ 23,658	$ 32,858
Adjustments:							
Depreciation and amortization	(29,964)	(46,146)	(55,081)	(46,310)	(48,089)	(36,181)	(36,876)
Impairment of investments	—		—	(12,568)	—	—	—
Other non-cash items	(9,716)	7,439	(9,712)	1,281	1,866	4,694	(9,881)
Changes in assets and liabilities arising from continuing operations, net of acquisitions	(5,686)	(21,190)	3,654	(6,729)	5,139	3,176	302
Income (loss) from continuing operations	(18,955)	(15,191)	(25,422)	(8,694)	(8,250)	(4,653)	(13,597)
Adjustments:							
Interest expense(2)(3)	50,464	59,556	76,314	69,520	90,224	64,640	77,698
Provision (benefit) for income tax expense	2,179	5,607	431	518	(236)	250	279
Depreciation and amortization	29,964	46,146	55,081	46,310	48,089	36,181	36,876
EBITDA	$ 63,652	$ 96,118	$ 106,404	$107,654	$129,827	$ 96,418	$ 101,256

Certain covenants in our new credit facility will contain ratios based on Adjusted EBITDA and the restricted payment covenant in our new credit facility regulating the payment of dividends on our common stock will be based on Adjusted EBITDA. Adjusted EBITDA for any period is defined in our new credit facility as (1) the sum of consolidated net income, as defined, plus the following to the extent deducted from consolidated net income: provision for taxes, consolidated interest expense, depreciation, amortization and certain other non-cash items, each as defined, minus (2) all non-cash items increasing consolidated net income for the period. If our Adjusted EBITDA were to decline below certain levels, covenants in our new credit facility that are based on Adjusted EBITDA may be violated and could cause, among other things, a default under our new credit facility, or result in our inability to pay dividends. These covenants are summarized under "Description of Certain Indebtedness—New Credit Facility." A reconciliation of EBITDA to Adjusted EBITDA is as follows (in thousands):

	Year Ended December 31,					Nine Months Ended September 30,	
	1999	2000	2001	2002	2003	2003	2004
EBITDA	$63,652	$ 96,118	$106,404	$107,654	$129,827	$ 96,418	$ 101,256
Net (gain) loss on sale of investments and other assets	(514)	(6,642)	648	(34)	(608)	(595)	240
Impairment on investments	—	—	—	12,568	—	—	—
Equity in net earnings of investees	(2,495)	(4,807)	(4,930)	(7,798)	(10,092)	(7,235)	(7,929)
Distributions from investments(7)	2,592	3,155	5,013	9,018	10,775	8,650	11,810
Realized and unrealized losses on interest rate swaps	—	—	12,873	9,577	1,387	1,211	112
Loss on early retirement of debt	—	—	—	—	1,503	1,503	—
Non-cash stock based compensation	3,386	12,323	1,337	924	15	—	133
Deferred patronage dividends	(380)	(113)	(394)	(253)	(233)	(174)	(44)
Adjusted EBITDA	$66,241	$100,034	$120,951	$131,656	$132,574	$ 99,778	$ 105,578

(6) Total access line equivalents includes voice access lines and digital subscriber lines.

(7) Includes distributions relating to minority investments and passive partnership interests. We do not control the timing or the amount of such distributions. The $11.8 million in distributions received in the nine months ended September 30, 2004 includes a non-recurring distribution of approximately $2.5 million. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity."

Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with our financial statements and the notes thereto included elsewhere in this prospectus. The following discussion includes certain forward-looking statements. For a discussion of important factors, including the continuing development of our business, actions of regulatory authorities and competitors and other factors which could cause actual results to differ materially from the results referred to in the forward-looking statements, see "Risk Factors."

Overview

We are a leading provider of communications services in rural communities, offering an array of services, including local and long distance voice, data, Internet and broadband product offerings. We are one of the largest telephone companies in the United States focused on serving rural communities and we are the 17th largest local telephone company, in each case based on number of access lines. We operate in 17 states with approximately 272,691 access line equivalents in service as of September 30, 2004.

We were incorporated in February 1991 for the purpose of operating and acquiring incumbent telephone companies in rural markets. Since 1993, we have acquired 30 such businesses, 26 of which we continue to own and operate. Many of our telephone companies have served their respective communities for over 75 years. The majority of the rural communities we serve have fewer than 2,500 residents. All of our telephone company subsidiaries qualify as rural local exchange carriers under the Telecommunications Act.

Rural local exchange carriers generally are characterized by stable operating results and strong cash flow margins and operate in supportive regulatory environments. In particular, existing state and federal regulations permit us to charge rates that enable us to recover our operating costs, plus a reasonable rate of return on our invested capital (as determined by relevant regulatory authorities). Competition is typically limited because rural local exchange carriers primarily serve sparsely populated rural communities with predominantly residential customers, and the cost of operations and capital investment requirements for new entrants is high. As a result, in our markets, we have experienced virtually no wireline competition and limited competition from cable providers. While most of our markets are served by wireless service providers, their impact on our business has been limited.

Access lines are an important element of our business. Historically, rural telephone companies have experienced consistent growth in access lines because of positive demographic trends, insulated rural local economies and little competition. Recently, however, many rural telephone companies have experienced a loss of access lines due to challenging economic conditions, increased competition and the introduction of digital subscriber line services. We have not been immune to these conditions. We have been able to mitigate our access line loss through bundling services, win-back programs, increased community involvement and a variety of other programs.

Despite our net losses of access lines, we have generated growth in our revenues each year since 1999. We have accomplished this by providing our customers with services not previously available in most of our markets, such as enhanced voice services and data services, including digital subscriber line services, and through acquisitions.

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.

- *Universal Service Fund—high cost loop support*. We receive payments from the Universal Service Fund to support the high cost of our operations in rural markets. This revenue stream fluctuates based upon our average cost per loop compared to the national average cost per loop. For example, if the national average cost per loop increases and our operating costs (and average cost per loop) remain constant or decrease, the payments we receive from the Universal Service Fund would decline. Conversely, if the national average cost per loop decreases and our operating costs (and average cost per loop) remain constant or increase, the payments we receive from the Universal Service Fund would increase. Over the past year, the national average cost per loop in relation to our average cost per loop has increased, and we believe that the national average cost per loop will likely continue to increase in relation to our average cost per loop. As a result, the payments we receive from the Universal Service Fund will likely decline.
- *Interstate access revenues*. These revenues are primarily based on a regulated return on rate base and recovery of allowable expenses associated with the origination and termination of toll calls both to and from our customers. Interstate access charges to long distance carriers and other customers are based on access rates filed with the Federal Communications Commission. These revenues also include Universal Service Fund payments for local switching support, long term support and interstate common line support.
- *Intrastate access revenues*. These revenues consist primarily of charges paid by long distance companies and other customers for access to our networks in connection with the origination and termination of long distance telephone calls both to and from our customers. Intrastate access charges to long distance carriers and other customers are based on access rates filed with the state regulatory agencies.
- *Long distance services*. We receive revenues from long distance services we provide to our residential and business customers. In addition, our subsidiary Carrier Services provides our rural local exchange carriers and other non-affiliated communications providers with wholesale long distance services.
- *Data and Internet services*. We receive revenues from monthly recurring charges for services, including digital subscriber line, 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 revenues and percentage of revenues from continuing operations from these sources:

	Year ended December 31,			Nine months ended September 30,		Year ended December 31,			Nine months ended September 30,	
	2001	2002	2003	2004	2003	2001	2002	2003	2004	2003
	Revenue (in thousands)					% of Revenue				
Local calling services	$ 50,629	$ 54,000	$ 56,078	$ 47,322	$ 41,735	22%	23%	24%	25%	24%
Universal service fund-high cost loop	19,019	22,429	18,903	17,110	14,260	8	10	8	9	9
Interstate access revenues	66,002	65,769	66,564	52,061	49,037	29	29	29	28	28
Intrastate access revenues	48,671	43,848	43,969	31,879	32,625	21	19	19	17	19
Long distance services	19,459	16,763	15,440	13,258	11,673	9	7	7	7	7
Data and Internet services	7,684	10,257	13,431	13,550	9,585	3	4	6	7	5
Other services	18,712	17,753	17,047	13,658	12,748	8	8	7	7	8
Total	$230,176	$230,819	$231,432	188,838	171,663	100%	100%	100%	100%	100%

Operating Expenses

Our operating expenses are categorized as operating expenses; depreciation and amortization; and stock based compensation.

- Operating expenses includes cash 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 purchase long distance services from regional bell operating companies, large independent telephone companies and third party long distance providers. In addition, our operating expenses include 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. Prior to January 1, 2002, and the implementation of SFAS No. 142, this category also included amortization of goodwill relating to our acquisitions.
- Stock based compensation consists of non-cash compensation charges incurred in connection with the employee stock options granted to our executive officers, and stockholder appreciation rights agreements granted to two of our executive officers.

Acquisitions

We intend to continue to pursue selective acquisitions:

- On December 1, 2003, we purchased all of the capital stock of Community Service Telephone and Commtel Communications. Community Service Telephone and Commtel Communications provided communication services to approximately 13,280 access line equivalents in central Maine as of the date of such acquisition.
- On June 18, 2003, we executed an agreement and plan of merger with Berkshire Telephone Company, or Berkshire, to merge FairPoint Berkshire Corporation with Berkshire. Shareholders of Berkshire would receive approximately $19.2 million in the merger, subject to adjustment. Berkshire is an independent local exchange carrier that, as of March 31, 2004, provided communication services to over 7,242 access line equivalents serving five communities in New York State. Berkshire's communities of service are adjacent to Taconic Telephone Corp., one of the Company's subsidiaries. This acquisition is expected to close during the first quarter of 2005, pending receipt of required regulatory approvals.
- During 2002, we made no acquisitions.
- During 2001, we acquired one rural local exchange carrier and certain assets of additional telephone exchanges for an aggregate purchase price of $24.2 million, which included $0.7 million of acquired debt. At the respective dates of acquisition, these businesses served an aggregate of approximately 5,600 access lines.

In the normal course of business, we evaluate selective acquisitions and may enter into non-binding letters of intent with respect to such acquisitions, subject to customary conditions. Management currently intends to fund future acquisitions through additional financing. However, our substantial amount of indebtedness and our dividend policy could restrict our ability to obtain such financing on acceptable terms or at all.

Stock Based Compensation

Non-cash compensation charges associated with restricted stock units were $133,000 for the nine-months ended September 30, 2004.

In 2003, we did not recognize any material non-cash compensation charges, primarily due to the fact that the fair market value per share of our common stock remained relatively stable.

In March 2002, we recognized a non-cash compensation benefit of $0.2 million associated with the reduction in estimated fair market value of the stockholder appreciation rights agreements. In December 2002, an additional benefit of $0.1 million was recognized in connection with these agreements. This benefit was offset by a non-cash compensation charge of $1.2 million in connection with the modification of employee stock options by one of our executive officers.

In December 2001, we recognized a non-cash compensation charge of $2.2 million in connection with the modification of employee stock options by one of our executive officers. This charge was offset by a non-cash compensation benefit of $0.9 million associated with the reduction in estimated fair market value of the stockholder appreciation rights agreements.

Discontinued Operations

On September 30, 2003, MJD Services Corp., or MJD Services, a wholly-owned subsidiary of the Company, completed the sale of all of the capital stock owned by MJD Services of Union Telephone Company of Hartford, Armour Independent Telephone Co., WMW Cable TV Co. and Kadoka Telephone Co. to Golden West Telephone Properties, Inc., or Golden West. The sale was completed in accordance with the terms of the purchase agreement, dated as of May 9, 2003, between MJD Services and Golden West, which we refer to as the South Dakota purchase agreement. The divestiture is referred to herein as the South Dakota disposition. MJD Services received approximately $24.2 million in proceeds from the South Dakota disposition. The companies sold to Golden West provided communication services to approximately 4,150 voice access lines located in South Dakota as of the date of such disposition. The operations of these companies were presented as discontinued operations beginning in the second quarter of 2003. Therefore, the balances associated with these activities were reclassified as “held for sale.” All prior period financial statements have been restated accordingly. We recorded a gain on disposal of the South Dakota companies of $7.7 million during the third quarter of 2003.

In November 2001, we decided to discontinue the competitive local exchange carrier operations of Carrier Services. This decision was a proactive response to the deterioration in the capital markets, the general slow-down of the economy and the slower-than-expected growth in Carrier Services’ competitive local exchange carrier operations.

Carrier Services provides wholesale long distance services and support to our rural local exchange carriers and other non-affiliated communications providers. These services allow such companies to operate their own long distance communication services and sell such services to their respective customers. Our long distance business is included as part of continuing operations in the accompanying financial statements.

The information in our year to year comparisons below represents only our results from continuing operations.

Results of Operations

The following table sets forth the percentages of revenues represented by selected items reflected in our consolidated statements of operations. The year to year and quarter to quarter comparison of financial results are not necessarily indicative of future results:

	Year Ended December 31,			Nine months ended September 30,	
	2001	2002	2003	2004	2003
Revenues	100.0%	100.0%	100.0%	100.0%	100.0%
Operating expenses	50.3	47.8	48.0	51.0%	47.5%
Depreciation and amortization	23.9	20.1	20.8	19.5	21.1
Stock based compensation	0.6	0.4	—	0.1	—
Total operating expenses	74.8	68.3	68.8	70.6	68.6
Income from operations	25.2	31.7	31.2	29.4	31.4
Net gain on sale of investments and other assets	(0.3)	—	0.3	(0.1)	0.3
Interest and dividend income	0.9	0.8	0.8	0.7	0.7
Interest expense	(33.2)	(30.1)	(39.0)	(41.1)	(37.7)
Impairment of investments	—	(5.4)	—	—	—
Equity in net earnings of investees	2.1	3.4	4.4	4.2	4.2
Realized and unrealized losses on interest rate swaps	(5.6)	(4.1)	(0.6)	(0.1)	(0.7)
Other non-operating, net	—	0.2	(0.7)	—	(0.9)
Total other expense	(36.1)	(35.2)	(34.8)	(36.4)	(34.1)
Loss from continuing operations before income taxes	(10.9)	(3.5)	(3.7)	(7.0)	(2.7)
Income tax benefit (expense)	(0.2)	(0.3)	0.1	(0.1)	(0.1)
Loss from continuing operations	(11.0)%	(3.8)%	(3.6)%	(7.1)%	(2.8)%

Nine Month Period Ended September 30, 2004 Compared with Nine Month Period Ended September 30, 2003

Revenues

Revenues. Revenues increased $17.1 million to $188.8 million in 2004 compared to $171.7 million in 2003. $6.6 million of this increase was attributable to the Maine acquisition and $10.5 million to revenues from our existing operations. We derived our revenues from the following sources.

Local calling services. Local calling service revenues increased $5.6 million from $41.7 million in 2003 to $47.3 million in 2004. Revenues from our existing operations increased $3.2 million. Of this increase, $2.8 million is attributable to the implementation of Basic Service Calling Areas in the state of Maine, which changes and expands basic service calling areas and has the effect of shifting revenues from intrastate access to local services. Despite a 2.6% decline in net voice access lines, the remaining $0.4 million increase in local revenues from existing operations is due to increases in local calling features and local interconnection revenues. The remaining increase of $2.4 million in local calling service revenues was attributable to the Maine acquisition.

Universal service fund—high cost loop. Universal service fund—high cost loop receipts increased $2.8 million to $17.1 million in 2004 from $14.3 million in 2003. Our existing operations accounted for all of this increase. A reclassification of plant has increased our Universal Service Fund receipts in our

Maine and Idaho companies that has more than offset a drop in receipts from the Universal Service Fund related to increases in the national average cost per loop.

Interstate access revenues. Interstate access revenues increased $3.1 million from $49.0 million in 2003 to $52.1 million in 2004. Our existing operations accounted for $0.6 million of this increase due to expense increases from our regulated operations that resulted in higher interstate revenue requirements, and $2.5 million was attributable to the Maine acquisition.

Intrastate access revenues. Intrastate access revenues decreased from $32.6 million in 2003 to $31.9 million in 2004. The decrease from our existing operations was $1.6 million before being offset by $0.9 million in revenues contributed by the Maine acquisition. The decrease was mainly attributed to a decrease of $1.8 million related to the Basic Service Calling Areas plan implemented in Maine as discussed above in local calling services.

Long distance services. Long distance services revenues increased $1.6 million from $11.7 million in 2003 to $13.3 million in 2004. This was all attributable to our existing operations as a result of promotional efforts and bundles with unlimited long distance designed to generate more revenue.

Data and Internet services. Data and Internet services revenues increased $4.0 million from $9.6 million in 2003 to $13.6 million in 2004. This increase is due primarily to increases in digital subscriber line customers as we continue to aggressively market our broadband services. Our digital subscriber line subscribers increased from 12,271 as of September 30, 2003 to 30,420 as of September 30, 2004, a 148% increase during this period.

Other services. Other revenues increased from $12.8 million in 2003 to $13.7 million in 2004. An increase of $0.4 million from existing operations was due to a $1.2 million one-time sale and installation of E911 system equipment. This was offset by $0.8 million of reductions in billing and collection revenues, as inter-exchange carriers continue to take back the billing function for their more significant long distance customers. We expect the billing and collection trend to continue. The Maine acquisition contributed $0.5 million to the increase.

Operating Expenses

Operating expenses and cost of goods sold, excluding depreciation and amortization. Operating expenses increased $14.8 million to $96.4 million in 2004 from $81.6 million in 2003. Of the increase, $11.4 million is related to our existing operations and $3.4 million is related to expenses of the companies we acquired in 2003 in the Maine acquisition. Wages and benefits increased $3.3 million due to merit increases, an increase in our incentive compensation plan and an increase in the number of our employees compared to a year ago. As we change our company to a more data/broadband and sales organization, our training costs have also increased by $0.2 million as compared to the same period in 2003. Network operations expense, wholesale digital subscriber line charges and transport and network costs associated with our broadband initiatives increased $2.8 million. Cost of goods sold associated with the one-time sale and installation of E911 system equipment was $1.0 million in 2004. Bad debt expense was $1.1 million higher in 2004 than 2003 due primarily to a recovery received in 2003. Marketing and promotion expenses increased $1.2 million due to higher levels of activity related to the promotion of custom calling features, data services and other products. Billing costs have increased $0.8 million as we incur costs associated with the conversion of our billing systems into an integrated platform.

Depreciation and amortization. Depreciation and amortization increased $0.7 million to $36.9 million in 2004 from $36.2 million in 2003. All of this increase was attributable to the Maine acquisition.

Stock based compensation. For the nine months ended September 30, 2004, stock-based compensation associated with restricted stock units was $133,000. During the nine months ended September 30, 2003 there were no stock-based compensation charges.

Income from operations. Income from operations increased $1.6 million to $55.5 million in 2004 from $53.9 million in 2003. A $0.7 million decrease attributable to our existing operations was offset by a $2.3 million increase attributable to the Maine acquisition.

Other income (expense). Total other expense increased $10.5 million to $68.8 million in 2004 from $58.3 million in 2003. The increase consisted primarily of interest expense on long-term debt, which increased $13.1 million to $77.7 million in 2004 from $64.6 million in 2003, mainly attributable to the extinguishment of debt in connection with our issuance of the 11⅞% notes during the first quarter of 2003 and the adoption of Statement of Financial Accounting Standards 150 as of July 1, 2003, the latter of which resulted in our recording $14.8 million in interest expense related to dividends and accretion on series A preferred stock for the nine months ended September 30, 2004 compared to $4.4 million for the nine months ended September 30, 2003. Earnings in equity investments increased $0.7 million to $7.9 million in 2004 from $7.2 million in 2003. Other non operating income (expense) includes net loss on the extinguishment of debt and expenses related to the loss on the write off of loan origination costs. In conjunction with the issuance of $225.0 million of the 11⅞% notes during the first quarter of 2003, we recorded $3.5 million in non-operating gains on the extinguishment of a portion of the 9½% notes, the 12½% notes and Carrier Services loans. These gains were offset by a non-operating loss of $5.0 million for the write-off of debt issue costs related to this extinguishment of debt in 2003.

The following is a summary of amounts included in realized and unrealized losses on interest rate swaps (dollars in thousands):

	Nine months ended September 30,	
	2004	2003
Change in fair value of interest rate swaps	$ 874	$ 6,576
Reclassification of transition adjustment included in other comprehensive income (loss)	(103)	(852)
Realized losses	(883)	(6,935)
Total	$(112)	$(1,211)

Income tax expense. Income tax expense was approximately $0.3 million in 2004 and 2003. The income tax expense relates primarily to income taxes owed in certain states.

Discontinued operations. Net income from discontinued operations of our companies sold in the South Dakota Disposition was $1.9 million in 2003. The companies were sold on September 30, 2003 and resulted in the recognition of a gain on the disposal of the discontinued operations of $7.7 million during 2003. During the nine months ended September 30, 2004, we recorded a reduction to our liability associated with the discontinuation of our competitive local exchange carrier operations of $0.7 million. This is mainly attributable to excise tax refunds received from the Internal Revenue Service as well as a reduction in liabilities associated with potential property tax payments.

Net income (loss). Net loss attributable to common stockholders for the nine months ended September 30, 2004 was $12.9 million. Our 2003 net loss attributable to common stockholders was $0.9 million after giving effect to $8.9 million in dividends and accretion related to our series A preferred stock and the repurchase of series A preferred stock at a discount of $2.9 million. The difference between 2004 and 2003 is a result of certain of the factors discussed above.

Year Ended December 31, 2003 Compared with Year Ended December 31, 2002

Revenues

Revenues. Revenues increased $0.6 million to $231.4 million in 2003 compared to $230.8 million in 2002. Of this increase, $0.7 million was attributable to the Maine acquisition and $1.5 million in revenues from our existing operations. This was offset by a decrease to revenues of $1.6 million from our wholesale long distance company. We derived our revenues from the following sources:

Local calling services. Local calling service revenues increased $2.1 million from $54.0 million in 2002 to $56.1 million in 2003. Despite a 0.5% decline in net voice access lines, revenues from our existing operations increased $1.8 million due to increases in local calling features and local interconnection revenues. The remaining increase in local calling service revenues of $0.3 million was attributable to the Maine acquisition.

Universal service fund—high cost loop. Universal service fund—high cost loop receipts decreased $3.5 million to $18.9 million in 2003 from $22.4 million in 2002. Our existing operations accounted for all of this decrease. The support from the high cost loop fund is associated with historical expense levels of our companies that exceed the national average cost per loop. The historical expenses occur two years prior to the receipt of the Universal Service Fund revenues. Historical expenses related to a performance share plan paid in 2000 by an acquired company resulted in Universal Service Fund receipts in 2002 which did not recur in 2003. In addition to this decrease, the Universal Service Fund receipts declined due to increases in the national average cost per loop.

Interstate access revenues. Interstate access revenues increased $0.8 million from $65.8 million in 2002 to $66.6 million in 2003. Our existing operations accounted for $0.5 million of this increase due to operating expense increases that resulted in higher interstate revenue requirements and $0.3 million was attributable to the Maine acquisition.

Intrastate access revenues. Intrastate access revenues increased slightly from $43.8 million in 2002 to $44.0 million in 2003. This slight increase was attributable to the Maine acquisition. While consolidated access revenues were relatively flat, lower access rates in a few of the states in which we operate were generally offset by higher minutes of use in other states in which we operate.

Long distance services. Long distance services revenues decreased $1.4 million from $16.8 million in 2002 to $15.4 million in 2003. An approximately $0.2 million increase was attributable to our existing rural local exchange carrier operations. Carrier Services revenues decreased by $1.6 million as a result of rate increases from its underlying toll carriers, which resulted in the loss of wholesale customers by Carrier Services.

Data and Internet services. Data and Internet services revenues increased $3.1 million from $10.3 million in 2002 to $13.4 million in 2003. This increase is primarily from an increase of digital subscriber lines customers from 6,659 to 17,937, an increase of 169%.

Other services. Other revenues decreased by $0.8 million from $17.8 million in 2002 to $17.0 million in 2003 at our existing operations. This decrease is mainly associated with reductions in billing and collections revenues, as interexchange carriers continue to take back the billing function for their more significant long distance customers. We expect this trend to continue.

Operating Expenses

Operating expenses, excluding depreciation and amortization. Operating expenses increased $0.9 million to $111.2 million in 2003 from $110.3 million in 2002. Expenses of our wholesale long distance company decreased $0.7 million as a result of lower minutes of use from our wholesale customers. This decrease was offset by an increase of $1.3 million related to our existing operations and

$0.3 million related to expenses of the companies we acquired in 2003 in the Maine acquisition. Several items contributed to the expense increase, including network operations expense, transport and network costs associated with our broadband initiatives. Expenses also increased because of an increase in the Universal Service Fund life line fund contribution expense which is directly assigned to the interstate revenue requirement and is fully recovered via our interstate revenues. Marketing and promotion expenses increased due to higher levels of activity related to the promotion of custom calling features, data services and other performance products. The increased expenses in 2003 would have been larger except for lower compensation costs in 2003 as a result of employee termination costs incurred in 2002, as well as a $1.9 million bad debt expense incurred in 2002 when a carrier declared bankruptcy and a $0.6 million recovery of this write-off received in 2003 resulting in a year over year decrease in bad debt expense of $2.5 million.

Depreciation and Amortization. Depreciation and amortization from continuing operations increased $1.8 million to $48.1 million in 2003 from $46.3 million in 2002. An increase of $1.7 million was attributable to the increased investment in our communications network by existing operations we acquired prior to 2003 and $0.1 million was attributable to the Maine acquisition.

Stock Based Compensation. For the year ended December 31, 2002, stock based compensation of $0.9 million was incurred, including $1.2 million resulting from a modification of an employee stock option agreement with an executive officer, offset by the decrease in the estimated value of fully vested stockholder appreciation rights agreements of $0.3 million. Stock based compensation for the year ended December 31, 2003 was not material.

Income from Operations. Income from continuing operations decreased $1.2 million to $72.1 million in 2003 from $73.3 million in 2002. A $0.5 million decrease attributable to our existing operations and a decrease of $1.0 million from our wholesale long distance company was offset by a $0.3 million increase attributable to the Maine acquisition.

