Large Filing Separator Sheet

Case Number : 09-454-TP-ACO

File Date : 10/14/2009

Section : 2 of 2

Number of Pages : 26

Description of Document : Testimony

So let me begin with some comments regarding our access line and customer metrics. Overall, total access line equivalents stood at more than $1.6 million at the end of the second quarter which represented a decline of 9.3% over the past 12 months. During the second quarter, our consolidated access line equivalents decreased 3% compared with a decline of 1.6% in the first quarter. The 1.6% Q1 decline is normalized for a one-time improvement, resulting from the systems cutover which we talked about last quarter.

In the Northern New England operations, access line equivalents declined by 3.6% compared with a 1.8% decline in the first quarter of 2009, again after adjusting for the one-time improvements associated with the systems cutover.

In our Legacy FairPoint markets, we experienced a sequential quarter-over-quarter improvement as our access line equivalents increased by 0.2% in the second quarter compared with a 0.8% decline in the prior quarter. This reflected both continued growth in high-speed data subscribers across our legacy markets, as well as a slowing of the decline in business access line losses compared with the first quarter.

Turning to high-speed data subscribers, in Legacy FairPoint we experienced a solid 3.4% increase during the second quarter while high-speed data subscribers in our Northern New England operations declined by 3.3%.

Now while the second quarter does typically include some positive seasonality impact, this again demonstrates that in our legacy markets where we have been actively promoting DSL service through bundled offerings, we are continuing to gain broadband customers.

High-speed data penetration reached 37.5% in our legacy markets and we now have more than one half of our data subscribers in a bundled package compared with a low 40% range just a year ago.

On the other hand, the results in Northern New England reflect the lack of promotional activity in those markets as a result of the cutover issues that we have experienced. Now that we have worked through many of the issues associated with cutover, as David mentioned a minute ago, we are beginning to roll out new marketing initiatives and we expect to begin to see a turnaround in this trend in the coming quarters.

Turning to revenue, as you know, our consolidated revenue for the second quarter was $299.6 million or 3.9%, lower than the $311.6 million reported in the first quarter. This was primarily driven by the continued access line losses coupled with the effects of a weak economy.

Operating expenses excluding depreciation and amortization for the quarter were down $16.9 million compared to the first quarter of 2009 and that reflects the termination of the transition services agreement with Verizon at the end of January and a reduction in other cutover-related costs. Cutover-related costs totaled $8.7 million in the quarter compared with $35.3 million in the prior quarter which included $15.9 million related to the January TSA payment made to Verizon.

If you exclude transition services and other cutover-related costs, our quarter-over-quarter operating expenses increased by $9.7 million. This increase reflected, in part, one additional month of cost that we incurred in the second quarter compared with the first quarter for services that were previously provided under the TSA with Verizon which, as I mentioned a minute ago, was terminated at the end of January.

Also contributing to the higher cost were quarter-over-quarter increases in bad debt expenses of about $3.2 million and $1.2 million of costs paid to advisors in connection with our debt restructuring efforts.

Moving down to adjusted EBITDA, consistent with what we did in Q1, in our earnings release we have provided two adjusted EBITDA amounts. One is determined in a manner that is consistent with the definition contained in our bank credit agreement and is identified as covenant-adjusted EBITDA. This measure reflects all adjustments that are permitted under the credit agreement.

The second measure of adjusted EBITDA is intended to help provide you with an operating or run rate adjusted EBITDA if you will, which differs from adjusted EBITDA for covenant purposes in a couple of ways.

The first difference involves non-TSA cutover-related costs. As we mentioned last quarter, we exceeded the cumulative limit of $61 million for the add-back of these cutover-related costs for covenant purposes. As a result the $8.7 million of cutover-related costs that we incurred during this quarter cannot be added back to covenant-adjusted EBITDA. However, to enable you to better assess our expected ongoing EBITDA run rate, we have added back the full $8.7 million of cutover-related costs to arrive at adjusted EBITDA on a run rate basis.

