BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Joint Application of Cass County Telephone Company, Limited Partnership, LEC Long Distance, FairPoint Communications, Inc., FairPoint Communications Missouri, Inc. d/b/a FairPoint Communications and ST Long Distance, Inc. d/b/a FairPoint Communications Long Distance for authority to transfer and acquire Cass County Telephone Company, Limited Partnership's and LEC Long Distance, Inc.'s facilities or systems located in the State of Missouri; 2) for issuance of certificate, etc	)	Case No. TM-2006-0306

AFFIDAVIT OF NATELLE DIETRICH

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Natelle Dietrich, of lawful age, on her oath states: that she has participated in the preparation of the following Staff Memorandum; that the information is given by her; that she has knowledge of the matters set forth; and that such matters are true and correct to the best of her knowledge and belief.

Natelle Dietrich

Natelle Dietrich

Subscribed and sworn to before me this 21st day of April 2006.

Toni M Charlton

Notary Public

TONI M. CHARLTON NOTARY SEAL NOTARY PUBLIC STATE OF MISSOURI

TONI M. CHARLTON
Notary Public - State of Missouri
My Commission Expires December 28, 2008
Cole County
Commission #04474301

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Joint Application of Cass County Telephone Company, Limited Partnership, LEC Long Distance, FairPoint Communications, Inc., FairPoint Communications Missouri, Inc. d/b/a FairPoint Communications and ST Long Distance, Inc. d/b/a FairPoint Communications Long Distance for authority to transfer and acquire Cass County Telephone Company, Limited Partnership's and LEC Long Distance, Inc.'s facilities or systems located in the State of Missouri; 2) for issuance of certificate, etc	)	Case No. TM-2006-0306

AFFIDAVIT OF LARRY HENDERSON

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Larry Henderson, of lawful age, on his oath states: that he has participated in the preparation of the following Staff Memorandum; that the information is given by him; that he has knowledge of the matters set forth; and that such matters are true and correct to the best of his knowledge and belief.

Larry Henderson
Larry Henderson

Subscribed and sworn to before me this 21st day of April 2006.

Toni M Charlton
Notary Public

TONI M. CHARLTON
NOTARY SEAL
NOTARY PUBLIC
STATE OF MISSOURI

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BEFORE THE PUBLIC SERVICE COMMISSION
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AFFIDAVIT OF JOLIE MATHIS

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Jolie Mathis, of lawful age, on her oath states: that she has participated in the preparation of the following Staff Memorandum; that the information is given by her; that she has knowledge of the matters set forth; and that such matters are true and correct to the best of her knowledge and belief.

Jolie Mathis

Subscribed and sworn to before me this 21st day of April 2006.

Notary Public

TONI M. CHARLTON NOTARY SEAL NOTARY PUBLIC STATE OF MISSOURI

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Notary Public - State of Missouri
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BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Joint Application of Cass County Telephone Company, Limited Partnership, LEC Long Distance, FairPoint Communications, Inc., FairPoint Communications Missouri, Inc. d/b/a FairPoint Communications and ST Long Distance, Inc. d/b/a FairPoint Communications Long Distance for authority to transfer and acquire Cass County Telephone Company, Limited Partnership`s and LEC Long Distance, Inc.`s facilities or systems located in the State of Missouri; 2) for issuance of certificate, etc	)	Case No. TM-2006-0306

AFFIDAVIT OF DAVID MURRAY

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

David Murray, of lawful age, on his oath states: that he has participated in the preparation of the following Staff Memorandum; that the information is given by him; that he has knowledge of the matters set forth; and that such matters are true and correct to the best of his knowledge and belief.

David Murray

David Murray

Subscribed and sworn to before me this 21st day of April 2006.

Toni M. Charlton

Notary Public

TONI M. CHARLTON
NOTARY SEAL
NOTARY PUBLIC
STATE OF MISSOURI

TONI M. CHARLTON
Notary Public - State of Missouri
My Commission Expires December 28, 2008
Cole County
Commission #04474301

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Joint Application of Cass County Telephone Company, Limited Partnership, LEC Long Distance, FairPoint Communications, Inc., FairPoint Communications Missouri, Inc. d/b/a FairPoint Communications and ST Long Distance, Inc. d/b/a FairPoint Communications Long Distance for authority to transfer and acquire Cass County Telephone Company, Limited Partnership's and LEC Long Distance, Inc.'s facilities or systems located in the State of Missouri; 2) for issuance of certificate, etc	)	Case No. TM-2006-0306

AFFIDAVIT OF J. KAY NIEMEIER

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

J. Kay Niemeier, of lawful age, on her oath states: that she has participated in the preparation of the following Staff Memorandum; that the information is given by her; that she has knowledge of the matters set forth; and that such matters are true and correct to the best of her knowledge and belief.

J. Kay Niemeier
J. Kay Niemeier

Subscribed and sworn to before me this 21st day of April 2006.

Toni M Charlton
Notary Public

TONI M. CHARLTON NOTARY SEAL NOTARY PUBLIC STATE OF MISSOURI

TONI M. CHARLTON
Notary Public - State of Missouri
My Commission Expires December 28, 2008
Cole County
Commission #04474301

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Joint Application of Cass County Telephone Company, Limited Partnership, LEC Long Distance, FairPoint Communications, Inc., FairPoint Communications Missouri, Inc. d/b/a FairPoint Communications and ST Long Distance, Inc. d/b/a FairPoint Communications Long Distance for authority to transfer and acquire Cass County Telephone Company, Limited Partnership's and LEC Long Distance, Inc.'s facilities or systems located in the State of Missouri; 2) for issuance of certificate, etc	)	Case No. TM-2006-0306

AFFIDAVIT OF WILLIAM VOIGHT

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

William Voight, of lawful age, on his oath states: that he has participated in the preparation of the following Staff Memorandum; that the information is given by him; that he has knowledge of the matters set forth; and that such matters are true and correct to the best of his knowledge and belief.

Bill Voight

William Voight

Subscribed and sworn to before me this 21st day of April 2006.

Toni M Charlton

Notary Public

TONI M. CHARLTON NOTARY SEAL NOTARY PUBLIC STATE OF MISSOURI

TONI M. CHARLTON
Notary Public - State of Missouri
My Commission Expires December 28, 2008
Cole County
Commission #04474301

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Joint Application of Cass County Telephone Company, Limited Partnership, LEC Long Distance, FairPoint Communications, Inc., FairPoint Communications Missouri, Inc. d/b/a FairPoint Communications and ST Long Distance, Inc. d/b/a FairPoint Communications Long Distance for authority to transfer and acquire Cass County Telephone Company, Limited Partnership`s and LEC Long Distance, Inc.`s facilities or systems located in the State of Missouri; 2) for issuance of certificate, etc	)	Case No. TM-2006-0306

AFFIDAVIT OF DAVID G. WINTER

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

David G. Winter, of lawful age, on his oath states: that he has participated in the preparation of the following Staff Memorandum; that the information is given by him; that he has knowledge of the matters set forth; and that such matters are true and correct to the best of his knowledge and belief.

David G. Winter

Subscribed and sworn to before me this 21st day of April 2006.