Other Income (Expense). Total other expense from continuing operations decreased $0.9 million to $80.6 million in 2003 from $81.5 million in 2002. The expense consisted primarily of interest expense on long-term debt. Interest expense increased $20.7 million to $90.2 million in 2003 from $69.5 million in 2002, mainly attributable to our March 2003 debt refinancing and our early adoption of SFAS 150, as of July 1, 2003, the latter of which resulted in our recording $9.0 million in interest expense related to dividends and accretion on preferred shares subject to mandatory redemption. During 2002, we recorded non-cash impairment of investments of $12.6 million which is associated with other than temporary declines in fair value of approximately $8.2 million of Choice One stock and a write-down of $4.4 million for certain investments accounted for under the equity method. There were no similar impairment losses recorded in 2003. Earnings in equity investments increased $2.3 million to $10.1 million in 2003 from $7.8 million in 2002. Other non-operating income (expense) includes net gain (loss) on the extinguishment of debt and expenses related to the loss on the write off of loan origination costs. As a result of the issuance of $225.0 million in senior notes during the first quarter of 2003, we recorded $2.8 million and $0.7 million of non-operating gains on the extinguishment of the senior subordinated notes and the Carrier Services loans, respectively. Additionally, we recorded a non-operating loss of $5.0 million for the write-off of debt issue costs related to this extinguishment of debt in 2003.

The following is a summary of amounts included in realized and unrealized gains (losses) on interest rate swaps (dollars in thousands):

	2002	2003
Change in fair value of interest rate swaps	$ 2,135	$ 7,693
Reclassification of transition adjustment included in other comprehensive income (loss)	(1,437)	(1,029)
Realized gains (losses)	(10,275)	(8,051)
Total	$ (9,577)	$(1,387)

Income Tax Benefit. Income tax benefit from continuing operations increased $0.7 million to $0.2 million in 2003 from an expense of $0.5 million in 2002. The income tax benefit related primarily to income taxes owed in certain states offset by investment tax credits in certain states.

Discontinued Operations. In November 2001, we decided to discontinue the competitive local exchange carrier operations of Carrier Services. Net income from discontinued operations of our competitive local exchange carrier operations was $0.3 million and $19.5 million for 2003 and 2002, respectively. The income in 2002 was a result of a gain on extinguishment of debt attributable to Carrier Services. Net income from discontinued operations of our existing operations sold in the South Dakota disposition was $1.9 million and $2.4 million for 2003 and 2002, respectively. The Company recorded a gain on disposal in connection with the South Dakota disposition of $7.7 million in 2003.

Net Income (Loss). Our 2003 net loss attributable to common shareholders was $4.3 million after giving effect to $8.9 million in dividends and accretion related to our series A preferred stock and the repurchase of series A preferred stock at a discount of $2.9 million. Additionally, as a result of the adoption of SFAS 150 on July 1, 2003, the dividends and accretion of $9.0 million related to these instruments is included as a reduction of net income for the third and fourth quarters of 2003. Our 2002 net income attributable to common shareholders was $1.3 million after giving effect to $11.9 million in dividends and accretion related to our series A preferred stock. The differences between the 2003 and 2002 net income (loss) are a result of the factors discussed above.

Year Ended December 31, 2002 Compared with Year Ended December 31, 2001

Revenues

Revenues. Revenues increased $0.6 million to $230.8 million in 2002 compared to $230.2 million in 2001. Of this increase, $4.2 million was attributable to revenues from companies we acquired in 2001. This was offset by a reduction of $0.7 million in revenues from our existing operations and a decrease in revenues of $2.9 million attributable to revenues from our wholesale long distance company. We derived our revenues from the following sources.

Local calling services. Local calling service revenues increased $3.4 million from $50.6 million in 2001 to $54.0 million in 2002, including an increase of $2.2 million from an increase in the number of voice access lines and local services provided in our existing operations, as well as an increase of $1.2 million from the companies we acquired in 2001.

Universal service fund—high cost loop. Universal service fund—high cost loop receipts increased $3.4 million to $22.4 million in 2002 from $19.0 million in 2001. Our existing operations accounted for $3.2 million of the increase with the balance obtained from companies we acquired in 2001. The support from the high cost loop fund is associated with historical expense levels of our companies that exceed the national average cost per loop.

Interstate access revenues. Interstate access revenues were relatively flat from year to year, decreasing $0.2 million from $66.0 million in 2001 to $65.8 million in 2002. A reduction of $1.2 million from our existing operations was offset by $1.0 million associated with companies we acquired in 2001. The $1.2 million revenue reductions are due mainly to our cost reductions at acquired entities, which correspondingly lower our revenue requirement.

Intrastate access revenues. Intrastate access revenues decreased $4.9 million from $48.7 million in 2001 to $43.8 million in 2002. An increase of $1.6 million from companies we acquired in 2001 was offset by a reduction of $6.5 million from our existing operations. The decrease was mainly due to rate and state support reductions in Maine, Kansas, Vermont and Illinois. We continue to expect downward pressure on our intrastate access rates. To the extent these pressures reduce our earnings levels below authorized rates of return, our companies are allowed to file and seek approval from the state public utility commissions for recovery of these reductions through increases in local rates and, where they exist, state universal service funds.

Long distance services. Long distance services revenues decreased $2.7 million from $19.5 million in 2001 to $16.8 million in 2002, all attributed to a reduction in Carrier Services' long distance wholesale operations. Wholesale customers were lost when one of our underlying wholesale carriers declared bankruptcy.

Data and Internet services. Data and Internet services revenues increased $2.6 million from $7.7 million in 2001 to $10.3 million in 2002, including an increase of $0.1 million from acquisitions and an increase of $2.5 million as a result of increased service offerings to our customers of our existing operations.

Other services. Other revenues decreased by $0.9 million from $18.7 million in 2001 to $17.8 million in 2002 as other revenue contributed by the companies we acquired in 2001 of $0.1 million was offset by a reduction in other revenues of $1.0 million from our existing operations. This decrease is mainly associated with reductions in billing and collections revenues, as interexchange carriers "take back" the billing function for their long distance customers. This trend is expected to continue.

Operating Expenses

Operating expenses, excluding depreciation and amortization. Operating expenses decreased $5.5 million, or 4.7%, to $110.3 million in 2002 from $115.8 million in 2001. Expenses of our wholesale long distance company decreased $2.5 million as a result of lower minutes of use from our wholesale customers. In addition, expenses of our existing operations decreased by $4.4 million, mainly attributable to overall cost reduction efforts throughout the company. This decrease was offset by an increase of $1.4 million attributable to expenses of the rural local exchange carriers we acquired in 2001.

Depreciation and Amortization. Depreciation and amortization from continuing operations decreased $8.8 million to $46.3 million in 2002 from $55.1 million in 2001. The decrease of $12.0 million attributable to the discontinuance of amortizing goodwill upon the implementation of SFAS No. 142 was offset by increases in depreciation of property, plant and equipment consisting of $2.5 million attributable to the increased investment in our communications network by existing operations we acquired prior to 2001 and $0.7 million related to the companies we acquired in 2001.

Stock Based Compensation. For the year ended December 31, 2002, stock based compensation of $0.9 million was incurred, including $1.2 million related to a modification of an employee stock option agreement with an executive officer, offset by the decrease in the estimated value of fully vested stockholder appreciation rights agreements of $0.3 million. For the year ended December 31, 2001, stock based compensation of $0.9 million was related to the decrease in the estimated value of fully vested stockholder appreciation rights agreements. This is offset by a $2.2 million non-cash stock based compensation charge related to a modification of an employee stock option agreement with an executive officer. The net charge for the year ended December 31, 2001 was $1.3 million.

Income from Operations. Income from continuing operations increased $15.3 million to $73.3 million in 2002 from $58.0 million in 2001. Of this increase, $13.2 million was attributable to our existing operations and $2.1 million was attributable to the rural local exchange carriers we acquired in 2001. Income from our wholesale long distance company decreased $0.4 million, and stock based compensation expense decreased $0.4 million.

Other Income (Expense). Total other expense from continuing operations decreased $1.5 million to $81.5 million in 2002 from $83.0 million in 2001. The expense consists primarily of interest expense on long-term debt. Interest expense decreased $6.8 million to $69.5 million in 2002 from $76.3 million in 2001. During 2002, we recorded non-cash impairment of investments of $12.6 million which is associated with other than temporary declines in fair value of approximately $8.2 million of Choice One stock and a write-down of $4.4 million for certain investments accounted for under the equity method. Earnings in equity investments increased $2.9 million to $7.8 million in 2002 from $4.9 million in 2001.

The following is a summary of amounts included in realized and unrealized gains (losses) on interest rate swaps (dollars in thousands):

	2001	2002
Change in fair value of interest rate swaps	$ (6,896)	$ 2,135
Reclassification of transition adjustment included in other comprehensive income (loss)	(1,238)	(1,437)
Realized gains (losses)	(4,739)	(10,275)
Total	$(12,873)	$ (9,577)

Income Tax Expense. Income tax expense from continuing operations increased $0.1 million to $0.5 million in 2002 from $0.4 million in 2001. The income tax expense relates primarily to income taxes owed in certain states.

Discontinued Operations. Income from discontinued operations was $21.9 million in 2002. $2.4 million was a result of the South Dakota disposition and $17.5 million was a result of a gain on extinguishment of debt at Carrier Services. Losses from discontinued operations for 2001 were $186.2 million. This loss was associated with a loss on the disposition of the competitive local exchange carrier operations of $95.3 million, losses from the discontinued operations of the competitive local exchange carrier operations of $93.0 million, offset with income from the South Dakota disposition of $2.1 million.

Net Income (Loss). Our 2002 net income attributable to common shareholders was $1.3 million after giving effect to $11.9 million in dividends and accretion related to the series A preferred stock. Our net loss was $211.6 million for 2001, as a result of the factors discussed above and mainly associated with the loss from discontinued operations.

Liquidity and Capital Resources

Following consummation of the transactions, our short-term and long-term liquidity needs will arise primarily from: (i) interest payments primarily related to our new credit facility; (ii) capital expenditures, which are expected to be approximately $31.0 million in 2005; (iii) working capital requirements as may be needed to support the growth of our business; (iv) dividend payments on our common stock; and (v) potential acquisitions. Our board of directors will adopt a dividend policy, effective upon the closing of this offering, which reflects our judgment that our stockholders would be better served if we distributed a substantial portion of our cash available for distribution to them instead of retaining it in our business.

After the transactions, we intend to fund our operations, interest expense, capital expenditures, working capital requirements and dividend payments on our common stock from cash from operations. To fund future acquisitions, we intend to use borrowings under our new revolving facility, or, subject to the restrictions in our new credit facility, to arrange additional funding through the sale of public or private debt and/or equity securities, or obtain additional senior bank debt.

Our ability to service our indebtedness will depend on our ability to generate cash in the future. We will not be required to make any scheduled amortization payments under our new credit facility's term loan facility which will mature in , 2012. We will need to refinance all or a portion of our indebtedness on or before maturity. We may not be able to refinance our indebtedness on commercially reasonable terms or at all. If we were unable to renew or refinance our new credit facility, our failure to repay all amounts due on the maturity date would cause a default under our new credit facility. In addition, borrowings under our new credit facility will bear interest at variable interest rates. In connection with this offering, we intend to enter into an interest rate swap agreement which will fix the interest rates on $442.5 million of the term loans under our new credit facility for a period of five years after the closing of this offering. After the interest rate swap agreement expires, our annual debt service obligations on such portion of the term loans will vary from year to year unless we enter into a new interest rate swap or purchase an interest rate cap or other interest rate hedge. An increase of one percentage point in the annual interest rate applicable to borrowings under our new credit facility which would be outstanding on the closing date of this offering would result in an increase of approximately $5.9 million in our annual cash interest expense, and a corresponding decrease in cash available to pay dividends on our common stock. If we choose to enter into a new interest rate swap or purchase an interest rate cap or other interest rate hedge in the future, the amount of cash available to pay dividends on our common stock may decrease. However, to the extent interest rates increase in the future, we may not be able enter into a new interest rate swap or to purchase an interest rate cap or other interest rate hedge on acceptable terms. For the years ended December 31, 2003, 2002 and 2001, cash provided by operating activities of continuing operations was $32.8 million, $55.6 million and $35.7 million, respectively. For the nine months ended September 30, 2004 and 2003, cash provided by operating activities of continuing operations was $32.9 million and $23.7 million, respectively.

Based on the dividend policy with respect to our common stock, we may not have any significant cash available to meet any unanticipated liquidity requirements, other than available borrowings, if any, under our new revolving facility. As a result, we may not retain a sufficient amount of cash to finance growth opportunities, including acquisitions, or unanticipated capital expenditures or to fund our operations. If we do not have sufficient cash for these purposes, our financial condition and our business will suffer. However, our board of directors may, in its discretion, amend or repeal this dividend policy to decrease the level of dividends provided for or discontinue entirely the payment of dividends.

Upon the closing of this offering, we will use net proceeds received from this offering, together with approximately $590.0 million of borrowings under our new credit facility, to, among other things, repay all outstanding loans under our existing credit facility, repurchase all of our series A preferred stock and consummate tender offers and consent solicitations in respect of our outstanding 9½% notes, floating rate notes, 12½% notes and 11⅞% notes. To the extent not all of the holders of 9½% notes and floating rate notes tender their notes in the tender offer and consent solicitation, we intend to redeem the remaining outstanding 9½% notes and floating rate notes following this offering. See "The Transactions" and "Use of Proceeds."

Net cash used in investing activities from continuing operations was $54.0 million, $30.3 million and $57.2 million for the years ended December 31, 2003, 2002 and 2001, respectively. These cash flows primarily reflect capital expenditures of $33.6 million, $38.8 million and $43.2 million for the years ended December 31, 2003, 2002 and 2001, respectively, and acquisitions of telephone properties, net of cash acquired of $33.1 million, $0 million and $18.9 million for the years ended December 31, 2003, 2002 and 2001, respectively.

Offsetting capital expenditures were distributions from investments of $10.8 million, $9.0 million and $5.0 million for the years ended December 31, 2003, 2002 and 2001, respectively. These investments represent minority investments and passive partnership interests. We do not control the timing or amount of distributions from such investments or interests. In addition, we have been advised that one of these partnerships has adjusted its pricing structure. Based on such adjustments, the amount of future distributions from this partnership will decrease. Future price adjustments, if any, may result in a significant decrease in distributions from this partnership. Historically, the amount of distributions from this partnership represented a material portion of our cash flow.

Net cash used in investing activities from continuing operations was $12.1 million and $11.2 million for the nine months ended September 30, 2004 and 2003, respectively. These cash flows primarily reflect net capital expenditures of $24.0 million and $19.3 million for the nine months ended September 30, 2004 and 2003, respectively.

Offsetting capital expenditures were distributions from investments of $11.8 million and $8.7 million for the nine months ended September 30, 2004 and 2003, respectively. The $11.8 million received in the nine months ended September 30, 2004 includes a non-recurring $2.5 million distribution to one of our subsidiaries, Chouteau Telephone Company, indirectly from Independent Cellular Telephone LLC resulting from the sale of Independent Cellular Telephone LLC's membership interest in an operating cellular limited liability company. These investments represent minority investments and passive partnership interests. We do not control the timing or amount of distributions from such investments or interests. In addition, we have been advised that one of these partnerships has adjusted its pricing structure. Based on such adjustments, the amount of future distributions from this partnership will decrease. Future price adjustments, if any, may result in a significant decrease in distributions from this partnership. Historically, the amount of distributions from this partnership represented a material portion of our cash flow.

Net cash provided by (used in) financing activities from continuing operations was $(2.0) million, $(12.5) million and $101.2 million for the years ended December 31, 2003, 2002 and 2001, respectively. These cash flows primarily represent net proceeds of long term debt of $23.3 million and $104.2 million for the years ended December 31, 2003 and 2001, respectively. For the year ended December 31, 2002, net repayments were $11.5 million.

Net cash used in financing activities from continuing operations was $18.9 million and $15.1 million for the nine months ended September 30, 2004 and 2003, respectively. These cash flows primarily represent net repayment of long-term debt of $12.2 million and $5.6 million in debt issuance and offering related costs for the nine months ended September 30, 2004. For the nine months ended September 30, 2003, net proceeds from the issuance of long term debt of $9.6 million were offset by debt issuance costs of $15.1 million and the repurchase of series A preferred stock and common stock of $9.6 million.

Our annual capital expenditures for our rural telephone operations have historically been significant. Because existing regulations allow us to recover our operating and capital costs, plus a reasonable return on our invested capital in regulated telephone assets, capital expenditures have historically constituted an attractive use of our cash flow. Capital expenditures were approximately $33.6 million for the year ended December 31, 2003 and $24.4 million for the nine months ended September 30, 2004. These amounts include $2.0 million and $1.2 million for the year ended December 31, 2003 and the nine months ended September 30, 2004, respectively, of non-recurring capital expenditures related to the conversion of our billing systems into an integrated billing platform and the centralization of our customer service records. These amounts also include $4.8 million and $7.4 million for the year ended December 31, 2003 and nine months ended September 30, 2004, respectively, of non-recurring capital expenditures related to capital investments in digital subscriber line access multiplexers and other plant upgrades associated with our accelerated digital subscriber line initiative that began during the third quarter of 2003. As a result, 96% of our exchanges are broadband capable as of September 30, 2004 and management expects that digital subscriber line investments will decrease significantly in 2005. Our management views non-recurring capital expenditures as either one-time capital expenditures or discretionary capital expenditures which are not necessary to maintain and enhance our network infrastructure or operate our business.

We expect capital expenditures in fiscal 2004 to be approximately $36.6 million, which includes $3.5 million of anticipated non-recurring capital expenditures relating to the conversion of our billing systems into an integrated billing platform and the centralization of our customer service records and $9.2 million of anticipated non-recurring capital expenditures relating to the final stages of our digital subscriber line initiative. We expect that our annual capital expenditures for our existing operations will be approximately $31.0 million for fiscal 2005 through fiscal 2009. We estimate that approximately $28.0 million of this amount will be used to maintain and enhance our network infrastructure and operate our business. This includes expenditures to meet our network, product offering and customer requirements, such as investments in equipment, central office technology (which includes both hardware and software), inside and outside plant upgrades to meet network capacity requirements and normal repair and maintenance to our infrastructure. In addition, approximately $3.0 million of this amount will be available for one-time or discretionary capital expenditures, such as the billing systems conversion. We expect to fund all of these capital expenditures through our cash flow from operations. If cash is available beyond what is required to support our dividend policy, we may consider additional capital expenditures if we believe they are beneficial. Although the amount of our capital expenditures can fluctuate from quarter to quarter, on an annual basis we do not expect capital expenditures for our existing operations through fiscal 2009 to vary significantly from our estimated amounts.

We intend to use borrowings under our new credit facility's revolving facility to fund the acquisition of Berkshire, which we expect to close in the first quarter of 2005.

Our existing credit facility consists of an $85.0 million revolving loan facility, of which $46.8 million was available at September 30, 2004, and two term facilities, a tranche A term loan facility of $40.0 million with $40.0 million outstanding at September 30, 2004 that matures on March 31, 2007 and a tranche C term loan facility with $106.9 million principal amount outstanding as of September 30, 2004 that matures on March 31, 2007. We will repay all of the borrowings under our existing credit facility with a portion of the net proceeds from this offering, together with borrowings under our new credit facility. See "The Transactions" and "Use of Proceeds."

In 1998, FairPoint issued $125.0 million aggregate principal amount of 9½% senior subordinated notes and $75.0 million aggregate principal amount of floating rate notes. Both series of these notes mature on May 1, 2008. These notes are general unsecured obligations of FairPoint, subordinated in right of payment to all of FairPoint's senior debt. In 2000, FairPoint issued $200.0 million aggregate principal amount of 12½% senior subordinated notes. These notes mature on May 10, 2010. These notes are general unsecured obligations of FairPoint, subordinated in right of payment to all of FairPoint's senior debt. In 2003, FairPoint issued $225.0 million aggregate principal amount of 11⅞% senior notes. These notes mature on March 1, 2010. These notes are general unsecured obligations of FairPoint, ranking *pari passu* in right of payment with all existing and future senior debt of FairPoint, including all obligations under FairPoint's existing credit facility, and senior in right of payment to all existing and future subordinated indebtedness of FairPoint.

In connection with this offering, we intend to consummate tender offers and consent solicitations for all of the outstanding 9½% notes, floating rate notes, 12½% notes and 11⅞% notes. The closing of this offering is conditioned upon the receipt of the tenders and consents of at least a majority in aggregate principal amount of the outstanding 9½% notes and floating rate notes (voting together as a class), the outstanding 12½% notes and the outstanding 11⅞% notes. Holders of the 9½% notes, floating rate notes, 12½% notes and 11⅞% notes that tender their notes in the tender offers will be obligated to provide consents.

For a summary description of our debt, see "Description of Certain Indebtedness."

In May 2002, Carrier Services entered into an amended and restated credit facility with its lenders to restructure its obligations under its credit facility. In the restructuring, (i) Carrier Services paid certain of its lenders $5.0 million to satisfy $7.0 million of obligations under the credit facility, (ii) the lenders converted approximately $93.9 million of the loans under the credit facility into shares of our series A preferred stock and (iii) the remaining loans under the credit facility and certain swap obligations were converted into $27.9 million of new term loans. In March 2003, we used a portion of the proceeds from the offering of the 11⅞% notes and borrowings under the existing credit facility's tranche A term loan facility to repay $2.2 million principal amount of loans under the Carrier Services credit facility, at approximately a 30% discount to par. On January 30, 2004, we used additional borrowings under its existing credit facility's tranche A loan facility and a portion of the borrowings under its existing credit facility's revolving loan facility to repay in full all indebtedness under the Carrier Services credit facility.

Our series A preferred stock is non-voting, except as required by applicable law, and is not convertible into our class A common stock. The series A preferred stock provides for the payment of dividends at a rate equal to 17.428% per annum. Dividends on the series A preferred stock are payable, at our option, either in cash or in additional shares of series A preferred stock. We have the option to redeem the series A preferred stock at any time. The redemption price for such shares is payable in cash in an amount equal to $1,000 per share plus any accrued but unpaid dividends thereon, which we refer to as the preference amount. Under certain circumstances, we would be required to pay a premium of up to 6% of the preference amount in connection with the redemption of the series A preferred stock. In addition, upon the occurrence of certain events, we would be required to redeem all outstanding shares of the series A preferred stock at a price per share equal to the preference amount. Certain holders of the series A preferred stock have agreed with us to reduce the dividend rate payable on the shares they hold from 17.428% to 15% for the period from March 6, 2003 to March 6, 2005. We will repurchase all of our series A preferred stock (together with accrued and unpaid dividends thereon) from the holders thereof for an aggregate purchase price of $130.8 million in connection with this offering. The series A preferred stock was initially issued in May 2002 in exchange for debt of Carrier Services.

Subsequent to September 30, 2004, we wrote-off debt issuance and offering costs of $5.6 million associated with our abandoned offering of income deposit securities. The offering of income deposit securities was abandoned in favor of the transactions described herein. Debt issue and offering costs of $1.0 million that are a direct and incremental benefit to the transactions described herein remain capitalized after the write-off.

Summary of Contractual Obligations

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

The following table discloses aggregate information about our contractual obligations as of September 30, 2004 and the periods in which payments are due:

	Payments due by period				
	Total	**Less than 1 year**	**1-3 years**	**3-5 years**	**More than 5 years**
	(Dollars in thousands)				
Contractual obligations:					
Debt maturing within one year	$ 28,337	$28,337	$ —	$ —	$ —
Long term debt	785,139	—	170,284	194,083	420,772
Preferred shares subject to mandatory redemption(1)	121,747	—	—	—	121,747
Operating leases(2)	12,222	4,910	5,301	1,473	538
Deferred transaction fee(3)	8,445	—	—	—	8,445
Common stock subject to put options	1,136	1,000	136	—	—
Non-compete agreements	100	100	—	—	—
Minimum purchase contract	8,039	5,011	3,028	—	—
Total contractual cash obligations	$965,165	$39,358	$178,749	$195,556	$551,502

The following table discloses aggregate information about our contractual obligations as of September 30, 2004 after giving effect to the transactions and the periods in which payments are due:

	Payments due by period				
	Total	**Less than 1 year**	**1-3 years**	**3-5 years**	**More than 5 years**
	(Dollars in thousands)				
Contractual obligations:					
Debt maturing within one year	$ —	$ —	$ —	$ —	$ —
Long term debt	590,000	—	—	—	590,000
Operating leases(2)	12,222	4,910	5,301	1,473	538
Noncompete agreements	100	100	—	—	—
Minimum purchase contract	8,039	5,011	3,028	—	—
Total contractual cash obligations	$610,361	$10,021	$ 8,329	$ 1,473	$590,538

(1) We have the option to redeem the series A preferred stock at any time. Under certain circumstances, we would be required to pay a premium of up to 6% in connection with a redemption. We are required to redeem the series A preferred stock upon the occurrence of one of the following events: (i) a merger, consolidation, sale, transfer or disposition of at least 50% of our assets or business, (ii) a public offering of our common stock which yields in the aggregate at least $175.0 million, or (iii) the first anniversary of the maturity of the 12½% notes (which first anniversary will occur in May 2011), unless prohibited by our credit facility or the indentures governing our 9½% notes, floating rate notes and 12½% notes.

(2) Real property lease obligations of $8.0 million associated with the discontinued operations discussed in note 12 to our consolidated financial statements which are stated in this table at total contractual amounts. However, we have negotiated lease terminations or subleases on these properties to reduce the total obligation. Operating leases from continuing operations of $4.2 million are also included.

(3) Payable to Kelso & Company upon the occurrence of certain events, which include this offering. See “Certain Relationships and Related Party Transactions—Financial Advisory Agreements.”

As of September 30, 2004, we did not have any derivative financial instruments.

Critical Accounting Policies

Our critical accounting policies are as follows:

- Accounting for income taxes; and
- Valuation of long-lived assets, including goodwill.

Accounting for income taxes. As part of the process of preparing our consolidated financial statements we were required to estimate our income taxes. This process involves estimating our actual current tax exposure and assessing temporary differences resulting from different treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within our consolidated balance sheets. We must then assess the likelihood that our deferred tax assets will be recovered from future taxable income and to the extent we believe the recovery is not likely, we must establish a valuation allowance. Further, to the extent that we establish a valuation allowance or increase this allowance in a financial accounting period, we must include a tax provision, or reduce our tax benefit in our consolidated statement of operations. In performing the assessment, management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies. We use our judgment to determine our provision or benefit for income taxes, deferred tax assets and liabilities and any valuation allowance recorded against our net deferred tax assets.