In addition in Q1, you will recall that we made an adjustment to add back a non-cash accrual for the full year impact of 2009 vacation pay, which is earned on January 1 of each year by our employees in the Northern New England operations. This non-cash accrual is reduced throughout the year as employees use their vacation time. And, therefore, we have adjusted — we have reduced adjusted EBITDA accordingly in the second quarter, to give effect to that utilization.

And, finally, we have made an adjustment for advisory fees incurred in connection with our debt restructuring efforts, as well as a modest amount of severance costs that we incurred during the quarter. With these adjustments, for the quarter we reported adjusted EBITDA of $99.9 million compared with $123.2 million for the first quarter of 2009. The quarter-over-quarter decline primarily reflects the reduced level of revenue and the higher operating expenses that I mentioned a few minutes ago.

On a covenant basis, adjusted EBITDA for the second quarter was $90.9 million down from $125.1 million in Q1. In addition to the items that I just mentioned, also contributing to this decline is the absence of a $15 million gain which was realized during the first quarter as a result of the settlement that we reached with Verizon.

With that, let me turn to cash flow and liquidity. Cash flow from operations for the first half of 2009 totaled $28.1 million. Operating cash flow was negatively impacted by nearly $44 million of expenses related to the systems cutover activities as well as an increase in accounts receivable of approximately $29 million before considering the change in the allowance for uncollectibles.

The increase in accounts receivable largely reflects a slowdown in our collection efforts as a result of the cutover issues as well as delays in the availability of software functionality supporting our collection activities. This system's functionality has recently become available and we are now executing our collection treatment processes, including meeting with our large business customers in an effort to collect past due balances.

Excluding the impact of these two items, cash flow from operations would have been $101 million for the first half of the year. Now we also made cash interest payments totaling $107 million during the first half, which reduced cash flow from operations as well.

Capital expenditures for the quarter totaled $33 million. That is down significantly from the $58 million spent in the first quarter of the year. In the second quarter we repurchased senior notes with an aggregate principal value of $12 million for $4.2 million in cash. We also repaid an additional $9.1 million of principal under our term loan bank credit facility.

As a result of those actions, in total, we retired $21.1 million of outstanding debt during the quarter. At June 30, we had $2.4 million remaining available under our revolving credit facility which doesn't include pending commitments for additional letters of credit totaling $1.5 million.

So from a liquidity standpoint, we ended the second quarter with about $81 million of cash on hand and remember that during the quarter we did receive permission from the state of New Hampshire to release approximately $50 million of previously restricted cash, which is now included in our operating cash balance.

Finally, regarding our debt covenants and credit ratios, as of June 30, after giving effect to the conversion of a portion of our cash interest expense to non-cash as a result of the exchange offer, we remain in full compliance with all of our debt covenants.

That said, in light of the operational difficulties that we have experienced during the first half of the year following cutover, the additional incremental cost that we have incurred to operate the business, and our resulting inability to execute fully on our 2009 operating plan and compete effectively in the market place, we expect that the recent exchange offer may not provide a sufficient reduction in cash interest expense to prevent a breach of our interest coverage covenant for the measurement period ending September 30.

In addition, we also expect that we may exceed the leverage ratio covenant for that measuring period as well. As a result, as David mentioned, we have initiated discussions with the senior note holders regarding a comprehensive restructuring of our capital structure which will be focused on reducing our debt and our ongoing debt service obligations.

So with that let me stop there and we will open the call for your questions. Operator?

QUESTION AND ANSWER

Operator

(Operator Instructions). Ana Goshko of Bank of America.

Ana Goshko - ***Bank of America Securities - Merrill Lynch - Analyst***

Hello and thank you very much for taking the question. On the revenue decline in the quarter, there was a 23% drop in long distance, and I keep looking at that number because I keep thinking I have it wrong. So please verify that I was right and could you comment on what drove that? And that is a sequential 23% decline per my math.

David Hauser - ***FairPoint Communications, Inc. - CEO***

Thank you for the question, Ana. Al, do you want to take that one?