Notary Public

TONI M. CHARLTON NOTARY SEAL NOTARY PUBLIC STATE OF MISSOURI

TONI M. CHARLTON
Notary Public - State of Missouri
My Commission Expires December 28, 2008
Cole County
Commission #04474301

MEMORANDUM

TO: Missouri Public Service Commission Official Case File
Case No. TM-2006-0306, Cass County Telephone Company Limited Partnership, LEC Long Distance, Inc. d/b/a CassTel Long Distance,
FairPoint Communications, Inc., FairPoint Communications Missouri, Inc. d/b/a FairPoint Communications, and ST Long Distance, Inc. d/b/a FairPoint Communications Long Distance

FROM: David G. Winter, Project Coordinator, Auditing Department
Kay Niemeier, Engineering and Management Services Department
Jolie Mathis, Engineering and Management Services Department
Larry Henderson, Telecommunications Department
Natelle Dietrich, Telecommunications Department
William Voight, Telecommunications Department
David Murray, Financial Analysis Department

/s/ David G. Winter 4/21/2006	/s/ William K. Haas 4/21/2006
Project Coordinator / Date	General Counsel's Office / Date

SUBJECT: Staff's Recommendation concerning application for approval of asset purchase.

DATE: April 21, 2006

On January 23, 2006, Cass County Telephone Company, Limited Partnership (CassTel or Company), LEC Long Distance, Inc. d/b/a CassTel Long Distance (CassTel LD), FairPoint Communications, Inc. (FairPoint), FairPoint Communications Missouri, Inc. d/b/a FairPoint Communications (FPC) and ST Long Distance, Inc. d/b/a FairPoint Communications Long Distance (FPCLD) (collectively "Joint Applicants") filed an Application pursuant to Sections 392.300, RSMo 2000; 392.361, RSMo 2000; 392.410, RSMo Supp. 2004; 392.430, RSMo 2000; 392.440, RSMo 2000; 392.450, RSMo 2000; 4 CSR 240-2.060; 4 CSR 240-3.510 and 4 CSR 240-3.520 seeking an Order authorizing the Joint Applicants to perform in accordance with the terms of an Asset Purchase Agreement which will result in the acquisition by FairPoint of the tangible and intangible assets of CassTel necessary to provide telecommunications services. FairPoint is also assuming some of the liabilities associated with the business operations and purchased assets of CassTel. The application was docketed as Case No. TM-2006-0306.

CassTel is an incumbent local exchange company (ILEC) and the services it offers are classified as noncompetitive under Section 392.361 RSMo 2000.

The Commission has classified the services offered by CassTel LD as competitive under Section 392.361 RSMo 2000.

DETRIMENT TO THE PUBLIC INTEREST STANDARD

Staff utilized the "detriment to the public interest" standard in reviewing this application. If the Joint Applicants fail to show that the proposed purchase of CassTel's assets by FairPoint is not detrimental to the public interest in Missouri (i.e., if it is demonstrated that the Missouri public will be harmed by the proposed sale), then the Commission should reject this application and not approve the proposed transaction. Staff Counsel has advised that the "not detrimental to the public interest" standard is based on case law generally cited in court opinions such as State ex rel. City of St. Louis v. Public Serv. Comm'n, 73 S.W.2d 393 (Mo. banc 1934); State ex rel. Fee Fee Trunk Sewer Co., Inc. v. Litz, 596 S.W.2d 466 (Mo. App. 1980). Staff Counsel also advises that the Commission has incorporated the "not detrimental to the public interest" standard in its rules. 4 CSR 240–3.520(D)

Consistent with Staff's position in other acquisition, merger, asset purchase and restructuring cases, Staff views the members of the "public" that are to be protected as those consumers taking and receiving utility service from CassTel in the State of Missouri.

In this case, Staff would define "public interest" as referring to the nature and level of the impact or effect that FairPoint's acquisition of assets will have on CassTel's Missouri customers. There is a fundamental concern in the regulation of public utilities that the public being served will not be impacted adversely or harmed by those responsible for providing monopoly services. Telecommunications companies in Missouri are charged with providing adequate facilities at just and reasonable rates. If this transaction results in net adverse or negative impacts to CassTel's Missouri customers, then the Commission should not approve the Joint Applicants' Application or, in the alternative, should impose conditions sufficient to overcome the detriments of the asset sale.

ASSET ACQUISITION

CassTel provides telecommunications services to approximately 7,900 customers in six exchanges located in and around Cass, Johnson, Bates and Henry Counties in the State of Missouri and Miami County in the State of Kansas. CassTel was granted a Certificate of Service Authority in Case No.TM-95-163.

LEC Long Distance, Inc. d/b/a CassTel LD currently resells non-switched local exchange telecommunications services and one plus (1+) interexchange telecommunications services and associated operator and directory assistance services to business and residential customers located throughout the State of Missouri, including local exchange customers of CassTel under Section 392.440 RSMo 1994. The Commission granted this authority in Case Nos. TA-99-182 and TA-99-330.

Local Exchange Company (LEC, LLC), a Maryland Limited Liability Company is the sole general partner of CassTel, holding 99% ownership interest thereof; and is the sole shareholder of CassTel LD. Subsequent to federal criminal charges against Kenneth M. Matzdorff,[1] who was responsible for the day-to-day management of CassTel, LEC, LLC retained the consulting firm GVNW Consulting Inc. (GVNW) to manage the affairs of CassTel in early 2005 and is currently responsible for the operational, regulatory and other day-to-day management control of CassTel. Upon consummation of this transaction, GVNW will relinquish all responsibilities and management of CassTel.

FairPoint, whose public security issuances are regulated by the U.S. Securities & Exchange Commission (SEC), is a Delaware corporation located in Charlotte, North Carolina and is considered the 17th largest local telephone company in the United States based on access lines[2]. FairPoint is subject to the provisions of the Sarbanes-Oxley Act of 2002.

The majority of the rural communities FairPoint serves have fewer than 2,500 access lines. All of FairPoint's telephone company subsidiaries qualify as rural local exchange carriers under the Telecommunications Act of 1996.

Approximately 74% of the shares of FairPoint are owned by members of the general public. Other than the following, no individual shareholder directly or indirectly owns 10% or more of FairPoint's common stock:

> Thomas H. Lee Equity Fund IV, L.P a Delaware limited partnership[3], which owns 11.35% of FairPoint. The general partner of Thomas H. Lee Equity Fund IV, L.P. is THL Equity Advisors, IV, LLC. No single individual or entity holds a 10% or greater interest in THL.
>
> Wellington Management Company, LLP: a Massachusetts limited liability partnership is an investment advisor holding indicia of ownership of 14% of FairPoint (including share powers to direct voting and decision regarding disposition) on behalf of clients directly owning the stated amount. No single

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[1] On January 7, 2005, Kenneth M. Matzdorff pled guilty in the United States District Court for the Eastern District of New York to one count of conspiracy to commit wire fraud and one count of conspiracy to commit money laundering. Mr. Matzdorff on January 18, 2005, pled guilty in the United States District Court for the Western District of Missouri to one count of conspiracy to commit mail and wire fraud.

[2] FairPoint currently owns and operates 28 rural Incumbent Local Exchange Carriers (ILEC) (Attachment A) located in 17 states with 288,899 access line equivalents (voice access lines and high speed data lines, which include digital subscriber lines ("DSL"), wireless broadband and cable modem) in service as of December 31, 2005. (Source: Staff Data Information Request No. 27)

[3] Thomas H. Lee Partners, L.P. is a Boston-based private equity firm focused on identifying and acquiring substantial ownership positions in growth companies. Founded in 1974, Thomas H. Lee Partners currently manages approximately $14 billion of committed capital, including its most recent fund, the $6.1 billion Thomas H. Lee Equity Fund V. Notable transactions sponsored by the firm include: American Media, AXIS Capital Holdings Limited, Cott Corporation, Endurance Specialty Insurance, Experian, Eye Care Centers of America, Fisher Scientific International, Houghton Mifflin, Michael Foods, National Waterworks, Rayovac, Simmons Company, TransWestern Publishing, United Industries, Vertis and Warner Music Group.

client of Wellington Management Company holds a 5% or greater interest in FairPoint. (Source: Staff Information Request No. 18)

FPC is a newly formed corporation organized and existing under the laws of the State of Missouri. It is wholly-owned by MJD Services Corp (MJD Services), which in turn is wholly-owned by FairPoint. FPC was specifically formed to continue the business presently carried on by CassTel of providing telecommunications services to the public in the State of Missouri. Upon Commission approval and the closing of the Asset Purchase Agreement between CassTel and FairPoint, FPC will become a "telecommunications company" and a "public utility" as those terms are defined in 386.020, RSMo 2000 and will be subject to the jurisdiction, supervision and control of the Commission.