There are various factors that may cause those tax assumptions to change in the near term. We cannot predict whether future U.S. federal income tax laws and regulations might be passed that could have a material effect on our results of operations. We assess the impact of significant changes to the U.S. federal and state income tax laws and regulations on a regular basis and update the assumptions and estimates used to prepare our financial statements when new regulation and legislation is enacted.

We had $250.8 million in federal and state net operating loss carryforwards as of December 31, 2003. The transactions will result in an “ownership change” within the meaning of the U.S. federal income tax laws addressing net operating loss carryforwards, alternative minimum tax credits and other similar tax attributes. As a result of such ownership change, there will be specific limitations on our ability to use our net operating loss carryforwards and other tax attributes. In order to fully utilize the deferred tax assets, mainly generated by the net operating losses, we will need to generate future taxable income of approximately $176.4 million prior to the expiration of the net operating loss carryforwards beginning in 2019 through 2022. Based upon the level of projections for future taxable income over the periods in which the deferred tax assets are deductible, we believe we will realize the benefits of these deductible differences, net of the valuation allowance of $64.4 million at December 31, 2003. The amount of the deferred tax assets considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carry forward period are reduced.

On October 22, 2004, the President signed into law the American Jobs Creation Act of 2004, or the Jobs Act. We are evaluating the impact of changes to provisions related to deferred compensation plans and the effect of the manufacturing tax relief on our effective tax rate in future periods and various other provisions of the Jobs Act.

Valuation of long-lived assets, including goodwill. We review our long-lived assets, including goodwill for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Several factors could trigger an impairment review such as:

- significant underperformance relative to expected historical or projected future operating results,
- significant regulatory changes that would impact future operating revenues,
- significant negative industry or economic trends and

• significant changes in the overall strategy in which we operate our overall business.

Net goodwill was $468.8 million at December 31, 2003.

We are required to perform an annual impairment review of goodwill as required by Statement of Financial Accounting Standards (SFAS) No. 142, *Goodwill and Other Intangible Assets*. No impairment of goodwill or other long-lived assets resulted from the annual valuation of goodwill.

New Accounting Standards

In January 2003, the FASB issued FASB Interpretation No. 46, *Consolidation of Variable Interest Entities, an interpretation of ARB No. 51*. In December 2003, the FASB revised Interpretation No. 46, which clarifies the application of Accounting Research Bulletin (ARB) No. 51, *Consolidated Financial Statements.* As per ARB No. 51, a general rule for preparation of consolidated financial statements of a parent and its subsidiary is ownership by the parent, either directly or indirectly, of over fifty percent of the outstanding voting shares of a subsidiary. However, application of the majority voting interest requirement of ARB No. 51 to certain types of entities may not identify the party with a controlling financial interest because the controlling financial interest may be achieved through arrangements that do not involve voting interest. Interpretation No. 46 clarifies applicability of ARB No. 51 to entities in which the equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support. Interpretation No. 46 requires an entity to consolidate a variable interest entity even though the entity does not, either directly or indirectly, own over fifty percent of the outstanding voting shares. Interpretation No. 46 is applicable for financial statements issued for reporting periods that end after March 15, 2004. The implementation of Interpretation No. 46 did not have a significant impact on our financial statements.

In May 2003, the FASB issued SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity.* SFAS No. 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. SFAS No. 150 applies specifically to a number of financial instruments that companies have historically presented within their financial statements either as equity or between the liabilities section and the equity section, rather than as liabilities. SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003, except for mandatorily redeemable financial instruments of a non-public entity, in which case this statement shall be effective for fiscal periods beginning after December 15, 2003. For purposes of SFAS No. 150, we meet the definition of a nonpublic entity. As described in note 7 to our consolidated financial statements contained elsewhere in this prospectus, we adopted SFAS No. 150 early, as of July 1, 2003.

Inflation

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

Quantitative and Qualitative Disclosures About Market Risk

At December 31, 2003, we recorded our marketable available-for-sale equity securities at a fair value of $1.9. These securities have exposure to price risk. A hypothetical ten percent adverse change in quoted market prices would decrease the recorded value by approximately $0.2 million at December 31, 2003. During the quarter ended September 30, 2004, we impaired the value of our marketable available-for-sale equity securities due to an other-than-temporary decline in market value. At September 30, 2004, the carrying value of our equity securities is zero.

Approximately 68% of our debt bears interest at fixed rates or effectively at fixed rates. However, our earnings are affected by changes in interest rates as our long-term debt under our existing credit facility has variable interest rates based on either the prime rate or LIBOR. If interest rates on our variable rate debt increased by 10%, our interest expense would have increased, and our loss from continuing operations before taxes would have increased by approximately $1.4 million for the year ended December 31, 2003 and approximately $0.4 million for the nine months ended September 30, 2004.

From time to time, we have entered into interest rate swaps to manage our exposure to fluctuations in interest rates on our variable rate debt. Our liability for the fair value of these swaps was approximately $0.9 million at December 31, 2003. The fair value indicates an estimated amount we would have to pay to cancel the contracts or transfer them to other parties. In connection with our existing credit facility, we used two interest rate swap agreements, with notional amounts of $25.0 million each, to effectively convert a portion of our variable interest rate exposure to fixed rates ranging from 8.07% to 10.34%. The swap agreements expired in May 2004.

Business

Our Business

We are a leading provider of communications services in rural communities, offering an array of services, including local and long distance voice, data, Internet and broadband product offerings. We are one of the largest telephone companies in the United States focused on serving rural communities, and we are the 17th largest local telephone company, in each case based on number of access lines. We operate in 17 states with approximately 272,691 access line equivalents in service as of September 30, 2004.

We were incorporated in February 1991 for the purpose of operating and acquiring incumbent telephone companies in rural markets. We have acquired 30 such businesses, 26 of which we continue to own and operate. Many of our telephone companies have served their respective communities for over 75 years. The majority of the rural communities we serve have fewer than 2,500 residents. All of our telephone company subsidiaries qualify as rural local exchange carriers under the Telecommunications Act.

Rural local exchange carriers generally are characterized by stable operating results and strong cash flow margins and operate in supportive regulatory environments. In particular, existing state and federal regulations permit us to charge rates that enable us to recover our operating costs, plus a reasonable rate of return on our invested capital (as determined by relevant regulatory authorities). Competition is typically limited because rural local exchange carriers primarily serve sparsely populated rural communities with predominantly residential customers, and the cost of operations and capital investment requirements for new entrants is high. As a result, in our markets, we have experienced virtually no wireline competition and limited competition from cable providers. While most of our markets are served by wireless service providers, their impact on our business has been limited.

Our Competitive Strengths

We believe we are distinguished by the following competitive strengths:

- **Consistent and predictable cash flows and strong margins.** We have the leading market position in the rural communities we serve, with limited competition. Demand for telephone services from our residential and local business customers has historically been very stable despite changing economic conditions. As a result, we have experienced a relatively stable access line count during the last two years compared to regional bell operating companies. Additionally, our telephone companies operate in generally supportive regulatory environments. These factors have permitted us to generate consistent cash flows and strong margins.

- **Geographically diversified markets**. We currently operate 26 rural local exchange carriers in 17 states, clustered in five regions, enabling us to capitalize on economies of scale and operating efficiencies. Our geographic diversity significantly enhances our cash flow stability by limiting our exposure to competition, local economic downturns and state regulatory changes. In addition, we believe that we have achieved significant scale efficiencies by centralizing many functions, such as sales and marketing, network planning, accounting and customer service.

- **Technologically advanced infrastructure.** Our advanced network infrastructure enables us to provide a wide array of communications services. Our network consists of central office hosts and remote sites with all digital switches, primarily manufactured by Nortel and Siemens, operating with current software. As of December 31, 2003, we maintained over 24,000 miles of copper plant and approximately 2,800 miles of fiber optic plant in order to service our 264,300 access line equivalents. As a result of our historic capital investments, our network infrastructure requires predictable capital expenditures and allows us to implement certain broadband enabled services with minimal incremental cost. As of September 30, 2004, approximately 96% of our exchanges were capable of providing broadband services.

- **Broadest service offerings in our markets.** We believe that, as a result of our advanced network and switching infrastructure, we offer the only comprehensive suite of communications services in our markets, including local and long distance voice, data and Internet services. In addition, we offer enhanced features such as caller identification, call waiting, call forwarding, teleconferencing, video conferencing and voicemail. We also offer broadband communications solutions to most of our customers primarily through digital subscriber lines technology.

- **Management team with proven track record.** We have an experienced management team that has demonstrated its ability to grow our rural telephone business over the past decade. Our senior management team has an average of 21 years of experience working with a variety of telephone companies. Our regional presidents have an average of 29 years of experience in the telecommunications industry. Our management team has successfully integrated 30 business acquisitions since 1993, improving revenues and cash flow significantly while enhancing service quality and broadening service offerings.

Our Strategy

The key elements of our strategy are to:

- **Increase revenue per customer.** We are focused on increasing our revenues by introducing innovative product offerings and marketing strategies for enhanced and ancillary services to meet the growing needs of our customers. Our long standing relationships with our customers have helped us to successfully cross-sell broadband and value-added services, such as digital subscriber lines, long distance, Internet dial-up, voicemail and other services. We will continue to evaluate and implement technologies that will allow us to offer new products and services.

- **Continue to improve operating efficiencies and profitability**. We have achieved significant operating efficiencies by applying our operational, regulatory, marketing and management expertise to our acquired businesses. We intend to continue to increase our operating efficiencies by consolidating various administrative functions and implementing best practices across all of our regions. For example, we have begun to integrate all billing systems into a single, outsourced billing platform, which will allow us to improve our customer service and enhance sales and marketing efforts. When completed, we plan to use this platform to develop a number of centralized customer service and call centers and to create a significantly improved customer data base. These call centers and customer data base will allow us to enhance our operating efficiency and optimize our marketing initiatives.

- **Enhance customer loyalty.** We believe that our service driven customer relationships and long-standing local presence lead to high levels of customer satisfaction and increased demand for enhanced and ancillary services. We continue to build long-term relationships with our customers by actively participating in the communities we serve and by offering an array of communications services and quality customer care.

- **Grow through selective acquisitions.** We believe that our acquisition strategy has been successful because of our ability to integrate acquisitions and improve operating efficiencies in the businesses we acquire. Our management team has consistently produced strong operating cash flow improvements in our acquired businesses. We will continue to evaluate and pursue acquisitions which provide the opportunity to enhance our revenues and cash flows. One of our acquisition criteria will be the potential of any proposed transaction to permit increased dividends on our common stock.

Our Services

We offer a broad portfolio of high-quality communications services for residential and business customers in each of the markets in which we operate. We have a long history of operating in our markets and have a recognized identity within each of our service areas. Our companies are locally staffed, which enables us to efficiently and reliably provide an array of communications services to meet our customer needs. These include services traditionally associated with local telephone companies, as well as other services such as long distance, Internet and broadband enabled services. Based on our understanding of our local customers' needs, we have attempted to be proactive by offering bundled services designed to simplify the customer's purchasing and management process.

Generation of Revenue

We primarily generate revenue through: (i) the provision of our basic local telephone service to customers within our service areas; (ii) the provision of network access to interexchange carriers for origination and termination of interstate and intrastate long distance phone calls; (iii) Universal Service Fund—high cost loop payments; and (iv) the provision of other services such as long distance resale, data and Internet and broadband enabled services, enhanced services, such as caller name and number identification, and billing and collection for interexchange carriers.

The following chart summarizes our revenue sources for the year ended December 31, 2003:

Revenue Source	% Revenue	Description
Local Calling Services	24%	Enables the local customer to originate and receive an unlimited number of calls within a defined "exchange" area. The customer is charged a flat monthly fee for basic service and service charges for special calling features.
Network Access Charges	48%	Enables long distance companies to utilize our local network to originate or terminate intrastate and interstate calls. The network access charges are paid by the interexchange carrier to us and are regulated by state regulatory agencies and the Federal Communications Commission, respectively. This also includes Universal Service Fund payments for local switching support, long term support and interstate common line support.
Universal Service Fund—high cost loop	8%	We receive payments from the Universal Service Fund to support the high cost of our operations in rural markets. This support fluctuates based upon our average cost per loop compared to the national average cost per loop.
Long Distance Services	7%	We receive revenues for intrastate and interstate long distance services provided to our retail customers and our wholesale long distance customers.
Data and Internet Services	6%	We receive revenues from monthly recurring charges for services, including broadband, digital subscriber lines, special access, private lines, Internet and other services.

Revenue Source	% Revenue	Description
Other Services	7%	We generate revenues from other services, including enhanced services and billing and collection.

See "Management's Discussion and Analysis of Financial Condition and Results of Operations" for more information regarding our revenue sources.

Local Calling Services

Local calling services include basic local lines, private lines and switched data services. We provide local calling services to residential and business customers, generally for a fixed monthly charge. In an rural local exchange carriers' territory, the amount that we can charge a customer for local service is determined by rate proceedings involving the appropriate state regulatory authorities.

Network Access Charges

Network access charges relate to long distance, or toll calls, that typically involve more than one company in the provision of telephone service. Since toll calls are generally billed to the customer originating the call, a mechanism is required to compensate each company providing services relating to the call. This mechanism is the access charge and we bill access charges to long distance companies and other customers for the use of our facilities to access the customer, as described below.

Intrastate Access Charges. We generate intrastate access revenue when an intrastate long distance call involving an interexchange carrier is originated by a customer in our rural local exchange carrier exchange to a customer in another of our exchanges in the same state. The interexchange carrier pays us an intrastate access payment for either terminating or originating the call. We bill the call through our carrier access billing system and receive the access payment from the interexchange carrier. The access charge for intrastate services is regulated and approved by the state regulatory authority.

Interstate Access Charges. We generate interstate access revenue when an interstate long distance call is originated by a customer calling from one state to a customer in another state. We bill interstate access charges in the same manner as we bill intrastate access charges; however, the interstate access charge is regulated and approved by the Federal Communications Commission instead of the state regulatory authority.

Universal Service Fund—High Cost Loop

The Universal Service Fund supplements the amount of local service revenue received by us to ensure that basic local service rates for customers in high cost rural areas are consistent with rates charged in lower cost urban and suburban areas. The Universal Service Fund, which is funded by monthly fees charged to interexchange carriers and local exchange carriers, distributes funds to us on a monthly basis based upon our cost support for local exchange carriers whose cost of providing the local loop connections to customers is significantly greater than the national average.

Long Distance Services

We offer switched and dedicated long distance services throughout our service areas through resale agreements with national interexchange carriers. In addition, through Carrier Services, we offer wholesale long distance services to our rural local exchange carriers and other non-affiliated communications providers.

Data and Internet Services

We offer Internet access via digital subscriber lines technology, dedicated T-1 connections, Internet dial-up, high speed cable modem and wireless broadband. Customers can utilize this access in combination with customer owned equipment and software to establish a presence on the web. In addition, we offer enhanced Internet services, which include obtaining Internet protocol addresses, basic web site design and hosting, domain name services, content feeds and web-based e-mail services. Our services include access to 24-hour, 7-day a week customer support.

Other Services

We seek to capitalize on our rural local exchange carriers' local presence and network infrastructure by offering enhanced services to customers, as well as billing and collection services for interexchange carriers.

Enhanced Services. Our advanced digital switch and voicemail platforms allows us to offer enhanced services such as call waiting, call forwarding and transferring, call hunting, three-way calling, automatic callback, call hold, caller name and number identification, voice mail, teleconferencing, video conferencing, store-and-forward fax, follow-me numbers, Centrex services and direct inward dial.

Billing and Collection. Many interexchange carriers provide long distance services to our rural local exchange carrier customers and may elect to use our billing and collection services. Our rural local exchange carriers charge interexchange carriers a billing and collection fee for each call record generated by the interexchange carrier's customer.

Directory Services. Through our local telephone companies, we publish telephone directories in the majority of our locations. These directories provide white page listings, yellow page listings and community information listings. These directories generate revenues and operating cash flow from the sale of yellow page and related advertising to businesses. We contract out with leading industry providers to assist in the sale of advertising, compilation of information, as well as the production, publication and distribution of these directories.

Our Markets

Our 26 rural local exchange carriers operate as the incumbent local exchange carrier in each of their respective markets. Our rural local exchange carriers serve an average of approximately 13 access lines per square mile versus the non-rural carrier average of approximately 128 access lines per square mile. Approximately 80% of these access lines serve residential customers. Our business customers account for approximately 20% of our access lines. Our business customers are predominantly in the agriculture, light manufacturing and service industries.

The following chart identifies the number of access line equivalents in each of our 17 states as of September 30, 2004:

State	Access Line Equivalents
Maine	68,919
Florida	54,095
Washington	45,504
New York	44,765
Ohio	9,333
Virginia	8,193
Illinois	8,094
Vermont	7,113
Kansas	6,124
Idaho	6,468
Oklahoma	3,839
Colorado	3,155
Pennsylvania	3,105
Other States(1)	3,984
Total:	272,691

(1) Includes Massachusetts, New Hampshire, Georgia and Alabama.

Sales and Marketing

Our marketing approach emphasizes customer-oriented sales, marketing and service. We believe most telecommunications companies devote their resources and attention primarily toward customers in more densely populated markets. We seek to differentiate ourself from our competitors by providing a superior level of service to each of our customers.

Each of our rural local exchange carriers has a long history in the communities it serves. It is our policy to maintain and enhance the strong identity and reputation that each rural local exchange carrier enjoys in its markets, as we believe this is a significant competitive advantage. As we market new services, we will seek to continue to utilize our identity in order to attain higher recognition with potential customers.

To demonstrate our commitment to the markets we serve, we maintain local offices in most of the population centers within our service territories. These offices are typically staffed by local residents and provide sales and customer support services in the community. We believe that local offices facilitate a direct connection to the community, which improves customer satisfaction and loyalty.

In addition, our strategy is to enhance our telecommunications services by offering comprehensive bundling of services and deploying new technologies to build upon the strong reputation we enjoy in our markets and to further promote rural economic development in the rural communities we serve.

Many of the rural local exchange carriers acquired by us traditionally have not devoted a substantial amount of their operating budget to sales and marketing activities. After acquiring the rural local exchange carriers, we typically change this practice to provide additional support for existing products and services as well as to support the introduction of new services. As of December 31, 2003, we had 235 employees engaged in sales, marketing and customer service.

We have two basic tiers of customers: (i) local customers located in our local access and transport areas who pay for local phone service and (ii) the interexchange carriers which pay us for access to customers located within our local access and transport areas. In general, the vast majority of our local customers are residential, as opposed to business, which is typical for rural telephone companies.

Information Technology and Support Systems

Our approach to billing and operational support systems focuses on implementing best-of-class applications that allow consistent communication and coordination throughout our entire organization. Our objective is to improve profitability by reducing individual company costs through the sharing of best practices, centralization or standardization of functions and processes, and deployment of technologies and systems that provide for greater efficiencies and profitability.

We have begun to integrate all billing systems into a single, outsourced billing platform. When completed, we plan to use this platform to develop a number of centralized customer service and call centers and to create a significantly improved customer data base. These call centers and customer data base will allow us to enhance our operating efficiency and optimize our marketing initiatives. The billing platform will also enable our customers to directly access, via the Internet, their accounts and will allow us to provide virtual call centers.

Network Architecture and Technology

Our rural local exchange carrier networks consist of central office hosts and remote sites with advanced digital switches, primarily manufactured by Nortel and Siemens, operating with current software. The outside plant consists of transport and distribution delivery networks connecting our host central office with remote central offices and ultimately with our customers. As of December 31, 2003, we maintained over 24,000 miles of copper plant and 2,800 miles of fiber optic plant. We own fiber optic cable, which has been deployed throughout our current network and is the primary transport technology between our host and remote central offices and interconnection points with other incumbent carriers.

Our fiber optic transport system is primarily a synchronous optical network capable of supporting increasing customer demand for high bandwidth transport services. This system supports advanced services including Asynchronous Transfer Mode, Frame Relay and/or Internet Protocol Transport, facilitating delivery of advanced services as demand warrants.

In our rural local exchange carrier markets, digital subscriber lines-enabled integrated access technology is being deployed to provide significant broadband capacity to our customers. As of September 30, 2004, we had invested approximately $23.8 million and deployed this technology in all 26 of our rural local exchange carriers, reaching 137 of our 143 exchanges.

Rapid and significant changes in technology are expected in the communications industry. Our future success will depend, in part, on our ability to anticipate and adapt to technological changes. We believe that our network architecture enables us to efficiently respond to these technological changes.

Competition

We believe that the Telecommunications Act and other recent actions taken by the Federal Communications Commission and state regulatory authorities promote competition in the provision of telecommunications services; however, many of the competitive threats now confronting larger regulated telephone companies do not currently exist in the rural local exchange carrier marketplace. Our rural local exchange carriers historically have experienced little wireline competition as the incumbent carrier in their market because the demographic characteristics of rural telecommunications markets generally will not support the high cost of operations and significant capital investment required for new wireline entrants to offer competitive services. For instance, the per minute cost of operating both telephone switches and interoffice facilities is higher in rural areas, as rural local exchange carriers typically have fewer, more geographically dispersed customers and lower calling volumes. Also, the distance from the telephone switch to the customer is typically longer in rural areas, which results in increased distribution facilities costs. These relatively high costs tend to discourage other wireline competitors from entering territories serviced by rural local exchange carriers.

Wireless Competition

In most of our rural markets, we face competition from wireless technology. We do not expect this technology to represent a significant competitive threat to us in the near term, but as technology and economies of scale improve, we may experience increased competition from wireless carriers. In addition, the Federal Communications Commission's requirement that telephone companies offer wireline-to-wireless number portability may increase the competition we face from wireless carriers.

Wireline Competition

We also face competition from new market entrants that provide close substitutes for the traditional telephone services we provide, such as cable television, satellite telecommunications and electric utility companies. Cable television companies are entering the telecommunications market by upgrading their networks with fiber optics and installing facilities to provide fully interactive transmission of broadband, voice, video and data communications. Electric utilities have existing assets and access to low cost capital that could allow them to enter a market rapidly and accelerate network development. While we have limited competition for voice services from cable providers and electric utilities for basic voice services, we cannot guarantee that we will not face increased competition from such providers in the future.

In addition, we could face increased competition from competitive local exchange carriers, particularly in offering services to Internet service providers.

Voice Over Internet Protocol Competition

Voice over internet protocol service is increasingly being embraced by all industry participants. Voice over internet protocol service essentially involves the routing of voice calls, at least in part, over the Internet through packets of data instead of transmitting the calls over the existing telephone system. While current voice over internet protocol applications typically complete calls using incumbent local exchange carrier infrastructure and networks, as voice over internet protocol services obtain acceptance and market penetration and technology advances further, a greater quantity of communication may be placed without the public switched telephone network. On March 10, 2004, the Federal Communications Commission issued a Notice of Proposed Rulemaking with respect to internet protocol-enabled services. Among other things, the Federal Communications Commission is considering whether voice over internet protocol services are regulated telecommunications services or unregulated information services. We cannot predict the outcome of the Federal Communications Commission's rulemaking or the impact on the revenues of our rural local exchange carriers. The proliferation of voice over internet protocol, particularly to the extent such communications do not utilize our rural local exchange carriers' networks, may result in an erosion of our customer base and loss of access fees and other funding.

Internet Competition

The Internet services market is also highly competitive, and we expect that competition will continue to intensify. Internet services, meaning both Internet access (wired and wireless) and on-line content services, are provided by Internet service providers, satellite-based companies, long distance carriers and cable television companies. Many of these companies provide direct access to the Internet and a variety of supporting services to businesses and individuals. In addition, many of these companies, such as America Online, Inc., Microsoft Network and Yahoo, offer on-line content services consisting of access to closed, proprietary information networks. Long distance companies and cable television operators, among others, are aggressively entering the Internet access markets. Long distance carriers have substantial transmission capabilities, traditionally carry data to large numbers of customers and have an established billing system infrastructure that permits them to add new services. Satellite companies are offering broadband access to the Internet from desktop PCs. Many of these competitors have substantially greater financial, technological, marketing, personnel, name-brand recognition and other resources than those available to us.

Long Distance Competition

The long distance telecommunications market is highly competitive. Competition in the long distance business is based primarily on price, although service bundling, branding, customer service, billing service and quality play a role in customers' choices.

Other Competition

Although we believe we offer the only comprehensive suite of communications services in our markets, existing service providers such as wireless, cable and utility companies could form strategic alliances to offer bundled services in our markets. We cannot guarantee that we will not face increased competition from such bundled service providers.

Employees

As of September 30, 2004, we employed a total of 857 employees. 125 employees of our rural local exchange carriers are represented by four unions. We believe the state of our relationship with our union and non-union employees is good. Within our Company, 33 employees are employed at our corporate office, 816 employees are employed at our rural local exchange carriers and 8 employees are employed by Carrier Services.

Properties

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

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

Legal Proceedings

We currently and from time to time are involved in litigation and regulatory proceedings incidental to the conduct of our business, but currently we are not a party to any lawsuit or proceeding which, in our opinion, is likely to have a material adverse effect on us.

Intellectual Property

We believe we have the trademarks, trade names and licenses that are necessary for the operation of our business as we currently conduct it. We do not consider our trademarks, trade names or licenses to be material to the operation of our business.

Discontinued Operations

On September 30, 2003, MJD Services, a wholly-owned subsidiary of the Company, completed the sale of all of the capital stock owned by MJD Services of Union Telephone Company of Hartford, Armour Independent Telephone Co., WMW Cable TV Co. and Kadoka Telephone Co. to Golden West. The sale was completed in accordance with the terms of the South Dakota purchase agreement. MJD Services received approximately $24.2 million in proceeds from the South Dakota disposition. The companies sold to Golden West provided communications services to approximately 4,150 voice access lines located in South Dakota as of the date of such disposition. The operations of these companies were presented as discontinued operations beginning in the second quarter of 2003. Therefore, the balances associated with these activities were reclassified as "held for sale." All prior period financial statements have been restated accordingly. We recorded a gain on disposal of the South Dakota companies of $7.7 million during the third quarter of 2003.