Al Giammarino - ***FairPoint Communications, Inc. - CFO***

Your calculation is correct. What I would tell you is, there is continuing noise in our numbers on the revenue side, particularly in long distance. There were some out of period adjustments that would have negatively affected the Q2 long distance revenue number that more properly should have been reflected in Q1.

So if you normalize LD for those adjustments on a quarter-over-quarter basis, the decline is actually much more modest. We didn't call that out in the 10-Q simply because they are offsetting adjustments in other revenue line items.

So when you look at our revenue overall, I would say that the effect of the out of period adjustments was relatively modest.

Ana Goshko - ***Bank of America Securities - Merrill Lynch - Analyst***

So the impact in long distance was material, but because you had out of period adjustments on your other line items, the net effect of it on the total revenue is still about $300 million on a normalized basis?

Al Giammarino - ***FairPoint Communications, Inc. - CFO***

Yes, I think that's a fair assessment.

Ana Goshko - ***Bank of America Securities - Merrill Lynch - Analyst***

Okay. Where did you have the other —? I guess there must have been benefits.

Al Giammarino - ***FairPoint Communications, Inc. - CFO***

Yes. It would've — the larger ones would have run through the access line. A couple of adjustments in local as well, you know, as we continue to clean up on the billing side and process billing adjustments. That is really what is driving some of the out of period adjustments in Q2.

Ana Goshko - ***Bank of America Securities - Merrill Lynch - Analyst***

Okay and then with this type of noise on the numbers, can you — is there any noise in the costs apart from the 8.7 and the restructuring that you called out in the EBITDA reconciliation? Or is there anything that was considered unusual in terms of the normalized costs that have come out of the quarter?

And then, secondly, you talked in the press release and comments about opportunity to cut costs. Can you size what you think the opportunity is and over what time frame?

David Hauser - ***FairPoint Communications, Inc. - CEO***

Al, if you'll take the first one I will take the second one.

Al Giammarino - ***FairPoint Communications, Inc. - CFO***

Sure. In terms of unusual items in the cost space, nothing that was significant enough to warrant disclosure. Some minor adjustments, but modest in nature.

David Hauser - ***FairPoint Communications, Inc. - CEO***

And on the second one we have not put a number out of the size of the cost reductions, but we do have an internal goal that I would call consequential of the cost reductions we are looking at. I would also say we are making substantial progress in those cost reductions, especially in the areas of outside contracts.

Ana Goshko - ***Bank of America Securities - Merrill Lynch - Analyst***

And then a final question if I may. Just an update on what your access line and DSL trends are looking like so far in the third quarter? Are you seeing improvements based upon some of the promotions, etc., that are — you may be able to roll out?

David Hauser — ***FairPoint Communications, Inc. - CEO***

Let me deal with that. I think we are seeing substantial improvements on the DSL, due to the promotions. The promotions are clearly working, but we are not prepared to put any numbers out at this point.

Ana Goshko - ***Bank of America Securities - Merrill Lynch - Analyst***

Alright. Thank you very much.

Operator

David Sharret of Barclays Capital.

David Sharret - ***Barclays Capital - Analyst***

Good morning. I just want to confirm one thing about your comments about the LD revenues first. And that was just if I look at revenue trends from the second quarter to the third quarter, 2Q — you think there's no big adjustment left in terms of these out of period costs where 2Q to 3Q should now be organic? There isn't some adjustment we should make to 2Q LD revenues or the overall base higher for one-time adjustments? Do you think it is a good run rate as we look to trends into the third quarter?

Al Giammarino - FairPoint Communications, Inc. - CFO

Well again, there would have been some adjustments that would have negatively impacted the Q2 LD level from a run rate standpoint. So if you are looking ahead to Q3, you would have to normalize for those adjustments in order to get sort of a good run rate picture of the LD for purposes of looking forward.

David Sharret - ***Barclays Capital - Analyst***

So what — I mean what of the out of period adjustments then in the second quarter versus the 34.75 you reported for LD?

Al Giammarino - ***FairPoint Communications, Inc. - CFO***

On the LD line it would've been about a $4 million or so adjustment.