FPCLD is a Delaware corporation currently in existence that seeks to "continue the business presently carried on by CassTel LD of providing interexchange and local exchange telecommunications services to the public in the state of Missouri." (Source: Joint Application, p. 5). FPCLD is wholly-owned by ST Enterprises, Ltd. (ST Enterprises), a Kansas corporation, which in turn is wholly-owned by FairPoint. When approved by the Commission, FPCLD will become a "telecommunications company" and a "public utility" as those terms are defined in 386.020, RSMo 2000 and will be subject to the jurisdiction, supervision and control of the Commission.

Attachment B provides details regarding the telecommunications experience of the officers and directors of FairPoint, FPC, MJD Services, FPCLD and ST Enterprises.

The Joint Application states that the asset acquisition will not be detrimental to the public interest. The Joint Applicants represent that "FairPoint, FPC and FPCLD possess the managerial, engineering and financial expertise necessary to continue to provide the quality of service that CassTel and CassTel LD currently provide to their customers in the enumerated exchanges." (Source: Joint Application, p. 7) Furthermore, neither FPC nor FPCLD propose "any immediate changes in rates, terms and conditions of the telecommunications service that CassTel and CassTel LD currently provide customers." (Source: Joint Application, p. 9)

Based on the "Detriment to the Public Interest Standard" discussed above and the conditions as outlined in the "Recommendations" section of this memorandum, the Staff recommends the Commission approve the asset sale as requested by the Joint Applicants.

ACCOUNTING ISSUES

The asset purchase by FairPoint creates an acquisition adjustment. FairPoint is purchasing the tangible and intangible assets of CassTel necessary to provide telecommunications services. FairPoint is also assuming some of the liabilities associated with the business operations of CassTel and the purchased assets. If this application is approved, FPC will become the owner of the CassTel assets while FPCLD will become the owner of the assets of CassTel LD.

Upon closing of the transaction, the assets and liabilities will be restated for financial purposes to fair market value on the date of acquisition. Any difference between fair market value and the purchase price will then be allocated to goodwill and other intangible assets.

For regulatory purposes, the assets will still be valued at the net original cost as of the date of acquisition with a corresponding acquisition adjustment to record the assets at fair market values for financial purposes. FPC has committed that any acquisition adjustment will not be included in rate base or the regulatory balances of CassTel and further committed to make no request for rate recovery of any acquisition premium in any future rate proceedings. The value of CassTel's Net Original Telecommunications Plant in Service as of December 31, 2005 is $18,322,714. FPC has also agreed to forego the rate recovery of any transaction cost; i.e., direct out of pocket and incremental costs for outside consultants for accounting, legal and engineering and other costs directly associated with the acquisition of the CassTel assets.

For federal and state tax purposes, CassTel is a partnership. Due to CassTel's tax classification deferred income taxes are flowed to the individual partners and are not reflected on the books and records of CassTel. Therefore, deferred income taxes are not an issue in this proceeding. Further implications of this proposed transaction on the current tax status of the CassTel properties will be discussed later in this recommendation.

The Staff recommends that CassTel and FPC provide the Staff with all closing entries to record the purchase and sale of CassTel's telecommunications properties which are the subject of this proceeding within six months of the final closing. Further, the Staff recommends within six months following the final closing of this transaction, FPC should submit to Staff a revised cost allocation manual that reflects the acquisition of CassTel. The cost allocation manual would be considered Proprietary under the provisions of the protective order in this case.

DEPRECIATION ISSUES

The Staff recommends that the Commission authorize the Standard Small Telephone depreciation rates (Attachment C) for FPC operating plant accounts. The recommended depreciation rates recover the original capital cost of plant, cost of removal and net salvage. The recommended depreciation rates were developed from historical data of other telephone companies with similar property and the use of engineering judgment.

CUSTMER NOTIFICATION

Commission rule 4 CSR 240-33.150(4) provides that where a change in carrier selection is the result of a sale of assets, a telecommunications carrier will notify all subscribers of such change through a notice in each subscriber's bill at least 30 days prior to the effective date of the change. The companies have informed the Staff that there may not be time before the sale to provide subscribers with 30 days notice through the billing process. However, the companies expect to be able to provide notice by a special mailing at least 30 days prior to the change. A special mailing at least 30 days before the change is acceptable to the Staff.

CERTIFICATE OF SERVICE AUTHORITY

Generally, any business entity providing telecommunications services in the State of Missouri is required to have a certificate of service authority to provide basic local exchange or interexchange telecommunications services in this state. See Section 392.410 RSMo 2000. Upon the Commission's approval of the asset purchase, the Joint Applicants request that a Certificate of Service Authority be granted on behalf of FPC immediately upon closing to provide local and basic local telecommunications service. Specifically, FPC requests that the Commission grant a:

> …Certificate of Service Authority to provide local exchange telecommunications services, including basic local telecommunications service within the Missouri exchanges of Cleveland, Peculiar, Drexel, East Lynne, and Garden City/Creighton currently served by CassTel. (Source: Joint Application, p. 10)

In the Staff's opinion, the granting of a Certificate of Service Authority limited to the exchanges currently served by CassTel to FPC is in the public interest. See Section 392.430 RSMo 2000. FPC, as the purchaser of the Cass County assets, will be an "incumbent local exchange company"[4] and will be subject to the same regulation as CassTel. CassTel's customers will continue to receive the same services at the same rates over the same facilities. The plant in service will be maintained by the same former CassTel employees. Other functions such as business office, customer service and billing records will remain in Peculiar, Missouri until FPC completes its billing conversion to Mid-America Computing Corporation's billing system. The accounting books and records of FPC will be moved to Dodge City, Kansas and the corporate records of FPC will be kept in Charlotte, North Carolina.

The Staff has reviewed FPC's proposed operational and financial plans and believes that these changes will not have a detrimental effect on the customers of CassTel. As noted FairPoint is one of the largest telephone companies in the United States focused on serving rural communities and is the 17th largest local telephone company, in each case based on number of access lines. FairPoint currently operates in 17 states with 288,899 access lines equivalents (voice access lines and high speed data lines, which include digital subscriber lines (DSL), wireless broadband and cable modem) in service as of December 31, 2005. Further, the Staff inquired as to whether any officer or director of FairPoint, FPC, MJD Services, FPCLD and ST Enterprises either personally or in terms of business entity have been indicted, charged or convicted in any Federal or State felony proceedings. The response given by FairPoint was "NO". (Source: Staff Data Information Request No. 9) Based on the aforementioned review, the Staff believes that FairPoint and FPC will have the necessary technical, financial and managerial resources and abilities to provide basic local telecommunications services as required by Section 392.455.1, RSMo. 2000.

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[4] Section 386.020(22) RSMo 2000. "Incumbent local exchange telecommunications" means a local exchange telecommunications authorized to provide basic local telecommunications service in a specific geographic area as of December 31, 1995, or a successor in interest to such a company.

FPCLD proposes to resell one plus (1+) interexchange telecommunications services to business and residential customers located in the State of Missouri. The Staff recommends that the Commission grant FPCLD a certificate to provide interexchange and non-switched local exchange service, and grant competitive status to FPCLD and to the services it proposes to offer. This certificate shall be applicable state-wide.