In early 1998, we launched our competitive local exchange carrier enterprise through our wholly-owned subsidiary, Carrier Services. In November 2001, we decided to discontinue such competitive local exchange carrier operations. This decision was a proactive response to the deterioration in the capital markets, the general slow-down of the economy and the slower-than-expected growth in Carrier Services' competitive local exchange carrier operations. Carrier Services completed the termination or sale of its competitive local exchange carrier operations in the second quarter of 2002.

Carrier Services provides wholesale long distance service and support to our rural local exchange carriers and to other non-affiliated communications providers. These services allow such companies to operate their own long distance communication services and sell such services to their respective customers.

Regulation

The following summary does not describe all present and proposed federal, state and local legislation and regulations affecting the telecommunications industry. Some legislation and regulations are currently the subject of judicial proceedings, legislative hearings and administrative proposals which could change the manner in which this industry operates. Neither the outcome of any of these developments, nor their potential impact on us, can be predicted at this time. Regulation can change rapidly in the telecommunications industry, and such changes may have an adverse effect on us in the future. See "Risk Factors—Risks Related to our Regulatary Environment."

Overview

Our regulated communications services are subject to extensive federal, state and local regulation. We hold various regulatory authorizations for our service offerings. At the federal level, the Federal Communications Commission generally exercises jurisdiction over all facilities and services of telecommunications common carriers, such as us, to the extent those facilities are used to provide, originate, or terminate interstate or international communications. State regulatory commissions generally exercise jurisdiction over such facilities and services to the extent those facilities are used to provide, originate or terminate intrastate communications. In addition, pursuant to the Telecommunications Act, state and federal regulators share responsibility for implementing and enforcing the domestic pro-competitive policies introduced by that legislation. In particular, state regulatory agencies have substantial oversight over the provision by incumbent telephone companies of interconnection and non-discriminatory network access to competitive communications providers. Local governments often regulate the public rights-of-way necessary to install and operate networks, and may require communications services providers to obtain licenses or franchises regulating their use of public rights-of-way. Additionally, municipalities and other local government agencies may regulate limited aspects of our business, including our use of public rights of way, and by requiring us to obtain construction permits and abide by building codes.

We believe that competition in our telephone service areas will increase in the future as a result of the Telecommunications Act, although the ultimate form and degree of competition cannot be ascertained at this time. Competition may lead to loss of revenues and profitability as a result of: loss of customers; reduced usage of our network by our existing customers who may use alternative providers for long distance and data services; and reductions in prices for our services which may be necessary to meet competition.

Federal Regulation

We must comply with the Communications Act which requires, among other things, that communications carriers offer services at just and reasonable rates and on non-discriminatory terms and conditions. The amendments to the Communications Act contained in the Telecommunications Act dramatically changed and are expected to continue to change the landscape of the telecommunications industry. The central aim of the Telecommunications Act was to open local telecommunications marketplaces to competition while enhancing universal service. Most significantly, the Telecommunications Act governs the removal of barriers to market entry into local telephone services, requires incumbent local exchange carriers to interconnect with competitors, establishes procedures pursuant to which incumbent local exchange carriers may provide other services, such as the provision of long distance services by regional bell operating companies, and imposes on incumbent local exchange carriers duties to negotiate interconnection arrangements in good faith.

Removal of Entry Barriers. Prior to the enactment of the Telecommunications Act, many states limited the services that could be offered by a company competing with an incumbent local exchange carrier. The Telecommunications Act generally preempts state and local laws that prevent competitive entry into the provision of any communications service. However, states can modify conditions of entry into areas served by rural local exchange carriers where the state regulatory commission determines that such modification is warranted by the public interest. Since the passage of the Telecommunications Act, we have experienced only limited competition from cable and wireless service providers.

Access Charges. The Federal Communications Commission regulates the prices that incumbent local telephone companies charge for the use of their local telephone facilities in originating or terminating interstate transmissions. The Federal Communications Commission has structured these prices, also referred to as "access charges," as a combination of flat monthly charges paid by the end-users and usage sensitive charges paid by long distance carriers. State regulatory commissions regulate intrastate access charges. Many states generally mirror the Federal Communications Commission price structure. A significant amount of our revenues come from network access charges, which are paid to us by intrastate carriers and interstate long distance carriers for originating and terminating calls in the regions served by our rural local exchange carriers. The amount of access charge revenues that we receive is based on rates set by federal and state regulatory bodies, and such rates are subject to change at any time.

The Federal Communications Commission regulates the levels of interstate access charges by imposing price caps on larger incumbent local telephone companies. These price caps can be adjusted based on various formulae, such as inflation and productivity, and otherwise through regulatory proceedings. Smaller incumbents may elect to base access charges on price caps, but are not required to do so unless they elected to use price caps in the past or their affiliated incumbent local telephone companies base their access charges on price caps. Each of our 26 incumbent local telephone subsidiaries elected not to apply the Federal Communications Commission's price caps. Instead, our subsidiaries employ rate-of-return regulation for their interstate access charges.

The Federal Communications Commission has made, and is continuing to consider, various reforms to the existing rate structure for charges assessed on long distance carriers for connection to local networks. States often mirror federal rules in establishing intrastate access charges. In 2001, the Federal Communications Commission adopted an order implementing the beginning phases of the Multi-Association Group plan to reform the access charge system for rural carriers. The Multi-Association Group plan is revenue neutral to our operating companies. Among other things, the Multi-Association Group plan reduces access charges and shifts a portion of cost recovery, which historically have been based on minutes-of-use, to flat-rate, monthly per line charges on end-user customers rather than long distance carriers. As a result, the aggregate amount of access charges paid by long distance carriers to access providers, such as our rural local exchange carriers, has decreased and may continue to decrease. In adopting the Multi-Association Group plan, the Federal Communications Commission also determined that rate-of-return carriers will continue to be permitted to set rates based on the authorized rate of return of 11.25%. Additionally, the Federal Communications Commission initiated a rulemaking proceeding to investigate the Multi-Association Group's proposed incentive regulation plan and other means of allowing rate-of-return carriers to increase their efficiency and competitiveness. The Multi-Association Group plan expires in 2006 and will need to be renewed or replaced at such time. In addition, to the extent our rural local exchange carriers become subject to competition in their own local exchange areas, such access charges could be paid to competing local exchange carriers rather than to us. Additionally, the access charges we receive may be reduced as a result of competition by other service providers such as wireless and voice over internet services. Such a circumstance could have a material adverse effect on our financial condition and results of operations. In addition, the Federal Communications Commission has sought comment on broad policy changes that could harmonize the rate structure and levels of all forms of intercarrier compensation, and could, as a result, substantially modify the current forms of carrier-to-carrier payments for interconnected traffic. Furthermore, in the notice of proposed rulemaking on voice over internet protocol services the Federal Communications Commission adopted in February 2004, the Federal Communications Commission has sought comment on whether access charges should apply to voice over internet protocol or other internet protocol-based services. It is unknown at this time what additional changes, if any, the Federal Communications Commission may eventually adopt and the effect of any such changes on our business.

Rural Local Exchange Carrier Services Regulation. Our rural local exchange carrier services segment revenue is subject to regulation including regulation by the Federal Communications Commission and incentive regulation by various state regulatory commissions. State lawmakers will likely continue to review the statutes governing the level and type of regulation for telecommunications services. It is expected that over the next few years, legislative and regulatory actions will provide opportunities to restructure rates, introduce more flexible incentive regulation programs and possibly reduce the overall level of regulation. We expect the election of incentive regulation plans and the expected reduction in the overall level of regulation to allow us to introduce new services and pricing changes more expeditiously than in the past. At the same time, however, the implementation of such new programs may also lead to reductions in intrastate access charges.

The Federal Communications Commission generally must approve in advance most transfers of control and assignments of operating authorizations by Federal Communications Commission-regulated entities. Therefore, if we seek to acquire companies that hold Federal Communications Commission authorizations, in most instances we will be required to seek approval from the Federal Communications Commission prior to completing those acquisitions. The Federal Communications Commission has the authority to condition, modify, cancel, terminate or revoke operating authority for failure to comply with applicable federal laws or rules, regulations and policies of the Federal Communications Commission. Fines or other penalties also may be imposed for such violations. Our interstate common carrier services are also subject to nondiscrimination requirements and requirements that rates be just and reasonable.

The Federal Communications Commission has required that incumbent independent local exchange carriers that provide interstate long distance services originating from their local exchange service territories must do so in accordance with “structural separation” rules. These rules require that our long distance affiliates (i) maintain separate books of account, (ii) not own transmission or switching facilities jointly with the local exchange affiliate, and (iii) acquire any services from its affiliated local exchange telephone company at tariffed rates, terms and conditions. The Federal Communications Commission has initiated a rulemaking proceeding to examine whether there is a continuing need for such requirements; however, we cannot predict the outcome of that proceeding.

The Telecommunications Act required all carriers to offer local number portability. This requirement allows telephone customers to change service providers but keep their existing telephone numbers. Initially, the Federal Communications Commission set November 24, 2003 as the local number portability deadline for carriers within the Top 100 Metropolitan Statistical Areas and May 24, 2004 for carriers outside the Top 100 Metropolitan Statistical Areas. On January 16, 2004, the Federal Communications Commission granted an extension of time, to May 24, 2004, to local exchange carriers with fewer than two percent of the nation’s subscriber lines, regardless of whether the companies operate in a Top 100 Metropolitan Statistical Areas. All local exchange carriers with *bona fide* local number portability requests must be prepared to port numbers from wireline to wireless carriers on or before May 24, 2004. We are in compliance with this requirement in all of the states in which we operate or have received waivers to extend the time for implementation beyond the May 24th date in certain states where technical limitations hinder compliance by this date.

Our operations and those of all telecommunications carriers also may be impacted by legislation and regulation imposing new or greater obligations related to assisting law enforcement, bolstering homeland security, minimizing environmental impacts, or addressing other issues that impact our business. For example, existing provisions of the Communications Assistance for Law Enforcement Act and Federal Communications Commission regulations implementing the Communications Assistance for Law Enforcement Act require telecommunications carriers to ensure that their equipment, facilities, and services are able to facilitate authorized electronic surveillance. We believe we are in compliance with those laws and regulations. These laws and regulations, however, are subject to both interpretation and change which may result in requirements for us to incur additional costs.

State Regulation

Most states have some form of certification requirement that requires providers of telecommunications services to obtain authority from the state regulatory commission prior to offering common carrier services. Each of our 26 rural local exchange carriers operates as the incumbent local telephone company in the states in which it operates and is certified in those states to provide local telephone services. State regulatory commissions generally regulate the rates incumbent local exchange carriers charge for intrastate services, including rates for intrastate access services paid by providers of intrastate long distance services. Although the Federal Communications Commission has preempted certain state regulations pursuant to the Telecommunications Act, states have retained authority to impose requirements on carriers necessary to preserve universal service, protect public safety and welfare, ensure quality of service and protect consumers. For instance, incumbent local exchange carriers must file tariffs setting forth the terms, conditions and prices for their intrastate services, and such tariffs may be challenged by third parties. From time to time, states conduct rate cases or "earnings" reviews. These reviews may result in the disallowance of certain investments or expenses for ratemaking puroposes. Subsidiaries of the Company recently completed rate cases in Vermont, Illinois, Kansas and Maine. We currently have "earnings" reviews of our rates being conducted in Idaho, New York and Vermont.

Under the Telecommunications Act, state regulatory commissions have jurisdiction to arbitrate and review interconnection disputes and agreements between incumbent local exchange carriers and competitive local exchange carriers, in accordance with rules set by the Federal Communications Commission. State regulatory commissions may also formulate rules regarding fees imposed on providers of telecommunications services within their respective states to support state universal service programs. States often require prior approvals or notifications for certain acquisitions and transfers of assets, customers, or ownership of regulated entities. Therefore, in most instances we will be required to seek state approval prior to completing new acquisitions of rural local exchange carriers. States generally retain the right to sanction a carrier or to revoke certifications if a carrier materially violates relevant laws and/or regulations.

Local Government Authorizations

We may be required to obtain from municipal authorities permits for street opening and construction or operating franchises to install and expand facilities in certain rural communities. Some of these franchises may require the payment of franchise fees. We have obtained such municipal franchises as were required. In some rural areas, we do not need to obtain such permits or franchises because the subcontractors or electric utilities with which we have contracts already possess the requisite authorizations to construct or expand our networks.

The Promotion of Local Service Competition and Traditional Telephone Companies

As discussed above, the Telecommunications Act provides, in general, for the removal of barriers to entry into the telecommunications industry in order to promote competition for the provision of local service. Congress, however, has recognized that states should not be prohibited from taking actions necessary to preserve and advance universal service, and has further recognized that special consideration should be given to the appropriate conditions for competitive entry in areas served by rural telephone companies, such as our 26 rural local exchange carrier subsidiaries.

Pursuant to the Telecommunications Act, all local exchange carriers, including both incumbents and new competitive carriers, are required to: (i) allow others to resell their services at retail rates; (ii) ensure that customers can keep their telephone numbers when changing carriers; (iii) ensure that competitors' customers can use the same number of digits when dialing and receive nondiscriminatory access to telephone numbers, operator service, directory assistance and directory listing; (iv) ensure access to telephone poles, ducts, conduits and rights of way; and (v) compensate competitors for the competitors' costs of completing calls to competitors' customers. Competitors are required to compensate the incumbent telephone company for the cost of providing these interconnection services. Under the Telecommunications Act, our rural local exchange carriers may request from state regulatory commissions, suspension or modification of any or all of the requirements described above. A state regulatory commission may grant such a request if it determines that such exemption, suspension or modification is consistent with the public interest and necessary to avoid a significant adverse economic impact on communications users and generally avoid imposing a requirement that is technically unfeasible or unduly economically burdensome. If a state regulatory commission denies some or all of any such request made by one of our rural local exchange carriers, or does not allow us adequate compensation for the costs of providing interconnection, our costs could increase and our revenues could decline. In addition, with such a denial, competitors could enjoy benefits that would make their services more attractive than if they did not receive such interconnection rights. With the exception of the previously referenced requests to modify the May 24, 2004 implementation date for local number portability in certain states, we have not encountered a need to file any such requests for suspension or modification of the interconnection requirements.

The Telecommunications Act, with certain exceptions, imposes the following additional duties on incumbent telephone companies by requiring them to: (i) interconnect their facilities and equipment with any requesting telecommunications carrier at any technically feasible point; (ii) unbundle and provide nondiscriminatory access to network elements such as local loops, switches and transport facilities, at nondiscriminatory rates and on nondiscriminatory terms and conditions; (iii) offer their retail services for resale at wholesale rates; (iv) provide reasonable notice of changes in the information necessary for transmission and routing of services over the incumbent telephone company's facilities or in the information necessary for interoperability; and (v) provide, at rates, terms and conditions that are just, reasonable and nondiscriminatory, for the physical co-location of equipment necessary for interconnection or access to unbundled network elements at the premises of the incumbent telephone company. Competitors are required to compensate the incumbent local exchange carrier for the cost of providing these interconnection services. However, pursuant to the Telecommunications Act, rural telephone companies, including our rural local exchange carriers, are automatically exempt from these additional incumbent telephone company requirements. The exemption remains effective until an incumbent rural local telephone company receives a bona fide request for these additional interconnection services and the applicable state authority determines whether the request is not unduly economically burdensome, technically feasible, and consistent with the universal service objectives set forth in the Telecommunications Act. This exemption remains effective for all of our incumbent local telephone operations, except in Florida where the legislature has determined that all incumbent local exchange carriers are required to provide the additional interconnection services as prescribed in the Telecommunications Act. If a request for any of these additional interconnection services is filed by a potential competitor with respect to one of our other operating territories, we are likely to ask the relevant state regulatory commission to retain the exemption. If a state regulatory commission rescinds such exemption in whole or in part and if the state regulatory commission does not allow us adequate compensation for the costs of providing the interconnection, our costs would significantly increase, we would face new competitors in that state and we could suffer a significant loss of customers and resulting declines in our revenues. In addition, we could incur additional administrative and regulatory expenses as a result of the interconnection requirements.

Promotion of Universal Service

The Universal Service Fund payments received by our rural local exchange carriers from the Universal Service Fund are intended to support the high cost of our operations in rural markets. Such Universal Service Fund payments related to the high cost loop represented 8% of our revenues for the year ended December 31, 2003. Under current Federal Communications Commission regulations, the total Universal Service Fund available to all rural local telephone companies, including our 26 rural local exchange carrier subsidiaries, is subject to a cap. In any given year, the cap may or may not be reached. In any year where the cap is reached, the per access line rate at which we can recover Universal Service Fund payments may decrease. In addition, the consideration of changes in the federal rules governing the distribution of Universal Service Fund is pending before the Federal Communications Commission. If our rural local exchange carriers were unable to receive Universal Service Fund payments, or if such payments were reduced, many of our rural local exchange carriers would be unable to operate as profitably as they have historically in the absence of our implementation of increases in charges for other services. Moreover, if we raise prices for services to offset loss of Universal Service Fund payments, the increased pricing of our services may disadvantage us competitively in the marketplace, resulting in additional potential revenue loss. Payments from the Universal Service Fund fluctuate based upon our average cost per loop compared with the national average cost per loop. For example, if the national average cost per loop increases and our operating costs (and average cost per loop) remain constant or decrease, the payments we receive from the Universal Service Fund would decline. Conversely, if the national average cost per loop decreases and our operating costs (and average cost per loop) remain constant or increase, the payments we receive from the Universal Service Fund would increase. Over the past year, the national average cost per loop in relation to our average cost per loop has increased and management believes the national average cost per loop may continue to increase in relation to our average cost per loop and, as a result, the payments we receive from the Universal Service Fund could decline.

Universal service rules have been adopted by both the Federal Communications Commission and some state regulatory commissions. Universal Service Fund funds may be distributed only to carriers that are designated as eligible telecommunications carriers by a state regulatory commission. All of our rural local exchange carriers have been designated as eligible telecommunications carriers pursuant to the Telecommunications Act. However, under the Telecommunications Act, competitors could obtain the same support payments as we do if a state regulatory commission determined that granting such support payments to competitors would be in the public interest.

Two notable regulatory changes enacted by the Federal Communications Commission in the last four years are the adoption, with certain modifications, of the Rural Task Force proposed framework for rural high-cost universal service support and the implementation of the beginning phases of the Multi-Association Group plan. The Federal Communications Commission's Rural Task Force order modifies the existing universal service support mechanism for rural local exchange carriers and adopts an interim embedded, or historical, cost mechanism for a five-year period that provides predictable levels of support to rural carriers. The Federal Communication Commission has stated its intention to develop a long-term plan based on forward-looking costs when the five-year period expires in 2006. The Multi-Association Group plan created a new universal service support mechanism, Interstate Common Line Support, to replace carrier common line access charges and the recovery of certain costs formerly recovered through traffic sensitive access charges. A recent Federal Communications Commission order merged long term support into its interstate common line support mechanism without reducing (at least initially) the aggregate universal service support from the two mechanisms (both of which had been previously transformed from access charge revenue streams into universal service support mechanisms). As a result of these changes, when a competitor is designated an eligible telecommunications carrier, it also receives an increased level of Universal Service Fund support equal to the level received by the incumbent on a per line basis.

The Federal State Joint Board is currently considering recommendations on the question of which carriers can obtain Universal Service Fund support in a market. The Federal State Joint Board recommended that:

- a set of permissive federal guidelines be developed to ensure that the public interest is served before eligible telecommunications carriers are designated;
- support be limited to a single connection that provides access to the public telephone network; and
- the basis for providing support be considered and further clarified during the comprehensive review of the Universal Service Fund to be completed in 2006.

The Federal Communications Commission statutorily must act on these recommendations by February 27, 2005. Also, the Federal Communications Commission is considering resolution of the method by which contributions to the Universal Service Fund are determined.

In addition, there are a number of judicial appeals challenging several aspects of the Federal Communications Commission's universal service rules. It is not possible to predict at this time whether the Federal Communications Commission or Congress will require modification to those rules, or the ultimate impact any such modification might have on us.

Potential Internet Regulatory Obligations

In connection with our Internet access offerings, we could become subject to laws and regulations as they are adopted or applied to the Internet. There is currently only limited regulations applicable to the Internet. As the significance of the Internet expands, federal, state and local governments may adopt rules and regulations, or apply existing laws and regulations to the Internet, and related matters are under consideration in both federal and state legislative and regulatory bodies. The Federal Communications Commission is currently reviewing the appropriate regulatory framework governing broadband access to the Internet through telephone and cable operators' communications networks. We cannot predict whether the outcome will prove beneficial or detrimental to our competitive position. In February 2004, the Federal Communications Commission initiated a proceeding to examine the regulatory implications of voice over Internet protocol technology. We cannot predict the results of these proceedings, the nature of these regulations or their impact on our business.

Environmental Regulations

Similarly, and like all other local telephone companies, our 26 rural local exchange carrier subsidiaries are subject to federal, state and local laws and regulations governing the use, storage, disposal of, and exposure to hazardous materials, the release of pollutants into the environment and the remediation of contamination. As an owner of property, we could be subject to environmental laws that impose liability for the entire cost of cleanup at contaminated sites, regardless of fault or the lawfulness of the activity that resulted in contamination. We believe, however, that our operations are in substantial compliance with applicable environmental laws and regulations.

Management

The following table sets forth the names and positions of our current directors and executive officers, as well as our nominees for our board of directors pending closing of this offering, and their ages.

Upon the closing of this offering, our restated certificate of incorporation will require our board of directors to have between five and eleven members. We expect to restructure our board of directors and appoint the following three independent directors: Patricia Garrison-Corbin, David L. Hauser, and Claude C. Lilly. One additional independent director will be appointed in accordance with our restated bylaws within one year of the closing of this offering. To accommodate the inclusion of these new independent directors, three of our current directors, Daniel G. Bergstein, Anthony J. DiNovi and George E. Matelich, will resign upon the closing of this offering. See "—Composition of the Board After the Offering" below. See "Certain Relationships and Related Party Transactions—Stockholders Agreements, Nominating Agreement and Registration Rights Agreement."

Name	Age	Position
Eugene B. Johnson	57	Co-Founder, Chairman of the Board of Directors and Chief Executive Officer
Peter G. Nixon	52	Chief Operating Officer
Valeri A. Marks	46	President
Walter E. Leach, Jr.	52	Executive Vice President and Chief Financial Officer
Shirley J. Linn	54	Senior Vice President, General Counsel and Secretary
Lisa R. Hood	39	Senior Vice President and Controller
Timothy W. Henry	49	Vice President of Finance and Treasurer
Daniel G. Bergstein	61	Co-Founder and Director
Frank K. Bynum, Jr.	41	Director
Anthony J. DiNovi	42	Director
George E. Matelich	48	Director
Kent R. Weldon	37	Director
Patricia Garrison-Corbin	57	Director Nominee
David L. Hauser	53	Director Nominee
Claude C. Lilly	58	Director Nominee

Eugene B. Johnson. Mr. Johnson has served as our Chairman since January 1, 2003 and as our Chief Executive Officer since January 1, 2002. Prior to his current responsibilities, Mr. Johnson was our Chief Development Officer from May 1993 to December 2002 and Vice Chairman from August 1998 to December 2002. Mr. Johnson is a co-founder and has been a director of our company since 1991. From 1997 to 2002, Mr. Johnson served as a director of the Organization for the Promotion and Advancement of Small Telecommunications Companies the primary industry organization for small independent telephone companies. From 1987 to 1993, Mr. Johnson served as President and principal shareholder of JC&A, Inc., an investment banking and brokerage firm providing services to the cable television, telephone and related industries. From 1985 to 1987, Mr. Johnson served as the director of the mergers and acquisitions department of Cable Investments, Inc., an investment banking firm. Mr. Johnson currently is chairman of Organization for the Promotion and Advancement of Small Telecommunication Companies' Universal Service Fund committee.

Peter G. Nixon. Mr. Nixon has served as our Chief Operating Officer since November 2002. Previously, Mr. Nixon was our Senior Vice President of Corporate Development from February 2002 to November 2002 and President of our Telecom Group from April 2001 to February 2002. Prior to this, Mr. Nixon served as President of our Eastern Region Telecom Group from June 1999 to April 2001 and President of Chautauqua & Erie Telephone Corporation, or C&E, from July 1997, when we acquired C&E, to June 1999. From April 1, 1989 to June 1997, Mr. Nixon served as Executive Vice President of C&E. From April 1, 1978 to March 31, 1989, Mr. Nixon served as Vice President of Operations for C&E. Mr. Nixon has served as the past Chairman of the New York State Telephone Association, in addition to his involvement in several community and regional organizations.

Valeri A. Marks. In October 2004, Ms. Marks was appointed our President. From 2001 to 2003, Ms. Marks served as Chairman and Chief Executive Officer of Sockeye Networks (which was acquired by Internap Network Services Corporation). From 2000 to 2001, Ms. Marks served as President and Chief Executive Officer of Digital Broadband Communications, Inc. and from 1999 to 2000, she served as President and Chief Executive Officer of the Internet division of SBC Communications, Inc. Ms. Marks is a director of Amerivault, an online data back-up and recovery company.

Walter E. Leach, Jr. In July 2004, Mr. Leach was appointed our Executive Vice President and Chief Financial Officer. Mr. Leach has served as our Chief Financial Officer since October 1994 and served as our Senior Vice President from February 1998 to July 2004. From October 1994 to December 2000, Mr. Leach was our Secretary. From 1984 through September 1994, Mr. Leach served as Executive Vice President of Independent Hydro Developers, where he had responsibility for all project acquisition, financing and development activities.

Shirley J. Linn. In September 2004, Ms. Linn was appointed our Senior Vice President, General Counsel and Secretary. Ms. Linn has served as our General Counsel since October 2000, our Vice President since October 2000 and our Secretary since December 2000. Prior to joining us, Ms. Linn was a partner, from 1984 to 2000, in the Charlotte, North Carolina law firm of Underwood Kinsey Warren & Tucker, P.A., where she specialized in general business matters, particularly mergers and acquisitions.

Lisa R. Hood. In July 2004, Ms. Hood was appointed our Senior Vice President and Controller. Ms. Hood has served as our Controller since December 1993 and served as our Vice President from December 1993 to July 2004. Prior to joining our company, Ms. Hood served as manager of a local public accounting firm in Kansas. Ms. Hood is certified as a public accountant in Kansas.