David Sharret - ***Barclays Capital - Analyst***

And there is nothing offsetting that anywhere else within 2Q revenues? It would just be (multiple speakers) —?

Al Giammarino - ***FairPoint Communications, Inc. - CFO***

Well, there are as I mentioned in response to Ana's question— there are some offsets in other revenue lines. Access would've had about a $2 million or so adjustment going the other way.

We can take some of these details off-line and you can talk to Brett Ellis after the call and he can walk you through that in a little bit more detail.

David Sharret - ***Barclays Capital - Analyst***

That's fine. But if I make all of these adjustments, the 299.6 of revenues then is still a good run rate is what I'm hearing? It's just some more positive in LD and offset with others (multiple speakers).

Al Giammarino - ***FairPoint Communications, Inc. - CFO***

I mean — the 299 maybe becomes 301 one or so. It is relatively modest.

David Sharret - ***Barclays Capital - Analyst***

Okay. That's helpful. And then getting back on the cost side, I mean you're — you're at a margin level now and the — and from an EBITDA perspective in the low 30s. And I know you've provided a business plan which you put in a press release earlier to the bondholders.

I mean, what are your thoughts around what the right margin potential is of this business? Maybe if you could sort of break out what are the big differences you see versus maybe where a Windstream, or Frontier or a Qwest Corp. margins are? What are sort of permanent differences in margins? What are things that you think you can solve more over time or do you think this is the right margin level for some reason in this business versus those others?

David Hauser - ***FairPoint Communications, Inc. - CEO***

Let me make a comment or two on that and then Al, you can add in. We clearly need to increase our margin level and we are doing that both by increasing the revenue side and decreasing the cost side. I don't have a percentage to give you of margin but I do think we have some cost that are larger than some of our competitors. Some of our union contracts are a bit larger.

But other than that I think you should see us move in their direction. Al, you want to add anything to that?

Al Giammarino - ***FairPoint Communications, Inc. - CFO***

The only thing I would add in terms of some of the maybe larger differences in our margins, compared with our peer groups at this point, I would point to a couple of things. First NECA and high-cost support revenue, as you all know, when we acquired the Verizon New England property that looks a lot more like an RBOC than an RLEC from a support revenue standpoint.

So there's a fairly, I would think, large permanent difference there. The other area would be DSL penetration where, clearly, we need to get our DSL penetration levels up significantly in northern New England compared to where we are in Legacy, and compared to where our peer group would be.

So those would be two of the larger differences that would come to my mind.

David Sharret - ***Barclays Capital - Analyst***

And in terms of seeing some improvement in margins, some of the costs coming out, I mean can you walk us through the next few quarters with that and also the $8.7 million of cutover cost? Like how — are there any step functions there maybe in the next quarter or two with some of the actions you've taken?

And then beyond that improvement in margins, is it just as you said improving DSL penetration in that is sort of a longer-term prospect?

David Hauser - ***FairPoint Communications, Inc. - CEO***

Let me just comment on that. I don't think we are going to get into a lot of detailed forward-looking information. But I do think we will be phasing in our cost reduction as we find them and I think you'll see some of the benefit of that in the third quarter.

You will also see revenue increases associated with DSL as our promotions work. But I don't think we are prepared to tell you exactly how our margins are going to increase quarter to quarter.

David Sharret - ***Barclays Capital - Analyst***

And I guess lastly just in terms of the restructuring you mentioned in your Q, you anticipate a senior note equitization among other things and I'm just wondering if, within those other things, do you expect to have to talk to the banks and get some type of near term waiver, some type of — at least having them at the table as part of these talks, given that as you said, you view as an asset you want to keep the facility, but you — even with the bonds not being cash pay on 83% you've exchanged, you still may violate the interest coverage test. I mean do you — is dealing with the bonds and offer do you have to talk to the banks as well?

David Hauser - ***FairPoint Communications, Inc. - CEO***

We are in active dialogue with the bonds. It is my huge preference to resolve all of this outside of Chapter 11. But I think that depends on how successful we are with the bonds. If we are successful with the bonds then I think it could be done with just the bonds.