ELIGIBLE TELECOMMUNICATIONS CARRIER STATUS

Section 214(e) (1) of the Act provides that a common carrier shall be eligible to receive universal service support and shall offer the services supported by federal universal service support either using its own facilities or a combination of its own facilities and resale of another carrier's services and advertise the availability of such services and charges in a media of general distribution. Section 214(e) (2) provides that the Commission shall, on its own motion or upon request, designate a common carrier an "eligible telecommunications carrier" (ETC) so long as the carrier meets the requirements of Section 214(e) (1).

FPC has requested ETC status in this proceeding. In support of FPC's request, FPC has committed to the following:

1. To offer all of the services supported by federal universal service support as set forth in section 54.101 of Title 47 of the Code of Federal Regulations;

2. To provide toll limitation for qualifying low-income consumers;

3. FPC will advertise the availability of and charges for such services using media of general distribution within its service area; and

4. Pursuant to its tariff to be filed with the Commission, Lifeline services will be available to qualifying low-income consumers in its service area.

(Source: Joint Application, pages 14 through 15)

Moreover, FPC states that as a "newly designated eligible telecommunications carrier" FPC is "eligible to receive federal universal service support as of the effective date of its designation" if the "state commission files the certification within 60 days of the effective date of the carrier's designation as an eligible telecommunications carrier". The Joint Applicants requested that the Commission file such:

> …certification within 60 days of the effective date of its designation of FPC as an eligible telecommunications carrier pursuant to its Order in this proceeding, affirming that FPC will use its federal high-support only for the provision, maintenance and upgrading of facilities and service for which the support is intended. (Source: Joint Application, p. 16)

CassTel currently does not receive federal universal service funds pursuant to §254 of the Act. The Commission on September 30, 2004 declined to certify that CassTel was using the federal universal service support in accordance with 47 USC 254(e) of the Act. The Federal Communications Commission (FCC) on October 15, 2004, directed the Universal Service Administrative Company (USAC) to immediately suspend monthly payment to CassTel. The Commission, on September 27, 2005 again declined to certify that CassTel was using the federal universal service support in accordance with 47 USC 244(e) of the Act for the 2006 universal service funding year.

The Staff on April 8, 2005 filed a Complaint against CassTel. The Commission docketed the Complaint as Case No. TC-2005-0357. By virtue of its Complaint, Staff sought to obtain authority from the Commission for the Commission's General Counsel to seek penalties against CassTel allowed by law for the violations alleged in the Complaint. On December 29, 2005, Staff and CassTel filed a Stipulation and Agreement in Case No. TC-2005-0357. The Office of Public Counsel filed its Statement of No Opposition to Stipulation pursuant to 4 CSR 240-2.115(C). The Commission has yet to rule on the provisions of the Stipulation and Agreement.

The following provision of the Stipulation and Agreement in Case No. TC-2005-0357 addresses the issue of the Commission's certification of federal universal service funds for CassTel:

> The Parties agree that CassTel has implemented sufficient financial and managerial controls to justify its certification for receipt of federal Universal Service Fund (USF) disbursements. Staff agrees to recommend that the Commission certify prospectively to the Federal Communications Commission (FCC) that funds received by CassTel from the federal high cost support mechanisms will be used in accordance with Section 254(e) of the Federal Telecommunications Act of 1996 (47 USC §254(e) 1999)…

The above provision was also predicated upon an understanding that the present owners of CassTel would promptly present a sale transaction to the Commission for approval. This proceeding is the sale transaction contemplated by the Stipulation and Agreement.

The Stipulation and Agreement at Section III.C.2. outlines the signatories' obligations regarding certification of CassTel for receipt of federal universal service funds for prior periods. FPC, in its response to Staff Data Information Request No. 49, acknowledged it would only seek to receive federal high cost support on a *prospective* basis and indicated that FPC has no intent to request retroactive support for those periods for which CassTel was not certified by the Commission. (Emphasis added)

The Staff recommends that FPC be designated as an eligible telecommunications carrier eligible to receive federal universal service fund support immediately upon the effective date of the close of the sale and recommends that within 60 days of the effective date of its order granting such designation, the Commission affirm to the FCC that FPC will use its federal high-support "only for the provision, maintenance and upgrading of facilities and service for which the support is intended."

FINANCIAL ANALYSIS

The Staff has reviewed FairPoint's historical financial statements, its Securities and Exchange Commission (SEC) Form 10-K filings and credit rating reports in assessing FairPoint's past, current and projected credit quality. FairPoint's credit quality has improved since FairPoint went public on February 8, 2005. Before FairPoint went public, it had a Standard and Poor's (S&P) corporate credit rating of B+. After FairPoint's initial public offering, S&P raised its corporate credit rating to BB-, but placed the corporate credit rating on a negative outlook. FairPoint's corporate credit rating is slightly below the BB average S&P corporate credit rating for the rural local exchange company (RLEC) industry as of July 5, 2005.

FairPoint's initial public offering (IPO) allowed FairPoint to deleverage its balance sheet. According to S&P, as of September 30, 2004, FairPoint's leverage, as measured by the debt to EBITDA ratio, was 6.6x before the IPO. After consideration of the effect of the IPO, this ratio was reduced to 4.3x. According to an August 11, 2005 S&P research report, the RLEC industry average debt to EBITDA ratios was 5.0x for 2004. Therefore, after the IPO FairPoint was less leveraged than the industry. The IPO also resulted in much better interest coverage ratios for FairPoint. FairPoint's interest coverage ratio improved from around 1.2x before the IPO to around 4.2x after the IPO. This compared to an industry average of 2.63x for 2004.

Although the IPO resulted in much better financial ratios based on FairPoint's 2004 results, FairPoint's ratios have deteriorated slightly for the fiscal year ended December 31, 2005. According to a March 1, 2006 S&P report, FairPoint's debt to EBITDA ratio was 4.7x. This is slightly higher than the average of three other comparable companies mentioned in the S&P report that have the same credit rating as FairPoint. According to S&P, this ratio would increase to 4.8x after the CassTel acquisition. These leverage ratios are fairly close to the maximum of 5.25x allowed under FairPoint's debt covenants. FairPoint's EBITDA interest coverage ratio also declined to 2.7x for the fiscal year ended December 31, 2005. This is slightly below the average of three other comparable companies with the same credit rating.

FairPoint's pro forma financial statements show improvement in the debt to EBITDA and EBITDA to interest coverage ratios. If this improvement should not occur, then it is possible that FairPoint's corporate credit rating may be downgraded. S&P indicated in its March 1, 2006 research report that if FairPoint's debt to EBITDA ratio does not improve to the lower 4x area over the next couple of years, this may result in a credit rating downgrade. If this ratio were improve to below 4x, then S&P indicates that this may result in a revision of FairPoint's outlook to stable.

FairPoint's credit quality could also be impacted because most of its debt is priced at variable interest rates. However, FairPoint has taken steps to mitigate its exposure to variable interest rates. As of December 31, 2005, because of FairPoint's efforts in entering into interest rate hedging agreements, approximately 82% of its indebtedness was effectively considered to be fixed rate debt. However, the ability of FairPoint to continue to protect its exposure to changes in variable interest rates will depend on its success in continuing to hedge this interest rate exposure as its current interest rate hedges expire.

FairPoint has an aggressive financial policy that is geared towards creating shareholder value at the expense of credit quality. For example, FairPoint started paying a substantial dividend when it recapitalized after going public and it appears that FairPoint is committed to sustaining this dividend as long as FairPoint doesn't violate certain debt covenants. If a commitment to pay a dividend is driven by minimum debt covenants, this does not leave much of a cushion for certain unexpected events that may cause the need for additional capital. FairPoint's annualized dividend amounts to approximately $56 million a year. The dividend will exceed projected earnings, but based on current pro forma financial statements the dividend should be covered by available cash flow. However, there won't be much of a margin for unexpected capital expenditures or increases in cash expenses.