Timothy W. Henry. Mr. Henry has served as our Vice President of Finance and Treasurer since December 1997. From 1992 to December 1997, Mr. Henry served as Vice President/Portfolio Manager at CoBank, ACB, and managed a $225 million telecommunications loan portfolio, which included responsibility for CoBank's relationship with us.

Daniel G. Bergstein. Mr. Bergstein is a co-founder and has been a director of our company since 1991. Mr. Bergstein served as Chairman of our board of directors from 1991 until August 1998. Since 1988, Mr. Bergstein has been a senior partner in the New York office of the international law firm Paul, Hastings, Janofsky & Walker LLP, where he is the Chairman of the Firm's global Telecommunications and Media Practice. Mr. Bergstein is also a co-founder of Cequel III LLC and is a Director of AAT Communications, Inc., Cebridge Connections and MxEnergy Inc. He also serves as a board member of the National Trustees of the Foundation Fighting Blindness.

Frank K. Bynum, Jr. Mr. Bynum has served as a director of our company since July 1997. He is also a Managing Director of Kelso & Company. Mr. Bynum joined Kelso & Company in 1987 and has held positions of increasing responsibility at Kelso & Company prior to becoming a Managing Director. Mr. Bynum is a director of CDT Holdings, plc, Citation Corporation, Endurance Business Media, Inc. and eMarkets, Inc. He is also a Trustee of Prep for Prep and a member of the Board of Trustees of the

College Foundation of the University of Virginia. Mr. Bynum has been designated to the Board of Directors by Kelso & Company pursuant to Kelso & Company's designation rights under our stockholders agreement.

Anthony J. DiNovi. Mr. DiNovi has served as a director of our company since January 2000. He is currently a Managing Director of Thomas H. Lee Partners, L.P., where he has been employed since 1988. Mr. DiNovi is a director of American Media, Inc., Endurance Specialty Holdings Ltd., Eye Care Centers of America Inc., Michael Foods, Inc., National Waterworks, Inc., US LEC Corp., Nortek, Inc., Vertis, Inc. and various private corporations. Mr. DiNovi has been designated to the Board of Directors by Thomas H. Lee Equity Fund pursuant to Thomas H. Lee Equity Fund's designation rights under our stockholders agreement.

George E. Matelich. Mr. Matelich has served as a director of our company since July 1997. Mr. Matelich is currently a Managing Director of Kelso & Company, with which he has been associated since 1985. Mr. Matelich is a director of Waste Services, Inc. and Optigas, Inc. Mr. Matelich is also a Trustee of the University of Puget Sound. Mr. Matelich has been designated to the Board of Directors by Kelso & Company pursuant to Kelso & Company's designation rights under our stockholders agreement.

Kent R. Weldon. Mr. Weldon has served as a director of our company since January 2000. He is currently a Managing Director of Thomas H. Lee Partners, L.P. Mr. Weldon worked at the firm from 1991 to 1993 and rejoined it in 1995. Prior to 1991, Mr. Weldon worked at Morgan Stanley & Co. Incorporated in the Corporate Finance Department. Mr. Weldon is a director of Michael Foods, Inc., Nortek, Inc. and Syratech Corporation. Mr. Weldon has been designated to the Board of Directors by Thomas H. Lee Equity Fund pursuant to Thomas H. Lee Equity Fund's designation rights under our stockholders agreement.

Patricia Garrison-Corbin. Ms. Corbin will be appointed as a director of our company upon consummation of this offering. Ms. Corbin has served as President of P.G. Corbin & Company, Inc., Financial Advisory Services, Municipal Finance, since 1986. Ms. Corbin has also served as President and Chief Information Officer of P.G. Corbin Asset Management, Inc., Fixed Income Investment Management, since 1987. Ms. Corbin has served as Chairman of the Board of Directors of Delancey Capital Group, LP, Equity Investment Management since 1996, and Chairman of the Board of Directors of P.G. Corbin Group, Inc., Investment and Financial Advisory Services since 1996. Ms. Corbin has also served as a director for the Erie Insurance Company since 1999.

David L. Hauser. Mr. Hauser will be appointed as a director of our company upon consummation of this offering. He is currently the CFO and Group Vice President of Duke Energy, where he has been employed for 30 years. Mr. Hauser is a certified public accountant and a certified purchasing manager. He is a board member of the North Carolina Zoological Society and is a member of the North Carolina Association of Certified Public Accountants, American Institute of Certified Public Accountants and Financial Executives Institute.

Claude C. Lilly. Dr. Lilly will be appointed as a director of our company upon consummation of this offering. Dr. Lilly is currently dean and James J. Harris Chair of Risk Management and Insurance in The Belk College of Business Administration at The University of North Carolina at Charlotte. Dr. Lilly has served as Assistant Deputy Insurance Commissioner for the State of Georgia and as a director of several corporations. He holds the Chartered Property Casualty Underwriters and Chartered Life Underwriter designations and is a member of numerous professional associations.

Composition of the Board After the Offering

Pursuant to our restated certificate of incorporation, our board of directors will be divided into three classes. The members of each class will serve for a staggered, three-year term. Upon the expiration of the term of a class of directors, directors in that class will be elected for a three-year term at the annual meeting of stockholders in the year in which their term expires. We currently anticipate that the classes will be comprised as follows:

- *Class I Directors*. Eugene B. Johnson and Patricia Garrison-Corbin will be Class I directors whose terms will expire at the 2005 annual meeting of stockholders;
- *Class II Directors*. Frank K. Bynum, Jr. and David L. Hauser will be Class II directors whose terms will expire at the 2006 annual meeting of stockholders; and
- *Class III Directors*. Kent R. Weldon and Claude C. Lilly will be Class III directors whose terms will expire at the 2007 annual meeting of stockholders.

Any additional directorships resulting from an increase in the number of directors will be distributed among the three classes so that, as nearly as possible, each class will consist of one-third of our directors. This classification of our board of directors may have the effect of delaying or preventing changes in control of the company.

In connection with this offering, we will enter into an agreement with Thomas H. Lee Equity Fund and Kelso & Company pursuant to which our nominating committee will agree, subject to the requirements of their fiduciary duties as directors, that Thomas H. Lee Equity Fund and Kelso & Company will be entitled to jointly nominate two directors for election to our board of directors as long as they own in the aggregate at least 40% of the shares of our common stock which they owned as of the closing of this offering and will be entitled to jointly nominate one director for election to our board of directors as long as they own in the aggregate at least 20% of the shares of our common stock which they owned as of the closing of this offering. Mr. Weldon and Mr. Bynum will be the initial nominees pursuant to this agreement.

Committees of the Board of Directors

Our board of directors has standing audit and compensation committees. Upon completion of this offering, we anticipate that we will appoint three independent directors to the audit committee and the compensation committee. Upon the closing of this offering, we will create a corporate governance committee. We anticipate our corporate governance committee will consist of three independent directors.

Audit Committee

Our audit committee currently consists of Frank K. Bynum, Jr., George E. Matelich and Kent R. Weldon. The board of directors has determined that George E. Matelich is the current audit committee financial expert serving on the audit committee for purposes of the Securities Exchange Act of 1934. Upon the closing of this offering, we anticipate our audit committee will consist of three independent directors. We anticipate that Claude C. Lilly will be the chair of the audit committee and David L. Hauser will serve as the audit committee financial expert. Upon the closing of this offering, among other functions, the principal duties and responsibilities of our audit committee will be to:

- have direct responsibility for the selection, compensation, retention and oversight of the work of our independent auditors;
- set clear hiring policies for employees or former employees of the independent auditors;
- review, at least annually, the results and scope of the audit and other services provided by our independent auditors and discuss any audit problems or difficulties and management's response;
- review our annual audited financial statement and quarterly financial statements and discuss the statements with management and the independent auditors (including our disclosure in "Management's Discussion and Analysis of Financial Condition and Results of Operations");

- review and evaluate our internal control functions;
- review our compliance with legal and regulatory independence;
- review and discuss our earnings press releases, as well as financial information and earnings guidance provided to analysts and rating agencies;
- review and discuss our risk assessment and risk management policies;
- prepare an audit committee report required by the Securities and Exchange Commission to be included in our annual proxy statement; and
- establish procedures regarding complaints received by us or our employees regarding accounting, accounting controls or accounting matters.

The audit committee will be required to report regularly to our board of directors to discuss any issues that arise with respect to the quality or integrity of our financial statements, our compliance with legal or regulatory requirements, the performance and independence of our independent auditors, or the performance of the internal audit function.

Compensation Committee

Our compensation committee currently consists of Anthony J. DiNovi and George E. Matelich. Upon the closing of this offering, we anticipate our compensation committee will consist of two independent directors, and one additional independent director will be appointed within one year of the closing of this offering. We anticipate that David L. Hauser will be the chair of the compensation committee. Upon the closing of this offering, among other functions, the principal duties and responsibilities of our compensation committee will be to:

- review and approve corporate goals and objectives relevant to our Chief Executive Officer's and other named executive officers' compensation;
- evaluate our Chief Executive Officer's and our other named executive officers' performance in light of the goals and objectives;
- either as a committee, or together with the other independent directors, determine and approve the Chief Executive Officer's and our other named executive officers' compensation;
- make recommendations to our board of directors regarding the salaries, incentive compensation plans and equity-based plans for our employees; and
- produce a compensation committee report on executive compensation as required by the Securities and Exchange Commission to be included in our annual proxy statement or annual report on Form 10-K filed with the Securities and Exchange Commission.

Compensation Committee Interlocks and Insider Participation

For the fiscal year ended December 31, 2003, our compensation committee consisted of Anthony J. DiNovi and George E. Matelich. Mr. DiNovi has served as a director of our company since January 2000. Mr. Matelich has served as a director of our company since July 1997. None of our executive officers has served as a member of the compensation committee (or other committee serving an equivalent function) of any other entity, whose executive officers served as a director of our company or member of our compensation committee.

Corporate Governance Committee

Upon the closing of this offering, we will create a corporate governance committee. We anticipate our corporate governance committee will consist of two independent directors, and one additional independent director will be appointed within one year of the closing of this offering. We expect that

Patricia Garrison-Corbin will be the chair of the corporate governance committee. Upon the closing of this offering, among other functions, the principal duties and responsibilities of our corporate governance committee will be to:

- identify individuals qualified to become board members, consistent with criteria approved by the board;
- recommend the individuals identified be selected as nominees for the next annual meeting of shareholders;
- develop and recommend to the board a set of corporate governance principles applicable to the corporation; and
- oversee the evaluation of the board and management.

Director Compensation

Currently, we reimburse non-employee directors for any expenses incurred in attending meetings of our board of directors and committees of our board. In addition, we provide Mr. Bergstein and his immediate family with certain medical benefits and provide Mr. Bergstein with a leased automobile as compensation for his services as a director. After this offering, we expect our non-employee directors to receive an annual fee of $45,000 for serving as directors and an annual fee of $5,000 for serving as the chair of our compensation committee and corporate governance committee and an annual fee of $10,000 for serving as the chair of our audit committee.

Executive Compensation

The following table sets forth information concerning compensation paid to our chief executive officer and our other four most highly compensated executive officers in the years indicated.

Summary Compensation Table

		Annual Compensation			Long-term Compensation Awards		
Name and Principal Position	**Year**	**Salary**	**Bonus**	**Other Annual Annual Compensation(1)**	**Restricted Stock Awards(2)**	**Number of Securities Underlying Options/SARs**	**All Other Compensation(3)**
Eugene B. Johnson . .	2003	$341,923	$166,450	$45,353	—	—	$13,252
Chairman and Chief	2002	256,500	69,543	46,093	—	358,131	11,038
Executive Officer	2001	285,000	—	37,511		—	10,540
Peter G. Nixon.	2003	$198,789	$ 95,200	—	31,381	125,525	$ 9,690
Chief Operating	2002	155,000	47,024	—	—	44,426	9,690
Officer	2001	151,827	60,014	—	—	—	8,243
Walter E. Leach, Jr. . .	2003	$199,219	$ 95,200	$36,130	25,000	—	$11,661
Executive Vice	2002	171,074	45,752	20,077	—	408,278	9,822
President and Chief	2001	186,250	33,000	21,191	—	—	8,100
Financial Officer							
John P. Duda	2003	$189,000	$ 61,625	$31,127	—	—	$10,435
President(4)	2002	189,081	50,568	37,431	—	285,640	10,435
	2001	200,000	—	29,701	—	—	10,839
Shirley J. Linn	2003	$188,758	$ 76,700	—	18,750	75,000	$11,379
Senior Vice	2002	180,000	40,157	—	—	48,594	9,898
President, General	2001	168,294	64,782	—	—	—	9,378
Counsel and							
Secretary							

(1) Reflects the value of certain benefits provided pursuant to employment arrangements.

(2) There were 144,506 restricted stock units outstanding as of December 31, 2003, with an aggregate value of $890,000.

(3) Reflects matching contributions made under our 401(k) plan and the value of group term life insurance coverage.

(4) Mr. Duda served as our President from April 2001 until September 2004. Mr. Duda's employment with the Company ended effective as of September 30, 2004.

1995 Stock Option Plan

Our 1995 Stock Option Plan, or the 1995 plan, was adopted on February 22, 1995. The 1995 plan provides for the grant of options to purchase up to an aggregate of 1,136,800 shares of our class A common stock. The 1995 plan is administered by our compensation committee, which has made discretionary grants of options to our officers, directors and employees. As of September 30, 2004, a total of 592,460 options to purchase shares of our class A common stock were outstanding under the 1995 plan. Such options all have an exercise price equal to $0.25 per share, and are vested and exercisable.

Following the closing of this offering, the options outstanding under the 1995 plan will remain vested and exercisable and may be exercised in accordance with the terms of the 1995 plan.

1998 Stock Incentive Plan

In August 1998, we adopted our 1998 Stock Incentive Plan, or the 1998 plan. The 1998 plan provides for grants to members of management of up to 6,952,540 nonqualified options to purchase our class A common stock, at the discretion of the compensation committee. As of September 30, 2004, a total of 4,413,700 options to purchase shares of our class A common stock were outstanding under the 1998 plan. 3,961,400 of these options have an exercise price equal to $1.71 per share and are vested, 184,000 have an exercise price equal to $2.74 per share and are vested, 18,300 have an exercise price equal to $3.28 per share and are vested and 250,000 of these options have an exercise price equal to $7.00 per share and are vested.

While all of the options granted under the 1998 plan are vested, these options will only become exercisable upon an exit event (as defined in the 1998 plan). An exit event will occur if (i) Kelso & Company sells all of the shares of common stock it owns to one or more third parties or (ii) all or substantially all of our assets are sold, provided that, in each case, Kelso & Company receives an internal rate of return, compounded annually and determined after giving effect to any exercisable options granted under any of our equity incentive plans, of at least 20% on its investment in our common stock. The number of options, if any, that become exercisable upon such an exit event will be based on the price per share of common stock that Kelso & Company receives in the transaction, with the percentage of each option grant becoming exercisable increasing as Kelso & Company's price per share increases. Any options that do not become exercisable in connection with an exit event will be cancelled in connection with the exit event.

2000 Employee Stock Incentive Plan

In May 2000, the Company adopted the 2000 Employee Stock Incentive Plan, or the 2000 plan. The 2000 plan provides for grants to members of our management and other key employees of up to 10,019,200 options to purchase shares of our class A common stock, at the discretion of the compensation committee. During 2002, the Company amended the 2000 plan to limit the number of shares available for grant to 2,365,510. As of September 30, 2004, 1,411,762 options to purchase shares of our class A common stock were outstanding under the 2000 plan. Such options have an exercise price of $7.00 per share.

Options granted under the 2000 Plan generally become vested based upon the participant's completion of a minimum period of continued employment with us, with 10% of each option grant becoming vested on the first anniversary of grant, 15% of each option grant becoming vested on the second anniversary of grant and 25% of each option grant becoming vested on each of the third, fourth and fifth anniversaries of grant. Unless otherwise determined by our compensation committee, any options that are not vested upon a participant's termination of employment will be cancelled.

Following the closing of this offering, any options outstanding under the 2000 plan that are vested and exercisable may continue to be exercised in accordance with the terms of the 2000 plan, although options held by our executive officers and directors will be subject to the 180-day "lock-up" described under the heading "Shares Eligible for Future Sales—Lock-up Agreements." Any unvested options under the 2000 plan will continue to become vested and exercisable following the completion of this offering in accordance with the terms of the 2000 plan.

In December 2003, we amended the 2000 plan to allow for the grant to members of our management of restricted stock units in addition to stock options. As a result, the 2000 plan provides for the grant to members of management of up to 2,365,510 shares of our class A common stock represented by restricted stock units and/or options to purchase our class A common stock, at the discretion of the compensation committee. As of September 30, 2004, 144,506 restricted stock units were outstanding.

Restricted stock units granted under the 2000 plan generally become vested based upon the participant's completion of a minimum period of continued employment with us, with 33⅓% of each grant becoming vested on each of the third, fourth and fifth anniversaries of grant. Unless otherwise determined by our compensation committee, if the participant's employment terminates because of the participant's death, disability (as defined in the 2000 plan) or retirement (as defined in the 2000 plan), all of the participant's restricted stock units will become immediately vested. If the participant's employment terminates for any other reason, all unvested restricted stock units will be forfeited and cancelled.

All of the restricted stock units granted under the 2000 plan are currently unvested. Following the completion of this offering, these restricted stock units will continue to become vested in accordance with the terms of the 2000 plan.

The 2000 plan contains a change in control provision that, if triggered, will potentially accelerate the vesting of options and restricted stock units granted under the 2000 plan. In the event of a change in control (as defined in the 2000 plan), each outstanding option will be canceled in exchange for a payment in cash equal to the product of (i) the excess of the change in control price over the option exercise price and (ii) the number of shares of common stock covered by such stock option. All restricted stock units granted under the 2000 plan will become vested and shall be immediately payable. Notwithstanding the foregoing, if the compensation committee determines before the change in control either that all outstanding awards will be honored or assumed by the acquirer, or alternative awards with equal or better terms will be made available, such outstanding awards will not be canceled, their vesting and exercisability will not be accelerated, and there will be no payment in exchange for such awards. Any alternative awards offered must generally:

- have rights and entitlements (such as vesting, exercisability and payment) that are substantially equivalent to or better than the rights and entitlements of the awards related to our stock;
- have substantially equivalent economic value, at the time of the change in control, to the awards in respect of our stock; and
- provide that, upon the involuntary termination or constructive termination, of the participant's employment, the awards will be deemed vested or exercisable and any restrictions on transfer shall lapse, as the case may be.

New Stock Incentive Plan

Our board has adopted and our stockholders have approved, effective upon the consummation of this offering, the FairPoint Communications, Inc. 2005 stock incentive plan, or the 2005 stock incentive plan. The 2005 stock incentive plan will provide for the award to eligible participants of (i) restricted stock and restricted units; (ii) stock options, including incentive stock options (within the meaning of Section 422 of the Internal Revenue Code); (iii) stock appreciation rights; (iv) incentive stock and incentive units; and/or (v) deferred shares and supplemental units.

A total of shares of our common stock will be available for award under the 2005 stock incentive plan. The maximum number of shares with respect to which options or stock appreciation rights may be granted to any one participant in any calendar year is . The maximum number of shares that may be issued under the plan through tax-qualified incentive stock options is . Shares subject to awards that are forfeited, canceled or otherwise terminated without the issuance of our common stock under the 2005 stock incentive plan will again be available for future awards under the 2005 stock incentive plan. If we undergo a stock dividend, stock split, share combination, extraordinary cash dividend, recapitalization, reorganization, merger, consolidation, split-up, spin-off, combination, exchange of shares or other similar event affecting our common stock, our compensation committee will equitably adjust the number and kind of shares that are available under the 2005 stock incentive plan and that are subject to outstanding options or other awards. Unless our compensation committee determines otherwise, participants will not be entitled to dividends or dividend equivalents with respect to unvested restricted stock awards. Awards may be made to any of our current or prospective directors, officers, employees or consultants. The number of individuals participating in the 2005 stock incentive plan will vary from year to year.

We have decided to award, on the closing date of this offering, up to shares of restricted stock in the aggregate to approximately of our employees.

The compensation committee will determine the terms for vesting of awards, which may include vesting based on a period of continuous employment, or vesting based on the attainment of one or more of the performance criteria specified in the 2005 stock incentive plan. The shares of restricted stock awarded on the closing date of this offering will generally become vested in four equal annual installments commencing on April 1, 2006 and will not be entitled to receive dividends for any period prior to April 1, 2006.

A participant's termination of employment will have the important consequences described below on outstanding awards under the 2005 stock incentive plan, unless the compensation committee determines otherwise at or after the date of grant. Participants will become vested in a pro-rata portion (based on the number of days employed during the vesting period) of any outstanding restricted stock and restricted units if their employment terminates because of their death, disability (as defined in the 2005 stock incentive plan), normal retirement (as defined in the 2005 stock incentive plan) or early retirement with the consent of the compensation committee (these terminations are referred to as qualifying terminations). If a participant's employment is terminated for any reason other than a qualifying termination, outstanding unvested restricted stock and restricted units will be forfeited and cancelled unless the compensation committee determines otherwise.

Participants will become vested in any outstanding stock options and stock appreciation rights if their employment terminates as a result of a qualifying termination, and will forfeit any unvested stock options and stock appreciation rights if their employment terminates for any reason other than a qualifying termination. Participants will become vested in a pro-rata portion (based on the number of days employed during the performance period) of any outstanding incentive stock and incentive units that are actually earned based on our performance if their employment terminates as a result of a qualifying termination, and will forfeit any outstanding unvested incentive stock and incentive units if their employment terminates for any reason other than a qualifying termination.

In the event of a change in control (as defined in the 2005 stock incentive plan), all awards other than stock options and stock appreciation rights granted under the 2005 stock incentive plan will become vested and shall be immediately transferable or payable. All outstanding stock options and stock appreciation rights shall, at the discretion of the compensation committee, become fully exercisable or be canceled in exchange for a payment in cash equal to the product of (i) the excess of the change in control price over the option exercise price or stock appreciation right base price, as applicable, and (ii) the number of shares of common stock covered by such stock option or stock appreciation right. Notwithstanding the foregoing, if the compensation committee determines before the change in control either that all outstanding awards will be honored or assumed by the acquirer, or alternative awards with equal or better terms will be made available, such outstanding awards will not be canceled, their vesting and exercisability will not be accelerated, and there will be no payment in exchange for such awards. Any alternative awards offered must generally:

- be based on stock that is traded on an established securities market, or that will be so traded within 60 days of the change in control;
- have rights and entitlements (such as vesting, exercisability and payment) that are substantially equivalent to or better than the rights and entitlements of the awards related to our stock;
- have substantially equivalent economic value, at the time of the change in control, to the awards in respect of our stock; and
- provide that, upon the involuntary termination or constructive termination, of the participant's employment, the awards will be deemed vested or exercisable and any restrictions on transfer shall lapse, as the case may be.

Awards under the 2005 stock incentive plan will generally not be assignable or transferable other than by will or by the laws of descent and distribution, except that the compensation committee may permit certain transfers to the participant's family members or to certain entities controlled by the participant or his or her family members.

The 2005 stock incentive plan will expire on the day prior to the first meeting of our stockholders in 2009 at which directors will be elected. However, the board of directors or our compensation committee may at any time, and from time to time, amend, modify or terminate the 2005 stock incentive plan. The expiration of the term of the 2005 stock incentive plan, or any amendment, suspension or termination, will not adversely affect any outstanding award held by a participant without the consent of the participant. However, our compensation committee may, in its absolute discretion, alter or amend any of the provisions of the 2005 stock incentive plan if such alteration or amendment would be required to comply with Section 409A of the Internal Revenue Code or any regulations promulgated thereunder.

New Annual Incentive Plan

Our board of directors has adopted, effective upon the consummation of this offering, an annual performance incentive plan that will provide for the award of incentive bonuses to our named executive officers and certain of our other officers and employees. Each year the compensation committee will establish target incentive bonuses for participants in the annual incentive plan and will select the eligible participants and performance criteria for that year for a participant or group of participants.

The actual bonus payable to a participant, which may equal, exceed or be less than the target bonus, will be determined based on whether the applicable performance targets are met, exceeded or not met. Performance targets may be based on one or more of the following criteria: (i) revenue growth; (ii) earnings before interest, taxes, depreciation and amortization; (iii) earnings before interest, taxes and amortization; (iv) operating income; (v) pre- or after-tax income; (vi) cash flow; (vii) cash flow per share; (viii) net earnings; (ix) earnings per share; (x) return on equity; (xi) return on invested capital; (xii) return on assets; (xiii) economic value added (or an equivalent metric); (xiv) share price performance; (xv) total shareholder return; (xvi) improvement in or attainment of expense levels; (xvii) improvement in or attainment of working capital levels; (xviii) debt reduction; or (xix) any other criteria our compensation committee in its sole discretion deems appropriate. The maximum bonus payable to a participant in any plan year is $1,000,000.

Bonuses will generally be payable as soon as practicable after the compensation committee certifies that the applicable performance criteria have been obtained, and will generally be payable only if the participant remains employed with us through the end of the plan year, subject to the discretion of the compensation committee to allow payment after a participant's termination of employment.

If a participant in the plan dies, becomes disabled or retires prior to the end of any plan year, the compensation committee may award to the participant (or his or her estate or legal representative) a partial bonus as it determines appropriate based on the portion of the year the participant worked. In addition, the compensation committee may require that a portion of a participant's annual incentive bonus be payable in shares of common stock, options or other stock-based awards granted under our 2005 stock incentive plan described above, which awards may also be subject to additional vesting or other restrictions determined by the compensation committee.

The annual incentive plan will be administered by our compensation committee, which may delegate its authority except to the extent that it relates to the compensation of our named executive officers or any other individual whose compensation the board of directors or the compensation committee reasonably believes may become subject to Section 162(m) of the Internal Revenue Code. The annual incentive plan will expire one day prior to the date of the first meeting of our stockholders in 2009 at which directors will be elected. However, the compensation committee may at any time amend, suspend, discontinue or terminate the annual incentive plan, provided that any such amendment, suspension, discontinuance or termination does not adversely affect participants' rights without their consent. The determination of the compensation committee on all matters relating to the annual incentive plan will be final and binding on us, participants and all other interested parties.