David Sharret - ***Barclays Capital - Analyst***

Okay. Alright, great. Thank you.

Operator

David Barden of Bank of America.

Michael Funk - ***Bank of America Securities - Merrill Lynch - Analyst***

Good morning. Michael Funk calling in for David.

Two quick questions. First of all stepping back a little bit higher level, I didn't even see it for a while. How have the Company's views changed with regard to the revenue opportunity and the acquired northeastern footprint, relative to when the transaction was originally conceived, given the increase in cable competition, internal liquidity issues and the tougher economic climate? And then just any kind of broad thoughts, though maybe specific if you have them, on the broadband stimulus and opportunities under this administration?

David Hauser - ***FairPoint Communications, Inc. - CEO***

Okay, well, let me talk about all of that. So first of all, on the stimulus we will be filing our proposal next week. They are due on August 14 and so we have a plan and we will have a request that goes in on that date. With re — and it will be, we haven't put any numbers in the public domain, but it will be substantial.

The second piece is with regard to opportunities in northern New England. There is no doubt that our market share here has eroded as we've undergone cutover and the hits to our reputation associated with cutover.

So now that we are operating in a relatively normalized way, we think it is time to start getting that reputation back. And we see substantial revenue opportunities especially in the business side in northern New England. And we are greatly encouraged by the results of our advertising campaign which suggests to us we are right that there are opportunities.

And finally we are rolling out the next generation network that gives us some opportunities that are very consequential. And you should start seeing that beginning — well, it will get rolled out this year. You may see some results in the fourth quarter, but mostly it will be next year that you see revenue results.

Operator

Thomas Egan of JPMorgan.

Thomas Egan - ***JPMorgan & Chase Co. - Analyst***

Thank you for taking my questions. If you could maybe talk a little bit about the detailed business plan you delivered to your financial advisors? Is that the outline that you gave us today, the three immediate areas of focus, is that basically a summary of that plan or are there other details in that plan that you could share with us today?

David Hauser - ***FairPoint Communications, Inc. - CEO***

I think what we've told you today about the three areas of focus and about our desire to do it outside of bankruptcy and our ability to do it with just the bonds, if it was outside of bankruptcy, I think that really encapsulates everything that is reflected in the business plan. I can't think of anything in the business plan — of course we can't get into specifics, but I can't think of anything in a broad way in the business plan that's not reflected in that discussion.

Al, would you agree with that?

Al Giammarino - ***FairPoint Communications, Inc. - CFO***

I would concur, David.

Thomas Egan - ***JPMorgan & Chase Co. - Analyst***

And then with respect to being able to do this with just discussing things with the bondholders, if you do a debt for equity exchange, that would require majority shareholder approval. Correct?

David Hauser - ***FairPoint Communications, Inc. - CEO***

Al, you or Shirley want to chime in?

Al Giammarino - ***FairPoint Communications, Inc. - CFO***

Yes. I can take that. If we equitize the bonds fully it would — that transaction would require shareholder approval and it would be a simple majority vote.

Thomas Egan - ***JPMorgan & Chase Co. - Analyst***

Have you discussed at a high level with any of the key stakeholders either the shareholders or the bank loan holders to get their ideas about what may be possible with respect to that? Have you discussed any of that with any of those key stakeholders other than the bondholders?

David Hauser - ***FairPoint Communications, Inc. - CEO***

I would say we are — we have had some modest dialogue, but nothing substantial at this point.

Thomas Egan - ***JPMorgan & Chase Co. - Analyst***

Okay and then one just quick last question. You mentioned that your new broadband promotions were pretty successful, that you were running somewhere in the vicinity of 20 to 25% new broadband connections over what you had seen when you weren't having promotions.

Could you give us a sense of out of those new broadband connections, what roughly proportion — percentage of those were existing customers versus new customers?

David Hauser - ***FairPoint Communications, Inc. - CEO***

Well I don't know that. I think the answer is: we don't have that information in front of us.

Thomas Egan - ***JPMorgan & Chase Co. - Analyst***

Okay. I will follow up with Brett. Thank you.