FairPoint has stated that its intention is to grow through acquisitions. To the extent that this will be FairPoint's strategy, the payment of a substantial dividend will require FairPoint to seek outside financing for any possible acquisitions. FairPoint specifically stated the following in its SEC Form 10-K Filing regarding the interaction of its dividend policy and its growth strategy:

> We believe that our dividend policy limits, but does 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 that are 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.

If FairPoint is reluctant to issue common stock to finance these acquisitions, then this will result in additional leverage, which could strain FairPoint's creditworthiness. If any of these potential acquisitions do not have predictable cash flow to cover the additional interest expense associated with the debt issued to finance the transaction, then FairPoint's credit quality may deteriorate. If this should happen, then it is possible that FairPoint may conserve cash and not make necessary investments in the CassTel operations. It also may result in an increased cost of capital. The Staff believes that it is appropriate to provide certain safeguards in case FairPoint's credit quality deteriorates.

Although FairPoint's credit quality is of concern to Staff, it is important to note that based on the Telecommunications Department's survey of the other states in which FairPoint operates, FairPoint's current financial situation has not resulted in poor quality of service in other states. This is noteworthy because FairPoint's corporate credit rating was one notch lower (B+) than it is now during part of the period covered by this survey. It is also noteworthy that FairPoint has made 32 business acquisitions since 1993 and, even in light of its marginal credit quality; it has been able to integrate these businesses without causing quality of service issues. Consequently, it does not appear that FairPoint's lower credit quality has resulted in less than adequate service. However, if deterioration in FairPoint's credit quality does occur, FairPoint should be required to prove that this has not affected its willingness to make necessary capital expenditures in its Missouri telephone system.

Additionally, as stated in Paragraph 12 of the Application, FairPoint has a significant amount of capital available to it under its $100 million revolving credit facility. FairPoint has communicated to Staff that it has only drawn approximately $15.0 million from this credit facility. Consequently, even though FairPoint uses a substantial amount of its cash flow generated from operations to pay its dividend, it does have sufficient liquidity for any near term capital expenditure requirements. Further, FairPoint doesn't have any significant debt maturing until 2011 so it doesn't face any refinancing risk in the near term.

The Staff proposes the following conditions to ensure that FairPoint's possible financial deterioration does not have a negative impact on the quality and price of service for customers of the CassTel property:

1. In any rate proceeding, FPC's cost of capital shall be based upon its business risk and a reasonable amount of financial risk of its Missouri telephone properties; FPC's cost of capital shall not be increased due to unnecessary increased risk because of FairPoint's financial policies.

2. If FairPoint's corporate rating falls below B+, then FPC must within 30 days provide a report to Staff demonstrating that this event was not caused by an increase in FairPoint's financial risk. If FPC cannot demonstrate to Staff's satisfaction that this downgrade was due to factors other than an increase in FairPoint's financial risk, then FPC must within 30 days provide a report to Staff demonstrating that the downgrade will not have a negative impact upon FPC's continued quality of service to its Missouri customers or cause a reduction in its investment in its basic telecommunications services. In the event that FPC is unable to demonstrate the aforementioned items to Staff's satisfaction, FairPoint shall be required to take the necessary financial action to restore its credit rating within three months or such other reasonable time if it can demonstrate that three months is unreasonable. FPC and FairPoint shall enter into a contract imposing this obligation upon FairPoint and a copy thereof shall be provided to Staff not later than 14 days prior to the closing of this transaction.

3. FPC provide to the Commission's Financial Analysis Department Staff within thirty (30) days of receipt, any credit agency reports assigning a corporate credit rating to FairPoint until such time that FairPoint attains an investment grade rating.

TAX IMPLICATIONS
The Staff has reviewed the Joint Applicants' Application regarding what impact, if any, CassTel's asset sale proposal would have upon the "tax revenues of the political subdivisions in which any structures, facilities, or equipment of the companies involved in such disposition are located."[5] Further, the Staff reviewed the federal and state tax implications, if any, of this transaction.

FPC and FPCLD have represented that the

> …proposed transfer should have no impact on the tax revenues of the political subdivisions in which any of the telephone properties related assets used to provide local and interexchange telecommunications services of CassTel and CassTel LD are located inasmuch as the location and the character of these telephone properties and related assets will not change as the result of the proposed transaction nor will the tax status of the entity owning the same. (Source: Joint Application p. 6)

The Staff agrees with FPC's and FPCLD's representations concerning the tax consequences of this transaction. Upon the execution of the Asset Purchase Agreement, the character of the assets will not change (i.e. cost, right to its uses, transferable, etc.) nor will the tax liabilities for those assets change. Therefore, the sale will not affect the "tax revenues of the political subdivisions in which any structures, facilities, or equipment of the companies involved in such disposition are located."

CassTel is currently organized and taxed for federal and state tax purposes as a partnership. A partnership is a pass-through entity under the provisions of the federal tax code. A pro-rata share of the partnership's income, deductions, credits, etc. are "passed through" to their partners who pay taxes on their pro-rata share of the partnerships net taxable income.

FairPoint for federal and state income tax purposes is classified as a for-profit corporation or "C Corporation". As a C Corporation, income tax is imposed on the corporation as an entity and corporate income maybe taxed again when it is distributed to shareholders as a dividend. FPC as a FairPoint owned and operated company will be classified for federal and state income tax purposes as a C Corporation.

TARIFF ISSUES
The Staff recommends that the Commission order FPC to file an adoption notice adopting, in all material respects, CassTel's tariffs. Specifically, at closing, permit and acknowledge the adoption by FPC of the following CassTel tariffs: PSC Mo No. 1 Local Exchange; PSC Mo. No. 2 Access Services; PSC Mo. No. 3 Long Distance; PSC Mo. No. 4 WATTs; PSC Mo. No. 5 Private Line; PSC Mo. No. 6 Digital Services; PSC Mo. No. 7 Wireless Termination. Further, it

[5] Section 392.300, RSMo 2000.

is recommended that the Commission grant the waiver of 240-3.510(1) (C), which requires submittal of tariffs with a 45 day effective date.

Further, the Staff recommends that the Commission order FPCLD to file an adoption notice adopting, in all material aspects, CassTel LD's tariffs. At closing, FPCLD shall file an adoption notice that permits and acknowledges the adoption by FPCLD of the interexchange carrier tariff, PSC Mo. No. 1, of CassTel LD. The Staff also recommends that the Commission grant the waiver of 240-3.510(1) (C), which requires submittal of tariffs with a 45 day effective date.

CHAPTER 32 – TELECOMMUNICATIONS SERVICE REVIEW

Chapter 32 provides the rules that govern the furnishing of safe and adequate telecommunications service and facilities to the public. Staff has reviewed various aspects of CassTel's compliance with Chapter 32 requirements, specifically compliance with 4 CSR 240-32.050, 32.0560, and 32.080.

4 CSR 240-32.050 Customer Services

The Staff has reviewed CassTel's current customer service processes, procedures and practices and evaluated FPC's planned customer service processes. The intent of Staff's analysis is to ensure that this transaction will not denigrate CassTel's customer service. The Staff will use the information gained to establish customer service benchmarks for future reviews of FPC.

Specifically, the objective of this review was to analyze the management control processes, procedures and practices used by CassTel to ensure that its customers' service needs are met. The scope of this review focused on CassTel's business office hours, organization of employees, customer billing, payment remittance, credit and collections, short-range and long-range plans, mission statement, customer surveys, communication with customers and community involvement. The Staff's review indicates that CassTel currently provides adequate customer service; therefore, Staff will not propose any customer service recommendations.