Section 162(m) of the Internal Revenue Code generally limits the ability of a public corporation to deduct compensation greater than $1,000,000 paid with respect to a particular year to an individual who is, on the last day of that year, the corporation's chief executive officer or one of its four other most highly compensated executive officers, other than compensation that is "performance based" within the meaning of Section 162(m). Under a special rule that applies to corporations that become public through an initial public offering, this limitation generally will not apply to compensation that is paid pursuant to the plans described above before the first meeting of our stockholders in 2009 at which directors will be elected.

Options/SAR Grants in the Last Fiscal Year

The following table sets forth the information with respect to the named executive officers set forth in the Summary Compensation Table concerning the grant of options during fiscal year 2003.

	Individual Grants				Grant-Date Value
Name	Number of Securities Underlying Options/SARs Granted	% of Total Options/SARs Granted to Employees in Fiscal Year	Exercise or Base Price($/sh)	Expiration Date	Grant-date Present Value $(1)
Peter G. Nixon	125,525	20.2%	$ 7.00	12/13/2013	$1.59
Peter G. Nixon	31,381	5.0%	$ 0.00	12/13/2013	$1.59
Walter E. Leach, Jr.	25,000	4.0%	$ 0.00	12/13/2013	$1.59
Shirley J. Linn	75,000	12.0%	$ 7.00	12/13/2013	$1.59
Shirley J. Linn	18,750	3.0%	$ 0.00	12/13/2013	$1.59

(1) The per share weighted average fair value of stock options granted under the 2000 plan during 2003 was $1.59 on the date of grant using the Black Scholes option-pricing model. Input variables used in the model included no expected dividend yields, a weighted average risk free interest rate of 4.26% and an estimated option life of 10 years. Because FairPoint was nonpublic on the date of grant, no assumption as to the volatility of the stock prices was made.

Aggregated Option/SAR Exercises in Last Fiscal Year and Fiscal Year End Option/SAR Values

The following table sets forth the information with respect to the named executive officers set forth in the Summary Compensation Table concerning the exercise of options during fiscal year 2003, the number of securities underlying options as of December 31, 2003 and the year-end value of all unexercised in-the-money options held by such individuals.

Name	Shares Acquired on Exercise (#)	Value Realized ($)	Numbers of Securities Underlying Unexercised Options/SARs At Fiscal Year End (#) Exercisable/Unexercisable	Value of Unexercised In The Money Options/SARs at Fiscal Year End ($) Exercisable/Unexercisable(1)
Eugene B. Johnson	0	0	267,266/1,499,065	$1,260,012/$5,314,763
Peter G. Nixon	0	0	12,627/288,705	—/$627,807
Walter E. Leach, Jr.	0	0	204,139/838,539	—/$3,210,410
John P. Duda(2)	0	0	157,880/632,820	$561,805/$2,169,578
Shirley J. Linn	0	0	19,182/123,162	—/$115,500

(1) Represents the difference between the exercise price and the fair market value of our common stock at December 31, 2003.

(2) Mr. Duda's employment with the Company ended effective as of September 30, 2004.

Ownership of common stock by Directors and Executive Officers

The following table sets forth the number of shares of our common stock and the number of shares of our common stock underlying awards of restricted stock under our 2005 stock incentive plan which will be beneficially owned by our directors and our executive officers named in our management table after this offering:

Name	Common Stock Beneficially Owned After this Offering	Number of Shares of Common Stock Underlying Awards Under our 2005 Stock Incentive Plan
Eugene B. Johnson		
Peter G. Nixon		
Valeri A. Marks		
Walter E. Leach, Jr.		
Shirley J. Linn		
Lisa R. Hood		
Timothy W. Henry		
Daniel G. Bergstein		
Frank K. Bynum, Jr.		
Anthony J. DiNovi		
George E. Matelich		
Kent R. Weldon		

Employment Agreements

Eugene B. Johnson

In December 2002, we entered into an employment agreement with Mr. Johnson, pursuant to which we named Mr. Johnson Chief Executive Officer of the Company and/or Chairman of the Company's Board of Directors from December 31, 2002 to December 31, 2006. The employment agreement provides that Mr. Johnson will receive an annual base salary of $350,000, an annual discretionary bonus, and Mr. Johnson shall be entitled to participate in all incentive, savings, stock option and retirement plans, practices, policies and programs applicable generally to other senior management. The employment agreement also provides that upon (i) the expiration of Mr. Johnson's employment period, or (ii) the termination of Mr. Johnson's employment as Chief Executive Officer without cause, Mr. Johnson is entitled to receive certain benefits. These benefits include continued medical coverage for Mr. Johnson and his wife until each has reached age 65, the accelerated vesting of all options granted to Mr. Johnson under the Company's 1998 plan and 2000 plan and extension of Mr. Johnson's right to exercise all of his vested options under the 1995 plan and the 2000 plan within certain time periods. If we terminate Mr. Johnson for cause or he voluntarily resigns he is not entitled to any benefits under the employment agreement. If Mr. Johnson's employment is terminated without cause during the term of his employment agreement he is entitled to receive payment of his salary as of the termination event for two years, subject to suspension for a breach of Mr. Johnson's covenant not to compete with us. Upon the expiration of the term of Mr. Johnson's employment agreement at December 31, 2006, unless extended, he is entitled to receive payment of his salary as of such expiration date for one year thereafter, subject to suspension for a breach of Mr. Johnson's covenant not to compete with us. The employment agreement supersedes and terminates all prior employment agreements and severance arrangements between Mr. Johnson and us.

In October 2004, we entered into a letter agreement with Mr. Johnson pursuant to which we extended his right to exercise the options granted to him under the 1995 plan until May 21, 2008. In addition, Mr. Johnson agreed that in connection with any public offering of equity securities by us prior to May 21, 2008, Mr. Johnson will be offered the same rights and will be subject to the same obligations in connection with any such offering as our executive officers then in office.

Jack H. Thomas

In December 2001, we entered into a succession agreement with Mr. Thomas, pursuant to which Mr. Thomas resigned from his position as Chief Executive Officer of the Company and we retained him to serve as a non-executive member of our board of directors. In December 2003, Mr. Thomas resigned from his position as a member of the board of directors. The succession agreement provides for Mr. Thomas' right to exercise all of his vested options until the termination of the succession period and the immediate vesting of all unvested options upon a change of control or an early termination of the succession agreement without cause. In December 2003, we entered into a letter agreement with Mr. Thomas, supplementing and modifying the succession agreement. The letter agreement provides that Mr. Thomas and his wife shall continue to receive certain benefits until each is 65 years of age. In addition, the letter agreement extends Mr. Thomas' right to exercise certain fully vested options, subject to certain terms, conditions and trigger events. Furthermore, the letter agreement confirms that the restrictive covenants set forth in certain option plans continue to be in full force and effect until December 11, 2004, unless we subsequently waive the covenants.

In October 2004, we entered into a letter agreement with Mr. Thomas pursuant to which we extended his right to exercise the options granted to him under the 1995 plan until May 21, 2008. In addition, Mr. Thomas agreed that in connection with any public offering of equity securities by us prior to May 21, 2008, Mr. Thomas will be offered the same rights and will be subject to the same obligations in connection with any such offering as our executive officers then in office.

Walter E. Leach, Jr.

In January 2000, we entered into an employment agreement with Mr. Leach, which agreement expired on December 31, 2003. In December 2003, we entered into a letter agreement with Mr. Leach, supplementing and modifying his employment agreement. The letter agreement provides that following the expiration of his employment agreement, Mr. Leach shall continue as an employee at will. During this period, Mr. Leach is entitled to receive certain benefits. The letter agreement also provides that upon termination of Mr. Leach's employment by us without cause (including upon a change of control), Mr. Leach is entitled to receive from us in a lump sum payment an amount equal to his base salary as of the date of termination for a period of twelve months, plus all accrued and unpaid base salary and benefits as of the date of termination. In addition, Mr. Leach is also entitled to receive continued long-term disability, term life insurance and medical benefits following his termination for twelve months following such date of termination.

Peter G. Nixon, Valeri A. Marks and Shirley J. Linn

In November 2002, we entered into a letter agreement with each of Mr. Nixon and Ms. Linn, and in October 2004, we entered into a letter agreement with Ms. Marks. The letter agreements provide that upon the termination of each person's respective employment with us without cause, each person is entitled to receive from us in a lump sum payment an amount equal to twelve months of such executive's base salary as of the date of termination, plus the continuation of certain benefits, including medical benefits, for twelve months.

John P. Duda

In October 2004, we entered into an agreement with Mr. Duda. The letter agreement provides that Mr. Duda's last day of employment with us was September 30, 2004 and that we will provide Mr. Duda with certain benefits, including a separation payment equivalent to fifty-two weeks of base salary, medical and disability benefits through September 30, 2005 and eligibility for a discretionary bonus and any discretionary 401(k) corporate performance awards for the year ended December 31, 2004 on a pro rata basis. In addition, the letter agreement provides that (i) Mr. Duda's right to exercise the options granted to him under the 1995 plan will be extended until May 21, 2008, (ii) the options granted to him under the 1998 plan will remain in effect pursuant to the agreements governing such options, (iii) the vested options granted to him under the 2000 plan will terminate unless exercised within 60 days of his last day of employment and any unvested options thereunder will terminate on his last day of employment and (iv) in connection with any public offering of equity securities by us prior to May 21, 2008, Mr. Duda will be offered the same rights and will be subject to the same obligations in connection with any such offering as our executive officers then in office.

Certain Relationships and Related Party Transactions

Financial Advisory Agreements

We entered into a Management Services Agreement with THL Equity Advisors IV, LLC, dated as of January 20, 2000, and an Amended and Restated Financial Advisory Agreement, dated as of January 20, 2000, with Kelso & Company, pursuant to which THL Equity Advisors IV, LLC and Kelso & Company provide us certain consulting and advisory services related, but not limited to, equity financings and strategic planning. Each of these agreements expires on the earlier to occur of (i) December 31, 2006 or (ii) solely with respect to the Management Services Agreement, the date that THL Equity Advisors IV, LLC ceases to own, and solely with respect to the Amended and Restated Financial Advisory Agreement, the date that Kelso Investment Associates V, L.P. and Kelso Equity Partners V, L.P. collectively cease to own at least 10% of the number of shares of our stock they held as of January 20, 2000. Pursuant to these agreements, we pay to each of THL Equity Advisors IV, LLC and Kelso & Company annual advisory fees of $500,000, payable on a quarterly basis, we reimburse them for out of pocket expenses, and we have agreed to indemnify them against certain liabilities they may incur in connection with their provision of advisory services. In addition, we agreed to pay a transaction fee of approximately $8.4 million to Kelso & Company, which fee is payable upon the earlier of (i) an initial public offering of our class A common stock, (ii) a sale of the Company to a third party or parties, whether structured as a merger, sale of stock, sale of assets, recapitalization or otherwise or (iii) Kelso Investment Associates V., LP and Kelso Equity Partners V, L.P. ceasing to own, collectively, at least 10% of the number of shares of our stock they held collectively as of January 20, 2000. In connection with our equity financing and recapitalization in January 2000, we terminated our financial advisory agreement with Carousel Capital Partners, L.P., a former significant stockholder, and the original financial advisory agreement with Kelso. The $8.4 million transaction fee referred to above will be paid to Kelso upon the consummation of this offering. We paid advisory fees and out of pocket expenses of approximately $1,020,850, $1,042,662 and $1,120,117 in the aggregate to THL Equity Advisors IV, LLC and Kelso & Company in 2003, 2002 and 2001, respectively. We will terminate the Management Services Agreement with THL Equity Advisors IV, LLC and the Amended and Restated Financial Advisory Agreement with Kelso & Company upon the closing of this offering.

Legal Services

Daniel G. Bergstein, a director of the Company, is a senior partner of Paul, Hastings, Janofsky & Walker LLP, a law firm which provides legal services to us. In the years ended December 31, 2003, 2002 and 2001, we paid Paul Hastings approximately $1,270,575, $791,724 and $820,206, respectively, for legal services and expenses.

Dumont Clarke, the husband of Shirley J. Linn, our Senior Vice President, General Counsel and Secretary, is a partner of Moore & Van Allen PLLC, a law firm which provides legal services to us. In the years ended December 31, 2003, 2002 and 2001, we paid Moore & Van Allen PLLC approximately $146,000, $20,058 and $23,874, respectively, for legal services and expenses.

Stockholders Agreements, Nominating Agreement and Registration Rights Agreements

In connection with our January 2000 equity financing and recapitalization, we entered into a stockholders agreement with our stockholders, dated as of January 20, 2000, which contains provisions relating to, among other things: (i) the designation of members to our board of directors (including two members to be designated by Thomas H. Lee Equity Fund, two members by Kelso & Company and the designation jointly by Thomas H. Lee Equity Fund and Kelso & Company of Daniel G. Bergstein, Eugene B. Johnson and Jack H. Thomas, (ii) restrictions on transfers of shares, (iii) procedures to be followed under certain circumstances with respect to a sale of the Company, (iv) the requirement that our stockholders take certain actions in connection with an initial public offering or a sale of the

Company, (v) the requirement of the Company to sell shares to the stockholders under certain circumstances upon authorization of an issuance or sale of additional shares, (vi) the participation rights of stockholders in connection with a sale of shares by other stockholders, and (vii) our right to purchase all (but not less than all) of the shares of a management stockholder in the event of resignation, termination of employment, death or disability. The stockholders agreement also provides that we must obtain the consent of Thomas H. Lee Equity Fund and Kelso & Company in order for us to incur debt in excess of $5 million. The stockholders agreement will terminate upon the consummation of this offering.

In connection with this offering, we will enter into an agreement with Thomas H. Lee Equity Fund and Kelso & Company pursuant to which our nominating committee will agree, subject to the requirements of their fiduciary duties as directors, that Thomas H. Lee Equity Fund and Kelso & Company will be entitled to jointly nominate two directors for election to our board of directors as long as they own in the aggregate at least 40% of the shares of our common stock which they owned as of the closing of this offering and will be entitled to jointly nominate one director for election to our board of directors as long as they own in the aggregate at least 20% of the shares of common stock which they owned as of the closing of this offering.

We entered into a registration rights agreement with certain of our stockholders, dated as of January 20, 2000, pursuant to which such stockholders have the right in certain circumstances and, subject to certain conditions, to require us to register shares of our common stock held by them under the Securities Act. Under the registration rights agreement, except in limited circumstances, we are obligated to pay all expenses in connection with such registration.

In connection with this offering, we will enter into a new registration rights agreement with Thomas H. Lee Equity Fund, Kelso & Company, certain other significant stockholders and certain members of our management, which we refer to as the affiliate registration rights agreement. This registration rights agreement will require us to use our commercially reasonable efforts to prepare, file and have declared effective by the Securities and Exchange Commission as soon as practicable following this offering a shelf registration statement covering the shares of our common stock held by such parties.

Founder Compensation Arrangements

Daniel G. Bergstein, Jack H. Thomas, Meyer Haberman and Eugene B. Johnson, our founding stockholders, have entered into an arrangement with Walter E. Leach, Jr. and John P. Duda pursuant to which such stockholders have agreed to provide compensation to Mr. Leach and Mr. Duda upon the occurrence of certain specified liquidation events with respect to us, based on our value at the time of such liquidation event. In connection with this offering, our founding stockholders will satisfy their obligations to Mr. Leach and Mr. Duda pursuant to this arrangement.

Principal and Selling Stockholders

The following table sets forth information regarding beneficial ownership of our common stock as of September 30, 2004 before and after giving effect to the offering for (i) each executive officer named in the "Summary Compensation Table", (ii) each director, (iii) all executive officers named in the "Summary Compensation Table" and directors as a group, (iv) each person who beneficially owns 5% or more of the outstanding shares of our common stock, and (v) each person who will sell shares of our common stock in this offering if the underwriters exercise their over-allotment option.

The amounts and percentages of common stock beneficially owned are reported on the basis of regulations of the Securities and Exchange Commission governing the determination of beneficial ownership of securities. Under the rules of the Securities and Exchange Commission, a person is deemed to be a "beneficial owner" of a security if that person has or shares "voting power," which includes the power to vote or to direct the voting of such security, or "investment power," which includes the power to dispose of or direct the disposition of such security. A person is also deemed to be a beneficial owner of any securities of which that person has a right to acquire beneficial ownership within 60 days. All persons listed have sole voting and investment power with respect to their shares unless otherwise indicated.

Our class C common stock will be automatically converted into shares of class A common stock and our class A common stock will be reclassified into common stock in connection with this offering.

	Shares Beneficially Owned Prior to this Offering(1)		Shares to be Sold in this Offering Assuming Full Exercise of the Over-Allotment Option (2)	Shares Beneficially Owned After this Offering Assuming No Exercise of the Over-Allotment Option (3)		Shares Beneficially Owned After this Offering Assuming Exercise in Full of the Over-Allotment Option (3)	
	Number	%		Number	%	Number	%
Executive Officers and Directors:							
Eugene B. Johnson(4)	721,478	1.4%					
Peter G. Nixon(5)	30,537	*					
Valeri A. Marks(6)							
Walter E. Leach, Jr.(7)	306,209	*					
John P. Duda(8)	209,290	*					
Shirley J. Linn(9)	21,100	*					
Daniel G. Bergstein(10)	2,315,388	4.6%					
Frank K. Bynum, Jr.(11)	18,199,496	36.4%					
Anthony J. DiNovi(12)	21,461,720	43.0%					
George E. Matelich(11)	18,199,496	36.4%					
Kent R. Weldon(12)	21,461,720	43.0%					
All Executive Officers and Directors as a group (10 persons)	43,058,830	85.1%					
5% Stockholders:							
Kelso Investment Associates V, L.P. and Kelso Equity Partners V, L.P.(11) 320 Park Avenue, 24th Floor New York, New York 10022	18,199,496	36.4%					
Thomas H. Lee Equity Fund IV, L.P. and affiliates(12) 75 State Street Boston, Massachusetts 02109	21,461,720	43.0%					

* Less than 1%.

(1) Unless otherwise indicated below, the persons and entities named in the table have sole voting and sole investment power with respect to all shares beneficially owned by them, subject to community property laws where applicable. The percentage of beneficial ownership is based on 49,967,006 shares of common stock outstanding as of September 30, 2004.

(2) The selling stockholders will sell shares of our common stock in connection with this offering only to the extent the underwriters exercise their over-allotment option.

(3) The percentage of beneficial ownership is based on shares of common stock outstanding as of the closing of this offering assuming no exercise of the underwriters' over-allotment option and assuming the underwriters' over-

allotment is exercised in full. This amount of shares outstanding does not include shares of restricted stock to be awarded under our 2005 stock incentive plan on the closing date of this offering, which shares will begin to vest on April 6, 2006.

(4) With respect to shares beneficially owned prior to this offering: (i) includes 294,298 shares of common stock issuable upon exercise of options that are either currently exercisable or become exercisable during the next 60 days, and (ii) does not include 1,472,033 shares of common stock issuable upon exercise of options that are not currently exercisable or do not become exercisable during the next 60 days. With respect to shares beneficially owned after this offering, does not include shares of restricted stock to be awarded under our 2005 stock incentive plan on the closing date of this offering, which shares are subject to certain vesting requirements.

(5) With respect to shares beneficially owned prior to this offering: (i) includes 21,337 shares of class A common stock issuable upon exercise of options that are either currently exercisable or become exercisable during the next 60 days, (ii) does not include 248,613 shares of class A common stock issuable upon exercise of options that are not currently exercisable or do not become exercisable during the next 60 days and (iii) does not include 31,381 shares of our class A common stock underlying unvested restricted stock units. With respect to shares beneficially owned after this offering, does not include shares of restricted stock to be awarded under our 2005 stock incentive plan on the closing date of this offering, which shares are subject to certain vesting requirements.

(6) With respect to shares beneficially owned after this offering, does not include shares of restricted stock to be awarded under our 2005 stock incentive plan on the closing date of this offering, which shares are subject to certain vesting requirements.

(7) With respect to shares beneficially owned prior to this offering: (i) includes 306,209 shares of class A common stock issuable upon exercise of options that are either currently exercisable or become exercisable during the next 60 days, (ii) does not include 711,469 shares of class A common stock issuable upon exercise of options that are not currently exercisable or do not become exercisable during the next 60 days and (iii) does not include 25,000 shares of our class A common stock underlying unvested restricted stock units. With respect to shares beneficially owned after this offering, does not include shares of restricted stock to be awarded under our 2005 stock incentive plan on the closing date of this offering, which shares are subject to certain vesting requirements.

(8) With respect to shares beneficially owned prior to this offering: (i) includes 209,290 shares of class A common stock issuable upon exercise of options that are either currently exercisable or become exercisable during the next 60 days and (ii) does not include 581,410 shares of class A common stock issuable upon exercise of options that are not currently exercisable or do not become exercisable during the next 60 days. With respect to shares beneficially owned after this offering, does not include shares of restricted stock to be awarded under our 2005 stock incentive plan on the closing date of this offering, which shares are subject to certain vesting requirements.

(9) With respect to shares beneficially owned prior to this offering: (i) includes 21,100 shares of class A common stock issuable upon exercise of options that are either currently exercisable or become exercisable during the next 60 days, (ii) does not include 102,494 shares of class A common stock issuable upon exercise of options that are not currently exercisable or do not become exercisable during the next 60 days and (iii) does not include 18,750 shares of our class A common stock underlying unvested restricted stock units. With respect to shares beneficially owned after this offering, does not include shares of restricted stock to be awarded under our 2005 stock incentive plan on the closing date of this offering, which shares are subject to certain vesting requirements.

(10) With respect to shares beneficially owned prior to this offering, includes 2,150,388 shares of class A common stock owned by JED Communications Associates, Inc., a corporation owned 100% by Mr. Bergstein and members of his immediate family and 165,000 shares of class A common stock owned by certain of Mr. Bergstein's family members, for which Mr. Bergstein has both voting and disposition power.

(11) With respect to shares beneficially owned prior to this offering, includes 2,150,388 shares of class A common stock owned by Kelso Investment Associates V, L.P. and 1,771,770 shares of class A common stock owned by Kelso Equity Partners V, L.P. Kelso Investment Associates V, L.P. and Kelso Equity Partners V, L.P., due to their common control, could be deemed to beneficially own each other's shares, but each disclaims such beneficial ownership. Joseph S. Schuchert, Frank T. Nickell, Thomas R. Wall, IV, George E. Matelich, Michael B. Goldberg, David I. Wahrhaftig, Frank K. Bynum, Jr., Philip E. Berney, Frank J. Loverro and Michael B. Lazar may be deemed to share beneficial ownership of shares of class A common stock owned of record by Kelso Investment Associates V, L.P. and Kelso Equity Partners V, L.P., by virtue of their status as general partners of the general partner of Kelso Investment Associates V, L.P. and as general partners of Kelso Equity Partners V, L.P. Messrs. Schuchert, Nickell, Wall, Matelich, Goldberg, Wahrhaftig, Bynum, Berney, Loverro and Lazar share investment and voting power with respect to securities owned by Kelso Investment Associates V, L.P. and Kelso Equity Partners V, L.P., but disclaim beneficial ownership of such securities.

(12) Shares of common stock held by Thomas H. Lee Equity Fund IV, L.P. may be deemed to be beneficially owned by THL Equity Advisors IV, LLC, the general partner of Thomas H. Lee Equity Fund IV, L.P.; Thomas H. Lee Partners, L.P.; and Thomas H. Lee Advisors, LLC, the general partner of Thomas H. Lee Partners, L.P. Thomas H. Lee Advisors, LLC is controlled by its managing group, consisting of Thomas H. Lee, Anthony J. DiNovi, Scott A. Schoen, Scott M. Sperling, David V. Harkins, Thomas M. Hagerty and C. Hunter Boll. All decisions must be approved by a majority of the managing group. Each of such persons disclaims beneficial ownership of such shares.

Shares Eligible For Future Sales

Future sales or the availability for sale of substantial amounts of our common stock in the public market could adversely affect prevailing market prices and could impair our ability to raise capital through future sales of our securities. Upon the closing of this offering, we will have shares of our common stock outstanding. The shares of our common stock offered pursuant to this prospectus will be freely tradable without restriction or further registration under the Securities Act, unless the shares of our common stock are held by our “affiliates,” as that term is defined in Rule 144 under the Securities Act. There will be shares of our common stock (including shares of restricted stock which will begin to vest on April 1, 2006) which will not be registered under the Securities Act and which will be held by our existing equity investors, our directors, certain members of our management and our current and former employees. These shares will be “restricted securities,” as that term is defined in Rule 144 under the Securities Act. In addition, following this offering, members of our management and other employees will hold fully vested options to purchase a total of shares of our common stock.

Lock-Up Agreements

We, our executive officers and directors and all of our significant stockholders have agreed to a 180-day “lock-up,” subject to certain exceptions, with respect to all shares of our common stock, including securities that are convertible into shares of our common stock and securities that are exchangeable or exercisable for shares of our common stock, which we may issue or they may own prior to this offering or purchase in or after this offering, as the case may be. This means that for a period of 180 days following the date of this prospectus, we and such persons may not offer, sell, pledge or otherwise dispose of any of these securities or request or demand that we file a registration statement related to any of these securities without the prior written consent of the representatives of the underwriters, subject to the following exceptions: (a) the sale of shares of our common stock to the underwriters; (b) the issuance by us of shares of our common stock upon the exercise of an option or warrant or the conversion of a security outstanding on the date of this prospectus of which the underwriters have been advised in writing; (c) transactions by any person other than us relating to shares of our common stock or other securities acquired in open market transactions after the completion of this offering, *provided* that no filing by any party under the Securities Exchange Act of 1934, or the Exchange Act, shall be required or shall be voluntarily made in connection with subsequent sales of our common stock or other securities acquired in such open market transactions; (d) grants by us of options to purchase shares of our common stock pursuant to employee or management stock option, incentive or other plans or arrangements described in this prospectus; (e) the issuance, offer or sale by us of shares of our common stock pursuant to employee or management stock option, incentive or other plans or arrangements described in this prospectus and the filing by us of any registration statement on Form S-8 in connection therewith; (f) transfers of shares of our common stock or any security convertible into shares of our common stock as a bona fide gift or gifts; (g) distributions of shares of our common stock or any security convertible into shares of our common stock to members, limited partners or stockholders of the selling stockholders or us or *provided,* that in the case of any transfer or distribution pursuant to clause (f) or (g), each donee or distributee agrees in writing to be bound by the transfer restrictions described above and no filing by any party under the Exchange Act shall be required or shall be voluntarily made in connection with subsequent sales of shares of our common stock or other securities acquired in such transfer or distribution.