Operator

Matt Swope of Broadpoint Capital.

Matt Swope - ***Broadpoint Capital - Analyst***

Good morning. Could you just talk — and I don't mean to beat a dead horse here, but could you talk a little bit about any conversations you've had with the bank debt so far? Is it just too expensive to deal with them? Or have the two sides been too far apart to make those discussions worth continuing?

David Hauser - ***FairPoint Communications, Inc. - CEO***

I would say it this way — I would say we believe that the bank debt as it is structured is an asset of the Company and if we need to change it then we certainly will go down that path if that ends up being the path we need to go down, but we do not think that is in the best interest of the Company or the bondholders.

So that is why we haven't gone down that path.

Al Giammarino - ***FairPoint Communications, Inc. - CFO***

David, if I could just add one thing. We do have some disclosure in the 10-Q. We did have some initial discussions with the banks before we decided to embark on the first exchange offer and the disclosure in the Q basically indicates that it was pretty clear to us that it would be quite expensive and quite costly from a restrictive standpoint in terms of tightening up the facility to a point where we felt that moving ahead with the PIK exchange offer with the bondholders made sense.

Matt Swope - ***Broadpoint Capital - Analyst***

Thank you. Just a separate question. You filed an 8-K a couple of weeks ago with a target-adjusted covenant EBITDA of $713 million over the current 6 quarter period that started on July 1. Could you talk a little bit about where that number comes from?

If that is a reach number, if that's a medium number, how you guys thought about that?

David Hauser - ***FairPoint Communications, Inc. - CEO***

Let me speak to that in general and then, Al, you might want to add to that. That was filed, based on my particular contract. And so obviously I think it's an attainable number. So is it a stretch? I think the answer is yes. But is it attainable? I honestly believe the answer is yes. Al, do you want to add anything to that?

Al Giammarino - ***FairPoint Communications, Inc. - CFO***

Yes I really don't have anything to add beyond what we have already talked about in terms of the business plan and so forth.

Matt Swope - ***Broadpoint Capital - Analyst***

And one last one. Could you talk about in northern New England the competitive behavior of both Time Warner Cable and Comcast? Have they been especially aggressive as you have gone through this transition period?

David Hauser - ***FairPoint Communications, Inc. - CEO***

I think the answer is they certainly have tried to take advantage of the situation when we were going through cutover, when we did not have promotions, when the press has been giving us a hard time. I think they have tried to take advantage of that situation and certainly their advertising is directed at trying to get some of our customers.

Matt Swope - ***Broadpoint Capital - Analyst***

That's great. Thanks.

Operator

Ana Goshko of Bank of America.

Ana Goshko - ***Bank of America Securities - Merrill Lynch - Analyst***

Thank you. I just had to sneak one back in. You had a really big use of working capital in the quarter which I think you touched on in part, but per my math it was $75 million and I know that you've highlighted the collections issues. I also seem to have recalled in the press that there were some issues with the PUCs actually preventing you from collecting on some bills.

So wondering if you feel you are in the clear now on being able to make progress in collections and should we expect a swing back, a pretty notable swing back in the working capital over the next quarter to be a source of cash?

David Hauser - ***FairPoint Communications, Inc. - CEO***

I'm sitting here looking at the team, saying the answer to that is yes. We should expect a significant swing back in our collections.

Al Giammarino - ***FairPoint Communications, Inc. - CFO***

And just in terms of the $75 million, there is some — I will use the word 'gymnastics' in the cash flow statement. There's a big use on the line accounts payable and accrued liabilities. And a big portion of that had to do with the Verizon settlement and was effectively non-cash and is offset elsewhere in the operating cash flow buildup.

So don't just take the working capital lines and add them up and assume that is the true cash flow impact.

Ana Goshko - ***Bank of America Securities - Merrill Lynch - Analyst***

Okay. So I (multiple speakers).

Al Giammarino - ***FairPoint Communications, Inc. - CFO***

We call that the collections and the buildup in receivables clearly was the largest cash impacting piece of working capital. And I think we called that out.