The Staff reviewed FPC's customer service procedures and practices that will be implemented on completion of the asset sale transaction. The Staff's analysis found that CassTel's current customer service processes, procedures and practices will not change due to this transaction.

Based upon the information provided by CassTel and FPC, it is the Staff's opinion that customer service quality should not be impacted by the change of ownership of CassTel's current telephone properties. As previously noted, the Staff will use the information gained in this proceeding as a benchmark of CassTel's customer service. The benchmarked CassTel customer service information will be used to monitor FPC's customer service quality.

4 CSR 240-32.060 Engineering and Maintenance
As part of Case No. TO-2005-0237[6], Staff performed an operational review of CassTel's construction program, network engineering, central office facilities[7]and outside plant[8]. The standards used by the Staff are outlined in 4 CSR 240-32.060 which prescribes the principles for design, construction and operation of telecommunications facilities for telecommunication carriers. CassTel's network engineering, central office facilities and outside plant did not meet engineering and maintenance standards as outlined in 4 CSR 240-32.060. Specific deviations were found in reference to 4 CSR 240-32.060(10) bonding and grounding of its facilities. Specifically, 240-32.060(10) states that:

> On a going-forward basis each telecommunications company shall bond and ground its facilities to the multigrounded neutral wire of the company providing electricity. If vertical (pole) ground wires have not been strategically placed, at the beginning or end of power exposures or where power company equipment is located, the telecommunications company should coordinate with the power company to have those vertical neutral ground wires placed. Each telecommunications company shall be prepared and properly equipped to measure ground connections to ensure that bonds and grounds are functional. As appropriate, connections shall be measured with proper test equipment. *All construction, removal and maintenance work will at all times comply with current editions of the National Electric Safety Code and the National Electric Code.* (Emphasis added)

During Staff's inspection of CassTel's outside plant facilities, the Staff discovered violations of bonding and grounding requirements as prescribed by the *National Electric Safety* Code and *the National Electric Code* referenced in 4 CSR 240-32.060(10). Specifically, the Staff observed violations pertaining to improper bonding and grounding to the power company neutral at customer premise locations, various pedestals and vaults and along cable routes. If these types of violations remained uncorrected, CassTel's service quality may be negatively impacted. Improper bonding and grounding may cause flashovers in telephone circuits, destroy equipment and loss of service. Improper bonding and grounding may also raise safety concerns that result in personal injury to consumers and company employees.

CassTel's current third party managers are ensuring technicians are inspecting bonding and grounding arrangements as part of their normal service activities. For example, company technicians are currently inspecting for proper bonding and grounding when they are in the field

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[6] Case No. TO-2005-0237 - In the Matter of the Investigation of the Fiscal and Operational Reliability of Cass County Telephone Company and New Florence Telephone Company, and the Related Matters of Illegal Activity.
[7] 4 CSR 240-320.020(8) Central office – the facility housing one (1) or more switching units in a telecommunications system which provides service to the general public and has the necessary equipment and operating arrangements for terminating and interconnecting customer lines and trunks or trunks only.
[8] 4 CSR 240-32.020(31) Outside plant – the telecommunications wires, cable equipment and facilities installed along, over or under streets, alleys, highways or private rights-of-way between the central office and customers' premises or between central offices.

conducting service connections, line extension, repair and maintenance, etc. If improper bonding and grounding is discovered, company personnel are expected to immediately correct the problem. This plan ensures the company is making adequate strides to comply with the *National Electric Safety Code* and the *National Electric Code* and adequately address bonding and grounding violations. The Staff recommends that the Commission's order approving this transaction direct FPC to continue with this course of action. Specifically, the Commission's order should direct FPC to inspect the company's facilities for proper bonding and grounding in their normal work activities and immediately correct violations.

The Staff has discussed with FPC the need to identify and correct bonding and grounding violations. FPC officials are aware of the bonding and grounding concerns and FPC is agreeable to continuing with the current action. FPC officials have also discussed the possibility of taking additional action to identify the scope and magnitude of bonding and grounding problems. Staff supports these additional actions.

4 CSR 240-32.080 Service Objectives and Surveillance Levels

This section of Chapter 32 identifies service objectives and surveillance levels for basic local telecommunications companies. Based on CassTel's quarterly quality of service reports CassTel is complying with the service objectives identified in 4 CSR 240-32.080. Subsequent Staff investigation reveals that CassTel appears to be accurately tracking and compiling the information contained in these reports.

Staff anticipates FPC will continue to provide adequate service to achieve the Commission's service objectives identified in 4 CSR 240-32.080. Staff inquired as to the provision of service in the 17 states where FPC currently provides basic telecommunications service. The Staff reviewed quality of services reports that were provided to state commission's for the last four (4) quarters for each of the telecommunications companies required to report that FPC currently owns and operates. The quality of services reports provided indicates that FPC is currently providing acceptable telecommunications services. Based on the results of the Staff's review of other jurisdictions, it expected that FPC will meet the service objectives identified in 4 CSR 240-32.080.

RECOMMENDATIONS

Based on the "Detriment to the Public Interest Standard" discussed above, the Staff recommends that the Commission approve the asset purchase of CassTel by FairPoint. The Staff recommends that the Commission issue an order:

1. Approving the transfer and acquisition of that part of CassTel's and CassTel LD's telephone properties and related assets used to provide local and interchange telecommunications service to the public in the State of Missouri pursuant to §392.450, RSMo 2000 and in accordance with the Asset Purchase Agreement;

2. Cancel CassTel's Certificate of Service Authority granted in Case No. TM-95-163.

3. Cancel CassTel LD's Certificated of Service Authority granted in Case Nos. TA-99-182 and TA-99-330.

4. Grant a certificate of service authority to FPC to provide local telecommunications service, including basic local telecommunications service, in the Cass Telephone exchanges, pursuant to §§ 392.410, RSMo Supp. 2004; 392.430, RSMo 2000; and 392450, RSMo 2000;

5. Direct FPC at closing, to adopt the following CassTel tariffs: PSC Mo No. 1 Local Exchange; PSC Mo. No. 2 Access Services; PSC Mo. No. 3 Long Distance; PSC Mo. No. 4 WATTs; PSC Mo. No. 5 Private Line; PSC Mo. No. 6 Digital Services; PSC Mo. No. 7 Wireless Termination. Further, it is recommended that the Commission grant the waiver of 240-3.510(1) (C), which requires submittal of tariffs with a 45 day effective date;

6. Grant a certificate of service authority to FPCLD to provide intrastate interexchange and non-switched local exchange telecommunications services to the public in the State of Missouri, classifying FPCLD as a competitive telecommunications company and the services it provides as competitive services and waive the following statutes and regulations:

Statutes		**Commission Rules**
§392.210.2	Uniform System of Accounts	4 CSR 240-10.020
§392.240.1	Just & Reasonable Rates	4 CSR 240-30.040
§392.270	Property valuation	
§392.280	Depreciation rates	
§392.290	Issuance of stock and bonds	
§392.300.2	Transfer of capital stock	
§392.310	Issuance of stocks and bonds	
§392.320	Stock Dividend Payment	
§392.330	Issuance of stocks and bonds	
§392.340	Reorganization	

7. Direct FPCLD at closing, to adopt the interexchange carrier tariff, PSC Mo. No. 1, of CassTel LD. The Staff also recommends that the Commission grant the waiver of 240-3.510(1) (C), which requires submittal of tariffs with a 45 day effective date;

8. Authorize FPC to commence providing local exchange telecommunications service, including basic local telecommunications service, effective on the date of closing of the sale;