Registration Rights Agreement

The affiliate registration rights agreement will require us to use our commercially reasonable efforts to prepare, file and have declared effective by the Securities and Exchange Commission a shelf registration statement covering the shares of our common stock held by Thomas H. Lee Equity Fund, Kelso & Company, certain other significant stockholders and certain members of our management. See "Certain Relationships and Related Party Transactions—Stockholders Agreement, Nominating Agreement and Registration Rights Agreements." Upon completion of this offering, our existing equity investors will own shares of our common stock representing an aggregate % ownership interest in us, or % if the underwriters' over-allotment option is exercised in full.

Rule 144

In general, under Rule 144, as currently in effect, beginning 90 days after the date of this prospectus, any person, including an affiliate, who has beneficially owned shares of our common stock for a period of at least one year is entitled to sell, within any three-month period, a number of shares that does not exceed the greater of:

- 1% of the then-outstanding shares of our common stock; and
- the average weekly trading volume in the common stock on the New York Stock Exchange during the four calendar weeks preceding the date on which the notice of the sale is filed with the Securities and Exchange Commission.

Sales under Rule 144 are also subject to provisions relating to notice, manner of sale, volume limitations and the availability of current public information about us.

Following the underwriters' lock-up period, we estimate that approximately shares of our common stock that are restricted securities or are held by our affiliates as of the date of this prospectus will be eligible for sale in the public market in compliance with Rule 144 under the Securities Act.

Under Rule 144(k), a person who is not deemed to have been one of our affiliates at any time during the 90 days preceding a sale, and who has beneficially owned the shares for at least two years, including the holding period of any prior owner other than an "affiliate," is entitled to sell the shares without complying with the manner of sale, public information, volume limitation or notice provisions of Rule 144.

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

Description of Certain Indebtedness

New Credit Facility

Concurrently with the closing of this offering, FairPoint will enter into a new secured credit facility, which will replace its existing credit facility. We expect that the new credit facility will consist of a credit agreement among FairPoint and certain financial institutions, with Deutsche Bank Trust Company Americas, as administrative agent. FairPoint will be the borrower under the new credit facility and each of FairPoint's direct subsidiaries will guarantee FairPoint's obligations. The terms of the new credit facility have not yet been agreed upon. Because the terms, conditions and covenants of the new credit facility are subject to negotiation, execution and delivery of definitive loan documents, certain of the actual terms, conditions and covenants of the new credit facility may differ from those described below. This offering is conditioned upon the closing of the new credit facility.

We expect that the new credit facility will consist of:

- a revolving facility, or the new revolver, in a total principal amount of $100.0 million; and
- a term loan facility, or the new term loan, in a total principal amount of $590.0 million.

We expect that the new revolver will have a swingline subfacility in an amount to be determined and a letter of credit subfacility in an amount to be determined, which will allow issuances of letters of credit for our account. The new credit facility will also permit interest rate and currency exchange swaps and similar arrangements that we may enter into with the lenders under the new credit agreement and/or their affiliates.

We expect that $590.0 million of the new term loan will be drawn upon the closing of this offering, and we will have $100.0 million of available borrowings under the new revolver. We intend to use the borrowings under the new term loan together with the proceeds of this offering to, among other things, repay all outstanding loans under our existing credit facility, consummate the tender offer and consent solicitation in respect of our existing 9½% notes, floating rate notes, 12½% notes and 11⅞% notes and repurchase our series A preferred stock. We expect to borrow additional amounts under the new revolver from time to time to provide for working capital and general corporate needs, including to finance permitted acquisitions.

We expect that the new term loan will mature in 2012 and the new revolver will mature in 2011.

We expect that the new credit facility will have several features similar to credit facilities of this nature, including but not limited to:

Interest Rate and Fees. Borrowings will bear interest, at our option, for the new revolver and for the new term loan at either (a) the Eurodollar rate plus an applicable margin or (b) a base rate, as such term will be defined in the new credit agreement, plus an applicable margin.

The Eurodollar rate applicable margin and the base rate applicable margin for the new term loan are expected to be % and %, respectively, and the Eurodollar rate applicable margin and the base rate applicable margin for the new revolver are expected to be % and %, respectively. Interest on swing line loans will bear interest at the base rate plus the base rate applicable margin applicable to the new revolver. Interest with respect to base rate loans will be payable quarterly in arrears and interest with respect to Eurodollar loans will be payable at the end of the applicable interest period and every three months in the case of interest periods in excess of three months.

The new revolver will provide for payment to the lenders of a commitment fee on any unused commitments initially equal to % per annum, payable quarterly in arrears, as well as other fees.

We intend to enter into an interest rate swap agreement in connection with $442.5 million of the floating rate borrowings under the new term loan. The floating rate borrowings under our new credit facility will bear interest at the Eurodollar rate plus an applicable margin, which is expected to be

%. The interest rate swap will effectively limit the interest rate on such floating rate debt to not more than % per annum for the years following the closing of this offering.

Mandatory Prepayments. The new credit facility will require us first to prepay outstanding term loans under the new credit facility and, thereafter, to repay loans under the new revolver and/or reduce revolver commitments under the new credit facility with, subject to certain conditions and exceptions, 100% of the net cash proceeds we receive from any sale, transfer or other disposition of any assets, 100% of net casualty insurance proceeds, 100% of the net cash proceeds we receive from the issuance of permitted securities. Reductions to the revolving commitments under the new credit facility from the foregoing recapture events will not reduce the revolving commitments under the new credit facility below $ million.

Voluntary Prepayments. The new credit agreement will provide for voluntary prepayments of the new revolver and the new term loan and voluntary commitment reductions of the new revolver, subject to giving proper notice and compensating the lenders for standard Eurodollar breakage costs, if applicable.

Covenants. We expect that the new credit facility will contain financial covenants, including, without limitation, the following tests: a minimum interest coverage ratio and a maximum leverage ratio.

The new credit facility will contain customary affirmative covenants. The new credit facility will also contain negative covenants and restrictions, including, among others, with respect to redeeming and repurchasing our other indebtedness, loans and investments, additional indebtedness, liens, capital expenditures, changes in the nature of our business, mergers, acquisitions, asset sales and transactions with affiliates.

Payment of Dividends. Subject to the dividend suspension events set forth below, under the new credit facility, we will be permitted to pay dividends for the period from the closing date of this offering through March 31, 2005. In addition, we may use all of our available cash accumulated after , 2005 plus certain incremental funds to pay dividends, but we may not in general pay dividends in excess of such amount. "Available cash" is defined in the new credit facility as Adjusted EBITDA minus cash interest expense, capital expenditures (unless funded by long-term debt), cash taxes and repayments of our indebtedness.

Suspension of Dividend Payments. If we fail to meet the leverage ratio test set forth below (or fail to timely deliver financial statements with respect to such test), we will be required to suspend the payment of dividends on our common stock. In addition, the payment of dividends will be suspended at any time a default or event of default exists under our new credit facility or when we do not have at least $10.0 million of cash on hand (including unutilized commitments under the new revolver).

The permitted leverage ratio will be tested quarterly and for purposes of the payment of dividends on our common stock will be required to be less or equal to than the following amounts:

Quarter Ended	Dividend Suspension Threshold

As of September 30, 2004, on a pro forma basis after giving effect to the transactions, our leverage ratio would have been .

The financial test described above will be tested quarterly. A determination as to whether dividend payments may be made will be based on the financial test as of the end of the quarter ending immediately prior to the date of the proposed dividend payment.

If we fail to achieve any of these financial levels for any quarter but resume compliance for two consecutive quarters thereafter, we may resume dividend payments unless some other event described in the new credit facility requiring suspension of dividend payments occurs.

Guarantees/Collateral. The new credit facility will be guaranteed, jointly and severally, subject to certain exceptions, by all first tier subsidiaries of FairPoint. We will provide to , as collateral agent for the benefit of the lenders under the new credit agreement and certain hedging creditors under permitted hedging agreements, collateral consisting of (subject to certain exceptions) 100% of the equity interests and promissory notes owned by us and the subsidiary guarantors. Newly acquired or formed direct or indirect subsidiaries of FairPoint which own equity interests of any subsidiary that is an operating company will be required to provide the collateral described above.

Events of Default. The new credit facility will contain customary events of default, including but not limited to, failure to pay principal, interest or other amounts when due, breach of covenants or representations, cross-defaults to certain other indebtedness in excess of specified amounts, judgment defaults in excess of specified amounts, certain ERISA defaults, certain tax defaults, failure of any guaranty or security document supporting the new credit facility or the subordination provisions of the senior subordinated notes to be in full force and effect, and certain events of bankruptcy and insolvency.

Our Existing Credit Facility

Our existing credit facility consists of an $85.0 million revolving loan facility of which $38.2 million was outstanding at September 30, 2004 and two term facilities, a tranche A term loan facility of $40.0 million with $40.0 million principal amount outstanding at September 30, 2004 that matures on March 31, 2007, and a tranche C term loan facility with $106.9 million principal amount outstanding at September 30, 2004 that matures on March 31, 2007. We will repay all of the borrowings under our existing credit facility with a portion of the net proceeds from this offering, together with borrowings under our new credit facility. See "The Transactions" and "Use of Proceeds."

9½% Notes and Floating Rate Notes issued in 1998

FairPoint issued $125.0 million aggregate principal amount of the 9½% notes and $75.0 million of the floating rate notes in 1998. In March 2003, we repurchased $9.8 million aggregate principal amount of the 9½% notes. The 9½% notes bear interest at the rate of 9½% per annum and the floating rate notes bear interest at a rate per annum equal to LIBOR plus 418.75 basis points, in each case payable semi-annually in arrears. The LIBOR rate on the floating rate notes is determined semi-annually.

The 9½% notes and floating rate notes mature on May 1, 2008. We may redeem the 9½% notes and the floating rate notes at any time, in each case, at the redemption prices stated in the indenture under which those notes were issued, together with accrued and unpaid interest, if any, to the redemption date. In the event of a change of control, we must offer to repurchase the outstanding 9½% notes and floating rate notes for cash at a purchase price of 101% of the principal amount of such notes, together with all accrued and unpaid interest, if any, to the date of repurchase.

The 9½% notes and floating rate notes are general unsecured obligations of FairPoint subordinated in right of payment to all existing and future senior indebtedness of FairPoint, including all obligations under our existing credit facility.

The indenture governing the 9½% notes and floating rate notes contains certain customary covenants and events of default.

We intend to consummate tender offers and consent solicitations for all of the outstanding principal amount of the 9½% notes and the floating rate notes. The closing of this offering is conditioned upon the receipt of the tenders and consents of at least a majority in aggregate principal amount of the outstanding 9½% notes and floating rate notes (voting together as a class). Holders of the 9½% notes and floating rate notes will be obligated to provide consents.

12½% Notes issued in 2000

FairPoint issued $200.0 million aggregate principal amount of the 12½% notes in 2000. In March 2003, we repurchased $7.0 million aggregate principal amount of the 12½% notes. The 12½% notes bear interest at the rate of 12½% per annum payable semi-annually in arrears.

The 12½% notes mature on May 1, 2010. We may redeem the 12½% notes at any time on or after May 1, 2005 at the redemption prices stated in the indenture under which the 12½% notes were issued, together with accrued and unpaid interest, if any, to the redemption date. In the event of a change of control, we must offer to repurchase the outstanding 12½% notes for cash at a purchase price of 101% of the principal amount of such notes, together with all accrued and unpaid interest, if any, to the date of repurchase.

The 12½% notes are general unsecured obligations of FairPoint subordinated in right of payment to all existing and future senior indebtedness of FairPoint, including all obligations under our existing credit facility.

The indenture governing the 12½% notes contains certain customary covenants and events of default.

We intend to consummate a tender offer and consent solicitation for all of the outstanding principal amount of the 12½% notes. The closing of this offering is conditioned upon the receipt of the tenders and consents of at least a majority in aggregate principal amount of the 12½% notes. Holders of the 12½% notes that tender their notes in the tender offer will be obligated to provide consents.

11⅞% Notes issued in 2003

FairPoint issued $225.0 million aggregate principal amount of the 11⅞% notes in 2003. The 11⅞% notes bear interest at the rate of 11⅞% per annum payable semi-annually in arrears.

The 11⅞% notes mature on March 1, 2010. We may redeem the 11⅞% notes at any time on or after March 1, 2007 at the redemption prices stated in the indenture under which the 11⅞% notes were issued, together with accrued and unpaid interest, if any, to the redemption date. In the event of a change of control, we must offer to repurchase the outstanding senior notes for cash at a purchase price of 101% of the principal amount of such notes, together with all accrued and unpaid interest, if any, to the date of repurchase.

The 11⅞% notes are general unsecured obligations of FairPoint, ranking pari passu in right of payment with all existing and future senior debt of FairPoint, including all obligations under our existing credit facility, and senior in right of payment to all existing and future subordinated indebtedness of FairPoint.

The indenture governing the 11⅞% notes contains certain customary covenants and events of default.

We intend to consummate a tender offer and consent solicitation for all of the outstanding principal amount of the 11⅞% notes. The closing of this offering is conditioned upon the receipt of the tenders and consents of at least a majority in aggregate principal amount of the 11⅞% notes. Holders of the 11⅞% notes that tender their notes in the tender offer will be obligated to provide consents.

Description of Capital Stock

The following is a description of the terms of our restated certificate of incorporation and amended and restated by-laws, the forms of which have been filed with the Securities and Exchange Commission as exhibits to the registration statement of which this prospectus is part and which will become effective upon the consummation of this offering.

Authorized Capitalization

Upon the closing of this offering, our authorized capital stock will consist of:

- shares of common stock, par value $0.01 per share, all such shares will be designated common stock; and
- shares of preferred stock, par value $0.01 per share.

After this offering, and including the automatic conversion of all of our class C common stock into class A common stock, the reclassification of our class A common stock into our common stock and the for 1 reverse stock split of our common stock, shares of our common stock and no shares of our preferred stock will be issued and outstanding. The number of shares of our common stock issued and outstanding includes shares of restricted stock to be awarded under our 2005 stock incentive plan on the closing date of this offering, which shares will begin to vest on April 1, 2006 and will not be entitled to receive dividends for any period prior to April 1, 2006.

Our board of directors will adopt a dividend policy, effective upon the closing of this offering, pursuant to which, in the event and to the extent we have cash available for distribution to the holders of our common stock, and subject to applicable law and the terms of our new credit facility and any other outstanding indebtedness of ours, our board of directors will declare cash dividends on our common stock. This policy reflects our judgment that our stockholders would be better served if we distributed a substantial portion of our cash available for distribution to them instead of retaining it in our business.

As of September 30, 2004, there were approximately 69 record holders of our class A common stock and 14 record holders of our class C common stock.

Common Stock

All shares of common stock to be outstanding upon completion of this offering will be validly issued, fully paid and nonassessable.

Dividends. Holders of shares of our common stock will be entitled to receive dividends and other distributions in cash, stock or property of ours as may be declared by our board of directors from time to time out of our assets or funds legally available for dividends or other distributions. Dividends on our common stock will not be cumulative. Consequently, if dividends on our common stock are not declared and/or paid at the targeted level, our stockholders will not be entitled to receive such payments in the future.

Our board of directors will adopt a dividend policy, effective upon the closing of this offering, pursuant to which, in the event and to the extent we have cash available for distribution to the holders of shares of our common stock, and subject to applicable law and the terms of our new credit facility, and any other then outstanding indebtedness of ours, our board of directors will declare cash dividends on our common stock. The initial dividend rate on our common stock is expected to be equal to $ per share per annum, subject to adjustment. We will pay those dividends on or about , , and of each year to holders of record on the day of each such month or the immediately preceding business day. See “Dividend Policy and Restrictions.”

Our board of directors may, in its discretion, amend or repeal the dividend policy with respect to our common stock to decrease the level of dividends provided for or discontinue entirely the payment of dividends.

Rights Upon Liquidation. In the event of our voluntary or involuntary liquidation, dissolution or winding up, holders of shares of our common stock will be entitled to share in our assets remaining after payment of all debts and other liabilities, subject to the liquidation preference of any outstanding preferred stock.

Voting Rights. Shares of our common stock carry one vote per share. Except as otherwise required by law, holders of our common stock are not entitled to vote on any amendment to our restated certificate of incorporation that relates solely to the terms of one or more outstanding series of preferred stock if the holders of the affected shares are entitled to vote on the amendment. Holders of shares of our common stock will not be entitled to cumulative voting rights.

Except as otherwise required by the Delaware General Corporation Law and our restated certificate of incorporation and amended and restated by-laws, action requiring stockholder approval may be taken by a vote of the holders of a majority of the common stock at a meeting at which a quorum is present. See "—Anti-Takeover Effects of Various Provisions of Delaware Law and Our Restated Certificate of Incorporation and Amended and Restated By-laws."

Other Rights. Holders of shares of our common stock have no preemptive rights. The holders of common stock are subject to, and may be adversely affected by, the rights of the holders of shares of any series of preferred stock that we may designate and issue in the future.

Preferred Stock

Our restated certificate of incorporation provides that we may issue up to   shares of our preferred stock in one or more series as may be determined by our board of directors.

Our board of directors has broad discretionary authority with respect to the rights of issued series of our preferred stock and may take several actions without any vote or action of the holders of our common stock, including:

- determining the number of shares to be included in each series;
- fixing the designation, powers, preferences and relative rights of the shares of each series and any qualifications, limitations or restrictions with respect to each series, including provisions related to dividends, conversion, voting, redemption and liquidation, which may be superior to those of our common stock; and
- increasing or decreasing the number of shares of any series.

The board of directors may authorize, without approval of holders of our common stock, the issuance of preferred stock with voting and conversion rights that could adversely affect the voting power and other rights of holders of our common stock. For example, our preferred stock may rank prior to our common stock as to dividend rights, liquidation preferences or both, may have full or limited voting rights and may be convertible into shares of our common stock. The number of authorized shares of our preferred stock may be increased or decreased (but not below the number of shares then outstanding) by the affirmative vote of the holders of at least a majority of our common stock, without a vote of the holders of any other class or series of our preferred stock unless required by the terms of such class or series of preferred stock.

Our preferred stock could be issued quickly with terms designed to delay or prevent a change in the control of our company or to make the removal of our management more difficult. This could have the effect of discouraging third party bids for our common stock or may otherwise adversely affect the market price of our common stock.

We believe that the ability of our board of directors to issue one or more series of our preferred stock will provide us with flexibility in structuring possible future financings and acquisitions, and in meeting other corporate needs that might arise. The authorized shares of our preferred stock, as well as shares of our common stock, will be available for issuance without action by our common stockholders, unless such action is required by applicable law or the rules of any stock exchange or automated quotation system on which our securities may be listed or traded.

Although our board of directors has no intention at the present time of doing so, it could issue a series of our preferred stock that could, depending on the terms of such series, be used to implement a stockholder rights plan or otherwise impede the completion of a merger, tender offer or other takeover attempt of our company. Our board of directors could issue preferred stock having terms that could discourage an acquisition attempt through which an acquirer may be able to change the composition of the board of directors, including a tender offer or other transaction that some, or a majority, of our stockholders might believe to be in their best interest or in which stockholders might receive a premium for their stock over the then best current market price.

Anti-Takeover Effects of Various Provisions of Delaware Law and Our Restated Certificate of Incorporation and Amended and Restated By-laws

Provisions of the Delaware General Corporation Law, our restated certificate of incorporation and amended and restated by-laws contain provisions that may have some anti-takeover effects and may delay, defer or prevent a tender offer or takeover attempt that a stockholder might consider in its best interest, including those attempts that might result in a premium over the market price for the shares held by stockholders.

Delaware Anti-Takeover Statute

We are subject to Section 203 of the Delaware General Corporation Law. Subject to specific exceptions, Section 203 prohibits a publicly held Delaware corporation from engaging in a “business combination” with an “interested stockholder” for a period of three years after the time the person became an interested stockholder, unless:

- the business combination, or the transaction in which the stockholder became an interested stockholder, is approved by our board of directors prior to the time the interested stockholder attained that status;
- upon consummation of the transaction that resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced, excluding those shares owned by persons who are directors and also officers and by employee stock plans in which employee participants do not have the right to determine confidentially whether shares held subject to the plan will be tendered in a tender or exchange offer; or
- at or after the time a person became an interested stockholder, the business combination is approved by our board of directors and authorized at an annual or special meeting of stockholders by the affirmative vote of at least two-thirds of the outstanding voting stock that is not owned by the interested stockholder.

“Business combinations” include mergers, asset sales and other transactions resulting in a financial benefit to the interested stockholder. Subject to various exceptions, in general an “interested stockholder” is a person who, together with his or her affiliates and associates, owns, or within three years did own, 15% or more of the shares of the corporation’s outstanding voting stock. These restrictions could prohibit or delay the accomplishment of mergers or other takeover or change in control attempts with respect to us and, therefore, may discourage attempts to acquire us.

In addition, provisions of our restated certificate of incorporation and amended and restated by-laws, which are summarized in the following paragraphs, may have an anti-takeover effect.

Classified Board of Directors. Our restated certificate of incorporation provides that our board of directors be divided into three classes of directors, as nearly equal in size as is practicable, serving staggered three-year terms.

Quorum Requirements; Removal of Directors. Our restated certificate of incorporation provides for a minimum quorum of one-third in voting power of the outstanding shares of our capital stock entitled to vote, except that a minimum quorum of a majority in voting power of the outstanding shares of our capital stock entitled to vote is necessary to hold a vote for any director in a contested election, the removal of a director or the filling of a vacancy on our board of directors. Directors may be removed only for cause by the affirmative vote of at least a majority in voting power of the outstanding shares of our capital stock entitled to vote generally in the election of directors.

No Cumulative Voting. The Delaware General Corporation Law provides that stockholders are denied the right to cumulate votes in the election of directors unless our certificate of incorporation provides otherwise. Our restated certificate of incorporation does not expressly address cumulative voting.

No Stockholder Action by Written Consent; Calling of Special Meeting of Stockholders. Our restated certificate of incorporation generally prohibits stockholder action by written consent. It and our amended and restated by-laws also provide that special meetings of our stockholders may be called only by (1) the chairman of our board of directors or (2) our board of directors pursuant to a resolution approved by our board of directors or (3) our board of directors upon a request by holders of at least 50% in voting power of all the outstanding shares entitled to vote at that meeting.

Advance Notice Requirements for Stockholder Proposals and Director Nominations. Our amended and restated by-laws provide that stockholders seeking to bring business before or to nominate candidates for election as directors at an annual meeting of stockholders must provide timely notice of their proposal in writing to the corporate secretary. To be timely, a stockholder's notice must be delivered or mailed and received at our principal executive offices not less than 90 nor more than 120 days in advance of the anniversary date of the immediately preceding annual meeting of stockholders. Our amended and restated by-laws also specify requirements as to the form and content of a stockholder's notice. These provisions may impede stockholders' ability to bring matters before an annual meeting of stockholders or make nominations for directors at an annual meeting of stockholders. Stockholder nominations for the election of directors at a special meeting must be received by our corporate secretary by the later of 10 days following the day on which notice of the date of the special meeting was mailed or public disclosure of the date of the special meeting was made or 90 days prior to the date that meeting is proposed to be held and not more than 120 days prior to such meeting.

Limitations on Liability and Indemnification of Officers and Directors. The Delaware General Corporation Law authorizes corporations to limit or eliminate the personal liability of directors to corporations and their stockholders for monetary damages for breaches of directors' fiduciary duties as directors. Our restated certificate of incorporation includes a provision that eliminates the personal liability of directors for monetary damages for actions taken as a director, except for liability:

- for breach of duty of loyalty;

- for acts or omissions not in good faith or involving intentional misconduct or knowing violation of law;
- under Section 174 of the Delaware General Corporation Law (unlawful dividends or stock repurchases); or
- for transactions from which the director derived improper personal benefit.

Our amended and restated by-laws provide that we must indemnify and advance expenses to our directors and officers to the fullest extent authorized by the Delaware General Corporation Law. We are also expressly authorized to, and do, carry directors' and officers' insurance for our directors, officers and certain employees for some liabilities. We believe that these indemnification provisions and insurance are useful to attract and retain qualified directors and executive officers.

The limitation of liability and indemnification provisions in our amended and restated by-laws may discourage stockholders from bringing a lawsuit against directors for breach of their fiduciary duty. These provisions may also have the effect of reducing the likelihood of derivative litigation against directors and officers, even though such an action, if successful, might otherwise benefit us and our stockholders. In addition, your investment may be adversely affected to the extent that, in a class action or direct suit, we pay the costs of settlement and damage awards against directors and officers pursuant to these indemnification provisions.

There is currently no pending material litigation or proceeding involving any of our directors, officers or employees for which indemnification is sought.

Authorized but Unissued Shares. Our authorized but unissued shares of common stock and preferred stock will be available for future issuance without your approval. We may use additional shares for a variety of corporate purposes, including future public offerings to raise additional capital, corporate acquisitions and employee benefit plans. The existence of authorized but unissued shares of common stock and preferred stock could render more difficult or discourage an attempt to obtain control of us by means of a proxy contest, tender offer, merger or otherwise.

Supermajority Provisions. The Delaware General Corporation Law provides generally that the affirmative vote of a majority in voting power of the outstanding shares entitled to vote is required to amend a corporation's certificate of incorporation, unless the certificate of incorporation requires a greater percentage. Our restated certificate of incorporation provides that the following provisions in the restated certificate of incorporation may be amended only by a vote of two-thirds or more in voting power of all the outstanding shares of our capital stock entitled to vote:

- the prohibition on stockholder action by written consent;
- the ability to call a special meeting of stockholders being vested solely in (1) the chairman of our board of directors, (2) our board of directors pursuant to a resolution adopted by our board of directors and (3) our board of directors upon a request by holders of at least 50% in voting power of all the outstanding shares entitled to vote at that meeting;
- the provisions relating to the classification of our board of directors;
- the provisions relating to the size of our board of directors;
- the provisions relating to the quorum requirements for stockholder action and the removal of directors;
- the limitation on the liability of our directors to us and our stockholders;

- the provisions granting authority to our board of directors to amend or repeal our by-laws without a stockholder vote, as described in more detail in the next succeeding paragraph; and
- the supermajority voting requirements listed above.