Ana Goshko - ***Bank of America Securities - Merrill Lynch - Analyst***

Well, I am of the school that cash flow statements don't lie. So I guess then we're — if there was a $75 million use of cash and where did that go?

David Hauser - ***FairPoint Communications, Inc. - CEO***

Again, part of it was offset in other line items on the cash flow statement. Again I would suggest we are getting into a level of detail that probably goes beyond what we should on this call. We can follow up separately. You can give Brett a call and he can walk you through it.

Ana Goshko - ***Bank of America Securities - Merrill Lynch - Analyst***

Okay that's fine. Thank you very much.

David Hauser - ***FairPoint Communications, Inc. - CEO***

Let's take one more question if we can.

Operator

Eric Hsieo of Silverlake Financial.

Eric Hsieo - ***Silverlake Financial - Analyst***

My question has been answered already. Thanks.

David Hauser - ***FairPoint Communications, Inc. - CEO***

Okay, well, that was easy enough. Well, I appreciate everybody's time today. And Brett and his team are ready for further questions as appropriate. And we look forward to continuing to work with you.

Operator

Thank you. That does conclude today's FairPoint Communications second quarter 2009 earnings conference call. You may now disconnect.

Exhibit CPOH-MDP-16

News Reports Discussing Meeting of New England Commissions to Discuss FairPoint Problems (September 9, 2009)

Associated Press

Northern New England states question FairPoint

By HOLLY RAMER , 09.09.09, 05:16 PM EDT

DERRY, N.H. -- Executives from FairPoint Communications Inc. told utility regulators from three states Wednesday that it will be another two months before the company has a clear plan to resolve its customer service, billing and other problems.

Vicky Weatherwax, who in July was appointed to a new position of vice president of business solutions, said she expects to get recommendations from outside analysts by mid-November. By the end of that month, Fairpoint will decide how to implement them, she said.

Weatherwax was among four Fairpoint executives to speak at a highly unusual joint meeting of the New Hampshire Public Utilities Commission, the Maine Public Utilities Commission and the Vermont Public Service Board. The goal was to give regulators an update on FairPoint's efforts to stabilize its troubled operation systems, as well as organizational changes and financial matters.

FairPoint, which is based in Charlotte, N.C., owns and operates phone companies in 18 states, but its largest holdings by far are in northern New England, where it bought Verizon Communications (VZ - news - people)' landline telephone and Internet business last year. The company officially took over the system seven months ago and has been beset with problems ever since.

Fairpoint CEO David Hauser, who was hired two months ago, said the company has begun shifting from a "work around" mentality to a "fix-it and improve it" mentality. Calls to the company's customer service center are now answered in 20 seconds or less more than 89 percent of the time, he said, though problems remain, particularly with the accuracy of billing for business and wholesale customers. And about 22 percent of orders for new service or changes to existing services are late, he said.

"We have identified the areas that need further attention and have improvement plans in place for those areas," he said.

Regulators repeatedly pressed the executives for estimates of when the problems would be fixed, but company officials offered no firm deadlines.

"One of the reasons we're here today is, frankly, frustration," said Vermont Public Service Board Chairman James Volz. He reminded the executives of their previous assurances that the problems would be cleared up by May.

"Quite clearly, that day has long since past, and we've seen neither sufficient progress nor a firm commitment that will achieve an acceptable level of service," he said.

Volz said performance has improved in some areas, but progress has come "only at high unsustainable costs." And he said Fairpoint has been given more than adequate time to get its act together.

"At this time we would like to hear concrete plans for addressing those problems," he said.

Commissioner Vendean Vafiades of Maine congratulated Fairpoint for improving the speed with which customer service representatives answer the phone, but said she wondered what happens after that. How many times are callers transferred before reaching someone who can help? How many times do they have to call back?

"I know you've only been at this two months, but we feel a greater sense of exigency," she told Hauser, who was quick to assure he shared her sentiments.

"I have a huge sense of urgency," he said. "Let's face it - Northern New England is what makes or breaks FairPoint, now, tomorrow and next week and as far as we can see."