9. Authorize FPCLD to commence providing interexchange and non-switched local exchange telecommunications service effective on the date of closing of the sale;

10. Direct the Joint Applicants to notify all subscribers of the change in carrier through a notice in each subscriber's bill or by a special mailing at least 30 days prior to the change;

11. Authorize Joint Applicants to do and perform, or cause to be done and performed, such other act and things, as well as make, execute and deliver any and all documents as may be necessary, advisable and proper to the end that the intent and purposes of this transaction may be fully effectuated;

12. Designate FPC as an eligible telecommunications carrier eligible under the provisions of 47 CFR 54.201(d) to receive federal universal service fund support immediately upon the effective date of the close of the sale and, within 60 days of the effective date of its order granting such designation, file with the FCC the certification required pursuant to section 54.314(d)(6) of Title 47 of the Code of Federal Regulations;

13. Order CassTel and FPC to provide the Staff with all closing entries to record the purchase and sale of CassTel's telecommunications properties which are the subject of this proceeding within six months of the final closing;

14. Order FPC, within six months following the final closing of this transaction, to submit to Staff a revised cost allocation manual that reflects the acquisition of CassTel. The cost allocation manual will be considered Proprietary under the provisions of the protective order in this case;

15. Hold that nothing in the Commission's order shall be considered a finding by the Commission of the value of these transactions for ratemaking purposes, and the Commission reserve the right to consider the ratemaking treatment to be afforded these financing transactions and their results in cost of capital, in any later proceeding;

16. Authorize the depreciation rates (Attachment C) for FPC;

17. Direct FPC to inspect the company's facilities for proper bonding and grounding in their normal work activities and immediately correct violations;

18. Direct that in any rate proceeding, FPC's cost of capital shall be based upon its business risk and a reasonable amount of financial risk of its Missouri telephone properties; FPC's cost of capital shall not be increased due to unnecessary increased risk because of FairPoint's financial policies;

19. Direct that if FairPoint's corporate rating falls below B+, then FPC must within 30 days provide a report to Staff demonstrating that this event was not caused by an increase in FairPoint's financial risk. If FPC cannot demonstrate to Staff's satisfaction that this downgrade was due to factors other than an increase in FairPoint's financial risk, then FPC must within 30 days provide a report to Staff demonstrating that the downgrade will

not have a negative impact upon FPC's continued quality of service to its Missouri customers or cause a reduction in its investment in its basic telecommunications services. In the event that FPC is unable to demonstrate the aforementioned items to Staff's satisfaction, FairPoint shall be required to take the necessary financial action to restore its credit rating within three months or such other reasonable time if it can demonstrate that three months is unreasonable. FPC and FairPoint shall enter into a contract imposing this obligation upon FairPoint and a copy thereof shall be provided to Staff not later than 14 days prior to the closing of this transaction; and

20. Direct FPC to provide the Commission's Financial Analysis Department Staff within thirty (30) days of receipt, any credit agency reports assigning a corporate credit rating to FairPoint until such time that FairPoint attains an investment grade rating.

FairPoint Communications, Inc.
Case No. TM-2006-0306
Operating Companies

Subsidiary	State
ST Enterprises, Ltd.	Kansas
STE/NE Acquisition Corp. (d/b/a Northland Telephone Co. of Vermont)	Delaware
Sunflower Telephone Company, Inc.	Kansas
Northland Telephone Company of Maine,	Maine
ST Computer Resources, Inc.	Kansas
ST Long Distance, Inc.	Delaware
MJD Ventures, Inc.	Delaware
Marianna and Scenery Hill Telephone Company	Pennsylvania
Marianna Tel, Inc.	Pennsylvania
Bentleyville Communications Corporation	Pennsylvania
BE Mobile Communications, Incorporated	Pennsylvania
The Columbus Grove Telephone Company	Ohio
Quality One Technologies, Inc.	Ohio
C-R Communications, Inc.	Illinois
C-R Telephone Company	Illinois
C-R Long Distance, Inc.	Illinois
Taconic Telephone Corp.	New York
Taconic Cellular Corp.	New York
Taconic Technology Corp.	New York
Taconic TelCom Corp.	New York
Taconet Wireless Corp.	New York
Ellensburg Telephone Company	Washington
Elltel Long Distance Corp.	Delaware
Sidney Telephone Company	Maine
Utilities, Inc.	Maine
Standish Telephone Company	Maine
China Telephone Company	Maine
Maine Telephone Company	Maine
UI Long Distance, Inc.	Maine
UI Communications, Inc.	Maine
UI Telecom, Inc.	Maine
Telephone Service Company	Maine
Chouteau Telephone Company	Oklahoma
Chautauqua and Erie Telephone Corporation	New York
Chautauqua & Erie Communications, Inc. (d/b/a C& E Teleadvantage)	New York
Chautauqua & Erie Network, Inc.	New York
C & E Communications, Ltd.	New York
The Orwell Telephone Company	Ohio
Orwell Communications, Inc.	Ohio
GTC Communications, Inc. (f/k/a TPG	Delaware
St. Joe Communications, Inc.	Florida

FairPoint Communications, Inc.
Case No. TM-2006-0306
Operating Companies

Subsidiary	State
GTC, Inc.	Florida
GTC Finance Corporation (f/k/a TPGC Finance Corporation)	Delaware
Peoples Mutual Telephone Company	Virginia
Peoples Mutual Services Company	Virginia
Peoples Mutual Long Distance Company	Virginia
Fremont Telcom Co.	Idaho
Fremont Broadband, LLC	Delaware
Fretel Communications, LLC	Idaho
Comerco, Inc.	Washington
YCOM Networks, Inc.	Washington
Berkshire Telephone Corporation	New York
Berkshire Cable Corp.	New York
Berkshire Net, Inc.	New York
Berkshire Cellular, Inc.	New York
Berkshire New York Access, Inc.	New York
Community Service Telephone Co.	Maine
Commtel Communications Inc.	Maine
MJD Services Corp.	Delaware
Bluestem Telephone Company	Delaware
Big Sandy Telecom, Inc.	Delaware
Odin Telephone Exchange, Inc.	Illinois
Columbine Telecom Company (f/k/a Columbine Acquisition Corp.)	Delaware
Ravenswood Communications, Inc.	Illinois
The El Paso Telephone Company	Illinois
El Paso Long Distance Company	Illinois
Yates City Telephone Company	Illinois
FairPoint Carrier Services, Inc. (f/k/a FairPoint Communications Solutions Corp., f/k/a FairPoint Communications Corp.)	Delaware
FairPoint Communications Solutions Corp.—New York	Delaware
FairPoint Communications Solutions Corp.—Virginia	Virginia
FairPoint Broadband, Inc.	Delaware
MJD Capital Corp.	South Dakota

Officers and Directors

Directors of FairPoint Communications, Inc.
Eugene B. Johnson — Chairman of the Board of Directors
Frank K. Bynum, Jr.
Patricia Garrison-Corbin
David L. Hauser
Claude C. Lilly
Robert S. Lilien
Kent R. Weldon

Directors of FairPoint Communications Missouri, Inc., d/b/a FairPoint Communications, MJD Services Corp. and ST Enterprises, Ltd.
Eugene B. Johnson
Peter G. Nixon
John P. Crowley
Walter E. Leach, Jr.
Shirley J. Linn
Susan L. Sowell

Executive Officers of the Companies Listed Above.
Eugene B. Johnson, Chief Executive Officer
Peter G. Nixon, Chief Operating Officer
John P. Crowley, Executive Vice President and Chief Financial Officer
Walter E. Leach, Jr., Executive Vice President Corporate Development
Shirley J. Linn, Executive Vice President and General Counsel
Lisa R. Hood, Senior Vice President and Controller
Thomas E. Griffin, Treasurer

Directors of FairPoint Communications, Inc.