Our restated certificate of incorporation grants our board of directors the authority to amend and repeal our by-laws without a stockholder vote in any manner not inconsistent with the laws of the State of Delaware or our restated certificate of incorporation.

In addition, our restated certificate of incorporation provides that our amended and restated by-laws may be amended by stockholders representing no less than two-thirds of the voting power of all the outstanding shares of our capital stock entitled to vote.

Regulatory Ownership Provisions

The Company and its operating subsidiaries are subject to regulation by federal and state regulatory commissions. Certain of these regulatory commissions limit the amount of the Company's common stock which may be held by an investor or group of related investors without the approval of such commissions. Accordingly, our restated certificate of incorporation will provide that so long as we hold any authorization, license, permit, order, filing or consent from the Federal Communications Commission or any state regulatory commission having jurisdiction over us, if we have reason to believe that the ownership, or proposed ownership, of shares of our capital stock by any stockholder or any person presenting any shares of our capital stock for transfer into its name, which we refer to as a transferee, may be inconsistent with, or in violation of, any provision of any applicable communications law, or if the Company needs information in order to make a determination as to whether the ownership, or proposed ownership, of shares of capital stock of the Company by any stockholder or any transferee may be inconsistent with, or in violation of, any provision of any applicable communications laws, such stockholder or transferee, upon our request, shall furnish promptly to us such information (including, without limitation, information with respect to citizenship, other ownership interests and affiliations) as we shall reasonably request to determine whether the ownership of, or the existence or the exercise of any rights with respect to, shares of our capital stock by such stockholder or transferee is inconsistent with, or in violation of, any applicable communications law.

If any stockholder or transferee from whom such information is requested should fail to respond to such a request or we conclude that the ownership of, or the existence or exercise of any rights of stock ownership with respect to, shares of our capital stock by such stockholder or transferee could result in any inconsistency with, or violation of, any applicable communications law, we may suspend those rights of stock ownership the existence or exercise of which would result in any inconsistency with, or violation of, any applicable communications law, such suspension to remain in effect until the requested information has been received and we have determined the existence or exercise of such suspended rights is permissible under such applicable communications law, and we may exercise any and all appropriate remedies, at law or in equity, in any court of competent jurisdiction, against any stockholder or transferee, with a view towards obtaining such information or preventing or curing any situation which would cause an inconsistency with, or violation of, any provision of any applicable communications law.

Listing

We intend to list our shares of common stock on the New York Stock Exchange under the trading symbol "FRP."

Transfer Agent and Registrar

The Bank of New York is the transfer agent and registrar for our shares of common stock.

Certain United States Federal Tax Considerations

The following discussion describes certain material United States federal income tax consequences (and certain U.S. federal estate tax consequences to Non-U.S. Holders (as defined below)) of the purchase, ownership and disposition of the common stock as of the date hereof by U.S. Holders and Non-U.S. Holders (both as defined below). Except where noted, the following discussion addresses only common stock held as capital assets by holders and does not deal with special situations, such as those of:

- dealers in securities or currencies,
- financial institutions,
- regulated investment companies,
- real estate investment trusts,
- tax-exempt entities,
- insurance companies,
- persons holding common stock as a part of a hedging, integrated, conversion or constructive sale transaction or a straddle,
- traders in securities that elect to use a mark-to-market method of accounting for their securities holdings,
- persons liable for alternative minimum tax,
- U.S. expatriates,
- investors in pass-through entities or
- U.S. Holders (as defined below) of common stock whose "functional currency" is not the U.S. dollar.

Furthermore, the discussion below is based upon the provisions of the Internal Revenue Code of 1986, as amended, the Treasury regulations promulgated thereunder and administrative and judicial interpretations thereof, all as of the date hereof, and such authorities may be repealed, revoked, modified or subject to differing interpretations, possibly with retroactive effect, so as to result in U.S. federal income tax consequences different from those discussed below.

A "U.S. Holder" of common stock means a holder that is for U.S. federal income tax purposes:

- an individual citizen or resident of the United States,
- a corporation (or other entity taxable as a corporation) created or organized in or under the laws of the United States or any political subdivision thereof,
- an estate the income of which is subject to U.S. federal income taxation regardless of its source, or
- a trust if it (1) is subject to the primary supervision of a court within the United States and one or more U.S. persons have the authority to control all substantial decisions of the trust or (2) has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person.

If a partnership or other entity or arrangement treated as a partnership for U.S. federal income tax purposes holds common stock, the tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership. If you are a partner of a partnership holding common stock, you should consult your own tax advisors.

If you are considering the purchase of common stock, you should consult your own tax advisors concerning the particular U.S. federal income tax consequences to you of the ownership of common stock, as well as any consequences to you arising under the laws of any other taxing jurisdiction.

Considerations for U.S. Holders

Dividends

The gross amount of dividends paid to you will be treated as dividend income to you to the extent paid out of our current or accumulated earnings and profits (as determined for U.S. federal income tax purposes). Such income will be includible in your gross income on the day received by you. Distributions to you in excess of earnings and profits will be treated first as a return of capital that reduces your tax basis in the shares of common stock, and then as gain from the sale or exchange of shares of common stock. Under current legislation, which is scheduled to "sunset" at the end of 2008, dividend income will generally be taxed to you (if you are an individual) at the rates applicable to long-term capital gains, provided that a minimum holding period and other requirements are satisfied. Dividends received after 2008 will be taxable to you at ordinary income rates, absent intervening legislation. Corporate U.S. Holders may be entitled to a dividends-received deduction with respect to distributions treated as dividend income for U.S. federal income tax purposes, subject to numerous limitations and requirements.

Sale, Exchange or Other Disposition of Common Stock

Upon the sale, exchange or other disposition of shares of our common stock, you will recognize capital gain or loss in an amount equal to the difference between the amount realized for your shares of common stock and your tax basis in the shares of common stock. Capital gains of individuals derived with respect to capital assets held for more than one year are eligible for reduced rates of taxation. The deductibility of capital losses is subject to limitations.

Information Reporting and Backup Withholding

In general, information reporting requirements will apply to dividends paid on common stock and to the proceeds of sale of common stock paid to a U.S. Holder other than certain exempt recipients (such as corporations). A backup withholding tax will apply to such payments if you fail to provide a taxpayer identification number or certification of other exempt status or fail to report in full dividend and interest income.

Any amounts withheld under the backup withholding rules will be allowed as a refund or a credit against your U.S. federal income tax liability provided the required information is furnished to the IRS.

Consequences to Non-U.S. Holders

The following discussion applies only to Non-U.S. Holders. A "Non-U.S. Holder" is a beneficial owner, other than an entity or arrangement classified as a partnership for U.S. federal income tax purposes, that is not a U.S. Holder.

Dividends

Dividends paid to you (to the extent paid out of our current or accumulated earnings and profits, as determined for U.S. federal income tax purposes) generally will be subject to withholding at a 30% rate or such lower rate as may be specified by an applicable income tax treaty. However, dividends that are effectively connected with your conduct of a trade or business within the United States or, if certain tax treaties apply, are attributable to your U.S. permanent establishment, are not subject to the withholding tax, but instead are subject to U.S. federal income tax on a net income basis at applicable graduated individual or corporate rates. Special certification and disclosure requirements must be satisfied for effectively connected income to be exempt from withholding. If you are a corporation, any such effectively connected dividends received by you may be subject to an additional branch profits tax at a 30% rate or such lower rate as may be specified by an applicable income tax treaty.

If you wish to claim the benefit of an applicable treaty rate (and avoid backup withholding as discussed below) for dividends, you must provide the withholding agent with a properly executed IRS Form W-8BEN claiming an exemption from or reduction in withholding under an applicable income tax treaty. Applicable Treasury Regulations provide alternative methods for satisfying this requirement. Under these Treasury Regulations, in the case of common stock held by a foreign intermediary (other than a "qualified intermediary") or a foreign partnership (other than a "withholding foreign partnership"), the foregoing intermediary or partnership, as the case may be, generally must provide an IRS Form W-8IMY and attach thereto an appropriate certification by each beneficial owner or partner.

If you are eligible for a reduced rate of U.S. withholding tax pursuant to an income tax treaty, you may obtain a refund of any excess amounts withheld by filing an appropriate claim for refund with the IRS.

Sale, Exchange or Other Disposition of Common Stock

You generally will not be subject to U.S. federal income tax with respect to gain recognized on a sale or other disposition of shares of our common stock unless:

- the gain is effectively connected with your conduct of a trade or business in the United States, or, if certain tax treaties apply, is attributable to your U.S. permanent establishment,
- if you are an individual and hold shares of our common stock as a capital asset, you are present in the United States for 183 or more days in the taxable year of the sale or other disposition, and you have a "tax home" in the United States, or
- we are or have been during a specified testing period a "United States real property holding corporation" for U.S. federal income tax purposes.

If you are an individual and are described in the first bullet above, you will be subject to tax on any gain derived from the sale, exchange or other disposition under regular graduated U.S. federal income tax rates. If you are an individual and are described in the second bullet above, you will be subject to a flat 30% tax on any gain derived from the sale, exchange or other disposition which may be offset by U.S. source capital losses (even though you are not considered a resident of the United States). If you are a corporation and are described in the first bullet above, you will be subject to tax on your gain under regular graduated U.S. federal income tax rates and, in addition, may be subject to the branch profits tax on your effectively connected earnings and profits for the taxable year, which would include such gain, at a rate of 30% or at such lower rate as may be specified by an applicable income tax treaty, subject to adjustments.

We believe that we have not been and we are not, and we do not anticipate becoming, a "United States real property holding corporation" for U.S. federal income tax purposes.

U.S. Federal Estate Tax

Shares of our common stock held by an individual Non-U.S. Holder at the time of death will be included in such holder's gross estate for U.S. federal estate tax purposes, unless an applicable estate tax treaty provides otherwise.

Information Reporting and Backup Withholding

You may be subject to information reporting requirements and backup withholding at a rate of 28% with respect to dividend payments on, and the proceeds from dispositions of, shares of common stock, unless you comply with certain reporting procedures (usually satisfied by providing an IRS Form W-8BEN) or otherwise establish an exemption. Additional information reporting requirements and backup withholding with respect to the payment of proceeds from the disposition of shares of common stock are as follows:

- if the proceeds are paid to or through the U.S. office of a broker, they generally will be subject to backup withholding and information reporting unless you certify that you are not a United States person under penalties of perjury (usually on an IRS Form W-8BEN) or otherwise establish an exemption.
- If the proceeds are paid to or through a non-U.S office of a broker that is not a United States person and is not a foreign person with certain specified U.S. connections (a "U.S. Related Person"), they will not be subject to backup withholding or information reporting.
- If the proceeds are paid to or through a non-U.S. office of a broker that is a United States person or a U.S. Related Person, they generally will be subject to information reporting (but not backup withholding) unless you certify that you are not a United States person under penalties of perjury (usually on an IRS Form W-8BEN) or otherwise establish an exemption.

In addition, the amount of dividends paid to you and the amount of tax, if any, withheld from such payment must generally be reported annually to you and the IRS. The IRS may make such information available under the provisions of an applicable income tax treaty to the tax authorities in the country in which you are resident.

Any amounts withheld under the backup withholding rules will be allowed as a refund or a credit against your U.S. federal income tax liability provided the required information is furnished by you to the IRS.

Underwriters

Under the terms and subject to the conditions contained in an underwriting agreement dated , 2005, the underwriters named below, for whom Morgan Stanley & Co. Incorporated, Goldman, Sachs & Co., Banc of America Securities LLC and Deutsche Bank Securities Inc. are acting as representatives, have severally agreed to purchase, and we have agreed to sell to them, the number of shares of our common stock indicated below.

Name	Number of Shares
Morgan Stanley & Co. Incorporated	
Goldman, Sachs & Co.	
Banc of America Securities LLC	
Deutsche Bank Securities Inc.	
Total	

The underwriters are offering the shares of our common stock subject to their acceptance of the shares from us and subject to prior sale. The underwriting agreement provides that the obligations of the several underwriters to pay for and accept delivery of the shares of our common stock offered by this prospectus are subject to the approval of certain legal matters by their counsel and to certain other conditions. The underwriters are obligated to take and pay for all of the shares of our common stock offered by this prospectus if any such shares are taken. However, the underwriters are not required to take or pay for the shares covered by the underwriters' over-allotment option described below.

The underwriters initially propose to offer part of the shares of our common stock directly to the public at the public offering price listed on the cover page of this prospectus and part to securities dealers at a price that represents a concession not in excess of $ a share under the public offering price. After the initial offering of the shares of our common stock, the offering price and other selling terms may from time to time be varied by the representatives of the underwriters.

Certain existing common stockholders have granted to the underwriters an option, exercisable for 30 days from the date of this prospectus, to purchase up to an aggregate of additional shares of our common stock at the public offering price listed on the cover page of this prospectus, less underwriting discounts and commissions. The underwriters may exercise this option solely for the purpose of covering over-allotments, if any, made in connection with the offering of the shares of our common stock offered by this prospectus. To the extent the option is exercised, each underwriter will become obligated, subject to certain conditions, to purchase approximately the same percentage of the additional shares of our common stock as the number listed next to the underwriter's name in the preceding table bears to the total number of shares of our common stock listed next to the names of all underwriters in the preceding table.

If the underwriters' option is exercised in full, the total price to the public would be $, the total underwriters' discounts and commissions would be $, the total proceeds to us would be $ and the total proceeds to the selling stockholders would be $. We will not receive any of the proceeds from the sale of our common stock by the selling stockholders.

The following table shows the per share and total underwriting discounts and commissions to be paid by us and the selling stockholders assuming no exercise and full exercise of the underwriters' over-allotment option to purchase additional shares from the selling stockholders.

	Per Share		Total	
Underwriting discounts and commissions to be paid by	**No Exercise**	**Full Exercise**	**No Exercise**	**Full Exercise**
FairPoint Communications, Inc.				
Selling Stockholders	—		—	

Our estimated offering expenses, in addition to the underwriting discounts and commissions, are approximately $ million, which includes legal, accounting and printing costs and various other fees associated with registration and listing of our common stock.

The underwriters have informed us that they do not intend sales to discretionary accounts to exceed five percent of the total number of shares of our common stock offered by them.

We, our executive officers and directors and all of our significant stockholders holders have agreed that, without the prior written consent of the representatives, neither we nor they will, during the period ending 180 days after the date of this prospectus:

- offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, lend, or otherwise transfer or dispose of, directly or indirectly, or file any registration statement with the Securities and Exchange Commission relating to the offering of, any shares of our common stock or any securities convertible into or exercisable or exchangeable for our common stock; or
- enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of our common stock,

whether any such transaction described above is to be settled by delivery of our common stock or such other securities, in cash or otherwise. Notwithstanding the foregoing, if the 180th day after the date of this prospectus occurs within 17 days following an earnings release by us, or the occurrence of material news or a material event related to us, or if we intend to issue an earnings release within 16 days following the 180th day, the 180-day period will be extended to the 18th day following such earnings release or the occurrence of the material news or material event unless such extension is waived by the representatives on behalf of the underwriters.

The 180-day restricted period described above shall not apply to: (a) the sale of shares of our common stock to the underwriters; (b) the issuance by us of shares of our common stock upon the exercise of an option or warrant or the conversion of a security outstanding on the date of this prospectus of which the underwriters have been advised in writing; (c) transactions by any person other than us relating to shares of our common stock or other securities acquired in open market transactions after the completion of this offering, *provided* that no filing by any party under the Exchange Act shall be required or shall be voluntarily made in connection with subsequent sales of common stock or other securities acquired in such open market transactions; (d) grants by us of options to purchase shares of our common stock pursuant to employee or management stock option, incentive or other plans or arrangements described in this prospectus; (e) the issuance, offer or sale by us of shares of our common stock pursuant to employee or management stock option, incentive or other plans or arrangements described in this prospectus and the filing by us of any registration statement on Form S-8 in connection therewith; (f) transfers of shares of our common stock or any security convertible into our common stock as a bona fide gift or gifts; or (g) distributions of shares of our common stock or any security convertible into shares of our common stock to limited partners or stockholders of the selling stockholders or us; *provided*, that in the case of any transfer or distribution pursuant to clause (f) or (g), each donee or distributee agrees in writing to be bound by the transfer restrictions described above and no filing by any party under the Exchange Act shall be required or shall be voluntarily made in connection with subsequent sales of common stock or other securities acquired in such transfer or distribution. In addition, each of the selling stockholders has agreed that, without the prior written consent of the representatives on behalf of the underwriters, it will not, during the period ending 180 days after the date of this Prospectus, make any demand for or exercise any right with respect to the registration of any shares of our common stock or any security convertible into or exercisable or exchangeable for our common stock.

We intend to list our common stock on the New York Stock Exchange under the symbol "FRP."

In connection with the listing of our common stock on the New York Stock Exchange, the underwriters will undertake to sell round lots of 100 shares or more to a minimum of 2,000 beneficial owners.

In order to facilitate the offering of our common stock, the underwriters may engage in transactions that stabilize, maintain or otherwise affect the price of our common stock. Specifically, the underwriters may sell more shares than they are obligated to purchase under the underwriting agreement, creating a short position in our common stock for their own account. A short sale is covered if the short position is no greater than the number of shares available for purchase by the underwriters under the over-allotment option. The underwriters can close out a covered short sale by exercising the over-allotment option or purchasing shares in the open market. In determining the source of shares to close out a covered short sale, the underwriters will consider, among other things, the open market price of shares compared to the price available under the over-allotment option. The underwriters may also sell shares in excess of the over-allotment option, creating a naked short position. The underwriters must close out any naked short position by purchasing shares in the open market. A naked short position is more likely to be created if the underwriters are convinced that there may be downward pressure on the price of our common stock in the open market after pricing that could adversely affect investors who purchase in the offering. In addition, in order to cover any over-allotments or to stabilize the price of our common stock, the underwriters may bid for, and purchase, shares of our common stock in the open market. Finally, the underwriting syndicate may reclaim selling concessions allowed to an underwriter or a dealer for distributing our common stock in this offering, if the syndicate repurchases previously distributed shares of our common stock to cover syndicate short positions, in stabilization transactions or otherwise. Any of these activities may stabilize or maintain the market price of our common stock above independent market levels. The underwriters are not required to engage in these activities and may end any of these activities at any time.

Each underwriter has represented, warranted and agreed that: (a) it has not offered or sold and, prior to the expiry of a period of six months from the Closing date, will not offer or sell any shares to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995; (b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 ("FSMA")) received by it in connection with the issue or sale of any shares in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and (c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the shares in, from or otherwise involving the United Kingdom.

The shares may not be offered or sold, transferred or delivered, as part of their initial distribution or at any time thereafter, directly or indirectly, to any individual or legal entity in the Netherlands other than to individuals or legal entities who or which trade or invest in securities in the conduct of their profession or trade, which includes banks, securities intermediaries, insurance companies, pension funds, other institutional investors and commercial enterprises which, as an ancillary activity, regularly trade or invest in securities.

The shares may not be offered or sold by means of any document other than to persons whose ordinary business is to buy or sell shares or debentures, whether as principal or agent, or in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap. 32) of Hong Kong, and no advertisement, invitation or document relating to the shares may be issued, whether in Hong Kong or elsewhere, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to shares which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" within the meaning of the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made thereunder.

This prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this prospectus and any other document or material in connection with the offer or sale, or invitation or subscription or purchase, of the securities may not be circulated or distributed, nor may the securities be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than under circumstances in which such offer, sale or invitation does not constitute an offer or sale, or invitation for subscription or purchase, of the securities to the public in Singapore.

The securities have not been and will not be registered under the Securities and Exchange Law of Japan (the Securities and Exchange Law) and each underwriter has agreed that it will not offer or sell any securities, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Securities and Exchange Law and any other applicable laws, regulations and ministerial guidelines of Japan.

A prospectus in electronic format may be made available on the web sites maintained by one or more of the underwriters. The underwriters may agree to allocate a number of shares to underwriters for sale to their online brokerage account holders. The representatives will allocate shares to underwriters that may make Internet distributions on the same basis as other allocations. In addition, shares may be sold by the underwriters to securities dealers who resell to online brokerage account holders.

We and the selling stockholders have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act.

Pricing of the Offering

Prior to this offering, there has been no public market for our common stock. The initial public offering price has been determined by negotiations among us, our existing equity investors and the representatives of the underwriters. Among the factors considered in determining the initial public offering price were our future prospects and future prospects of our industry in general, our sales, earnings and other financial and operating information in recent periods, and the price-earnings ratios, market prices of securities and financial and operating information of companies engaged in activities similar to ours.

An active trading market for our shares may not develop. It is also possible that after the offering, the shares of our common stock will not trade in the public market at or above the initial public offering price.

Relationships

An affiliate of Deutsche Bank Securities Inc. owns greater than 10% of our outstanding series A preferred stock. Because of this relationship, Deutsche Bank Securities Inc. may be deemed to have a conflict of interest under NASD Conduct Rule 2720. This offering will be conducted in accordance with such rule.

NASD Conduct Rule 2720(c) requires that the public offering price of a security be no higher than the price recommended by a qualified independent underwriter who has participated in the preparation of the registration statement and performed its usual standard of due diligence with respect to that registration statement. The price of our common stock will be no higher than that recommended by Morgan Stanley & Co. Incorporated, who has agreed to act as the qualified independent underwriter for this offering and, in acting as such, has agreed to undertake the legal responsibilities and liabilities of an underwriter under the Securities Act, specifically those under Section 11.

We will use the net proceeds received by us from the sale of the common stock to (a) repay approximately $185.1 million of outstanding loans under our existing credit facility, (b) consummate tender offers and consent solicitations for all of our outstanding 9½% notes, floating rate notes, 12½% notes and 11⅞% notes, and (c) pay certain bank fees. As lenders under our existing credit facility, affiliates of certain underwriters will receive an aggregate of approximately $ in fees and repayments in respect of loans outstanding under our existing credit facility. An affiliate of Deutsche Bank Securities Inc. will receive $ million from the repurchase by us of our series A preferred stock that they currently own. See "The Transactions" and "Use of Proceeds." An affiliate of Banc of America Securities LLC currently owns shares of our class C common stock that upon completion of this offering will be converted and reclassified into common stock.

Deutsche Bank Trust Company Americas will be the administrative agent for our new credit facility. Other affiliates of the underwriters will be lenders and/or agents under our new credit facility. See "Description of Certain Indebtedness—New Credit Facility." An affiliate of one of the representatives will be the dealer manager for the tender offers and the solicitation agent for the consent solicitations. Deutsche Bank Securities Inc. and Banc of America Securities LLC were initial purchasers in the March 2003 offering of the 11⅞% notes.

In addition, from time to time, some of the underwriters and their affiliates may continue to provide investment banking and other services to us for which they may receive customary fees.

Legal Matters

The legality of the issuance of the shares of our common stock will be passed upon for us by Paul, Hastings, Janofsky & Walker LLP, New York, New York. Daniel G. Bergstein, a senior partner at Paul, Hastings, Janofsky & Walker LLP, is a director and significant stockholder of our company. Debevoise & Plimpton LLP, New York, New York, is acting as counsel for the underwriters. Debevoise & Plimpton LLP has in the past provided, and continues to provide, legal services to Kelso & Company and us.

Experts

The consolidated financial statements of FairPoint Communications, Inc. and subsidiaries as of December 31, 2002 and 2003, and for each of the years in the three-year period ended December 31, 2003, have been included herein in reliance upon the reports of KPMG LLP, independent registered public accounting firm, appearing elsewhere herein, and upon the authority of said firm as experts in accounting and auditing. The audit report refers to the Company's adoption of SFAS No. 142, *Goodwill and Other Intangible Assets*, as required for goodwill and other intangible assets effective January 1, 2002 and to the Company's adoption of SFAS No. 150 *Accounting for Certain Financial Instruments with Characterizations of both Liabilities and Equity* effective July 1, 2003.

The balance sheets of Orange County—Poughkeepsie Limited Partnership as of December 31, 2003 and 2002 and the related statements of operations, changes in partners' capital and cash flows for each of the three years in the period ended December 31, 2003, included in this prospectus, have been audited by Deloitte & Touche LLP, independent registered public accounting firm, as stated in their report appearing herein, and are included in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

The balance sheets of Illinois Valley Cellular RSA 2-I Partnership and Illinois Valley Cellular RSA 2-III Partnership as of December 31, 2002 and 2001, and the related statements of income, partners' capital, and cash flows for each of three years ended December 31, 2002, included in this prospectus have been audited by Kiesling Associates LLP, independent registered public accounting firm, as stated in their reports appearing herein.

Where You Can Find More Information

We have filed a Registration Statement on Form S-1 with the Securities and Exchange Commission regarding this offering. This prospectus, which is part of the registration statement, does not contain all of the information included in the registration statement, and you should refer to the registration statement and its exhibits to read that information. As a result of the filing of the registration statement, we are subject to the informational reporting requirements of the Exchange Act of 1934 and, under that Act, we will file reports and proxy statements with, and furnish other information to, the Securities and Exchange Commission. As required by the terms of the indentures governing our 9½% notes, floating rate notes, 12½% notes and 11⅞% notes, we have filed these reports with, and furnished this information to, the Securities and Exchange Commission. You may read and copy the registration statement, the related exhibits and the reports, proxy statements and other information we file with or furnish to the Securities and Exchange Commission at the Securities and Exchange Commission's public reference facilities maintained by the Securities and Exchange Commission at Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549. You can also request copies of those documents, upon payment of a duplicating fee, by writing to the Securities and Exchange Commission. Please call the Securities and Exchange Commission at 1-800-SEC-0330 for further information on the operation of the public reference rooms. The Securities and Exchange Commission also maintains an Internet site that contains reports, proxy and information statements and other information regarding issuers that file with the Securities and Exchange Commission. The site's Internet address is *www.sec.gov*.

You may also request a copy of these filings, at no cost, by writing or telephoning us at:

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(704) 344-8150
Attention: Secretary