The following sets forth selected biographical information for our directors.
Nominees for Class I Directors with Terms Expiring in 2009.

Eugene B. Johnson - Mr. Johnson, age 58, 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 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 stockholder 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 a director of the mergers and acquisitions department of Cable Investments, Inc., an investment banking fine. Mr. Johnson currently is chairman of the Organization for the Promotion and Advancement of Small Telecommunication Companies' Separations and Access and Universal Service Fund committees. Mr. Johnson is also on the Board of Trustees of the University of North Carolina at Charlotte and is on the Board of Directors of the Foundation of the University of North Carolina at Charlotte, Inc.

Patricia Garrison-Corbin -Ms. Corbin, age 58, has served as a Director of the Company since February 2005. 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 and Chief Executive Officer of Delancey Capital Group, LP, Equity 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.

Continuing Class II Directors with Terms Expiring in 2007.

Frank K. Bynum, Jr. - Mr. Bynum, age 43, 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, Custom Buildings Products, Inc., 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 was designated to the Board of Directors by Kelso & Company pursuant to Kelso & Company's designation rights under our stockholders agreement which was terminated in connection with our initial public offering.

David L. Hauser - Mr. Hauser, age 54, was appointed as a director of our company in February 2005. He is currently the CFO and Group Vice President of Duke Energy Corporation, where he has been employed for 30 years. Mr. Hauser is a certified public accountant and a certified purchasing manager. Mr. Hauser is on the Board of Directors of Charlotte's Blumenthal Center for the Performing Arts and is the chair of the UNCC Business School Advisory Board. He is also 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.

Continuing Class III Directors with Terms Expiring in 2008.

Kent R. Weldon - Mr. Weldon, age 38, 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 THL-PMPL Holding Corp. Mr. was designated to the Board of Directors by Thomas H. Lee Equity Fund in connection with Thomas H. Lee Equity Fund's designation rights under our stockholders agreement which was terminated in connection with our initial public offering.

Claude C. Lilly - Dr. Lilly, age 59, was appointed as a director of our company in February 2005. 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, where he has been employed for over 9 years. Dr. Lilly has served as Assistant Deputy Insurance Commissioner for the State of Georgia and as a director of several corporations. Mr. Lilly currently serves as a director of Erie Insurance Company, Erie Family Life Company and TIAA CREF Trust Company FSB. He holds the Chartered Property Casualty Underwriters and Chartered Life Underwriter designations and is a member of numerous professional associations.

Robert S. Lilien - Mr. Lilien, age 58, was appointed as a director of our company in December 2005. Mr. Lilien is currently a partner in the law firm of Robinson, Bradshaw & Hinson, located in Charlotte, North Carolina, where he has worked since April 2002, and the managing member of Trilogy Capital Partners, LLC, a captive private equity fund with equity provided by a single family group, where he has also worked since April 2002. From 1993 to 2002, he held various positions at Duke Energy Corporation, including Senior Vice President-Duke Ventures of Duke Energy Corporation, Chairman and Chief Executive Officer of Crescent Resources, LLC, Chairman of DukeNet Communications, Inc. and Chairman of Duke Capital Partners, LLC. Mr. Lilien is also on the Board of Directors of the Lynwood Foundation.

OFFICERS

*Eugene B. Johnson * (See bio under Directors)*

*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.

John P. Crowley. * In June 2005, Mr. Crowley was appointed as Executive Vice President and Chief Financial Officer. Mr. Crowley served as Executive Vice President, Finance and Treasurer from May 2005 to June 2005. From 2000 to 2004, Mr. Crowley was an independent consultant in telecommunications investment banking. From 1999 to 2000, he was a Director in corporate finance at PricewaterhouseCoopers, and from 1996 to 1999, Mr. Crowley was a Managing Director in investment banking at BT/Alex. Brown and its predecessor company. Previously he was active in telecommunications finance both as a principal and in banking.

Walter E. Leach, Jr. * In June 2005, Mr. Leach was appointed as the company's Executive Vice President, Corporate Development. Mr. Leach served as our Executive Vice President and Chief Financial Officer from July 2004 to June 2005. Mr. Leach 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 March 2006, Ms. Linn was appointed our Executive Vice President, General Counsel and Secretary. Ms. Linn has served as our General Counsel since October 2000, our Senior Vice President since September 2004, 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.

Thomas Griffin. In December 2005, Mr. Griffin was appointed our Treasurer. Mr. Griffin joined the Company in January 2000 as Assistant Treasurer and served as our General Manager of Wireless Broadband operations from December 2003 through March 2005. Prior to joining our Company, Mr. Griffin was employed by Sealand Service, Inc. as Assistant Treasurer from September 1997 to January 2000 where he was responsible for worldwide cash management and as Director of Financial Planning for Europe from September 1995 to September 1997. Mr. Griffin also represents the Company on the board of directors for Southern Illinois Cellular Corp.

Susan L. Sowell. * In December 2005, Ms. Sowell was appointed Vice President and Assistant General Counsel and served as Assistant General Counsel since July 2004. Prior to joining us, Ms. Sowell was a Partner from 2001 to July 2004 in the law firm Katten Muchin Rosenman LLP and from 1988 to 2000 was a Partner in the Charlotte, North Carolina firm of Underwood Kinsey Warren & Tucker, PA.

* These officers also serve as directors of all of the FairPoint corporate subsidiaries.

FAIRPOINT COMMUNICATIONS MISSOURI, INC.

CASE NO. TM-2006-0306
DEPRECIATION RATES

ACCOUNT	ACCOUNT NUMBER	NET SALVAGE (%)	AVERAGE SERVICE LIFE (YRS)	DEPRECIATION RATE (%)
Land	2111.000	N/A	N/A	N/A
Vehicles - Combined	2112.000	12	8.6	10.23
Tools & Work Equipment	2114.000	6	14.0	6.71
Buildings	2121.000	2	35.0	2.80
Furniture	2122.000	6	14.0	6.71
Office Equipment - Office Support	2123.100	3	10.0	9.70
Office Equipment - Company Communications	2123.200	3	8.4	11.55
General Purpose Computers	2124.000	13	6.4	13.59
Digital Electric Switch	2212.000	0	15.0	6.67
Digital Electric Remote	2212.100	0	15.0	6.67
Digital Electric - Software	2212.200	0	15.0	6.67
Digital Electric - Common	2212.300	0	15.0	6.67
Digital Electric - Power	2212.400	0	15.0	6.67
Circuit Equipment - Subscriber	2232.100	-3	10.0	10.30
Circuit Equipment -Toll Carrier	2232.200	-3	10.0	10.30
Circuit Equipment - Other	2232.300	-3	10.0	10.30
Circuit Equipment - Fiber Opt	2232.500	-3	10.0	10.30
Other Terminal Equipment/Subscriber Carrier	2362.000	0	8.7	11.49
Poles	2411.000	-30	21.0	6.19
Aerial Cable - Metallic	2421.100	-16	21.0	5.52
Aerial Cable - Fiber	2421.200	-10	21.0	5.24
Aerial Cable - Drop	2421.300	-15	17.0	6.76
Underground Cable - Metallic	2422.100	-5	26.0	4.04
Underground Cable - Fiber	2422.200	-5	28.0	3.75
Buried Cable - Metallic	2423.100	-3	24.0	4.29
Buried Cable - Fiber	2423.200	-3	28.0	3.68
Buried Cable - Drop	2423.300	-2	21.0	4.86
Aerial Wire	2431.000	-70	12.0	14.17
Conduit Systems	2441.000	0	50.0	2.00