As he opened the hearing, New Hampshire Public Utilities Commission Chairman Thomas Getz said regulators have found no reason to further investigate allegations made through anonymous e-mail last month that FairPoint faked its readiness to take over the phone networks.

Getz said the person who wrote the e-mail was satisfied with the explanation FairPoint sent to Vermont authorities, and that authorities in all three states saw no basis for continuing the investigation.

Hauser also said an independent investigation also found no wrongdoing.

Vivendi Loses Support Over Brazilian Buy

Guitar Hero 5 Lifts Activision

China's 3G Battle

Getting Personal: Ericsson

Reader Comments

Exhibit CPOH-MDP-17

Vermont Public Service Board Investigation into Possible Revocation of FairPoint Communications Certificate of Public Good, Docket No. 7540

VERMONT

Public Service Board
State of Vermont

Investigation into Possible Revocation of FairPoint Communication's Certificate of Public Good (7540)

On July 14, 2009, the Vermont Department of Public Service ("Department") filed a petition with the Public Service Board ("Board") to open an investigation pursuant to 30 V.S.A. § 209 into the business operations of Telephone Operating Company of Vermont LLC, d/b/a FairPoint Communications ("FairPoint"), and for an Order by the Board directing FairPoint to show cause why its Certificate of Public Good should not be revoked. In its petition, the Department outlines its concerns regarding the high level of consumer complaints it has received involving deficiencies in FairPoint's quality of service, and FairPoint's ability to resolve those deficiencies. FairPoint purchased the assets of Verizon New England Inc., d/b/a Verizon Vermont ("Verizon") on March 31, 2008, pursuant to the Board's Order of February 15, 2008 in Docket No. 7270, and completed "cutover" from Verizon's systems to FairPoint's systems on February 1, 2009.

On August 10, 2009, the Board conducted a prehearing conference in this docket. At the prehearing, FairPoint agreed to file its response to the petition by September 17. A copy of the Prehearing Conference Memorandum has been posted on this webpage. The Board has scheduled a Status Conference for September 30, 2009 at 11:00 a.m. to determine the further steps to be taken in this proceeding.

Caption:

Petition of Vermont Department of Public Service for an investigation and for an order directing Telephone Operating Company of Vermont LLC, d/b/a FairPoint Communications, to show cause why its Certificate of Public Good should not be revoked.

Public Participation/Hearings:

- *Public Hearings*
- File a Public Comment

Significant Documents:

- Petition, Prefiled Testimony and Exhibits
    - Petition
    - Filing letter
    - NixonTestimony
    - Exhibit
- Fairpoint Stabilization Plan Report - 7/8/09
- Liberty Consulting Stabilization Plan Assessment - 7/13/09
- CAPI Response - 6/30/09
- Hearing Notices
- Schedule
- *Orders and Memoranda*
    - Prehearing Conference - 9/14/09

Exhibit CPOH-MDP-18

News Report Describing Hawaiian Telecom Bankruptcy in Hawaii
(December 2, 2008)

Carlyle Takes Another Hit As Telecom Firm Goes Under

By Thomas Heath
Washington Post Staff Writer
Tuesday, December 2, 2008

Carlyle Group, the District-based private-equity firm, suffered a new setback yesterday when one of its investments, a Hawaiian provider of local and long-distance telephone service, filed for bankruptcy protection.

Carlyle had put $425 million in Hawaiian Telcom Communications and borrowed almost $1.2 billion to buy the company from Verizon in 2005. But the telecommunications company struggled almost from the start.

Its collapse followed other reversals for Carlyle this year. In March, Carlyle wrote off a $700 million investment in Carlyle Capital, an offshore public company that invested in mortgage-related securities. Then Carlyle announced in July that it would liquidate Carlyle-Blue Wave Partners Management, which made similar bets in mortgages.

In October, Carlyle said it was suing a Russian steel company, Novolipetsk Steel, that was seeking to back out of a $3.5 billion deal. Finally last month, Carlyle announced it was shutting down its 12-person Warsaw office and laying off another seven people throughout Asia as it pulls back from two specialized ventures in emerging markets.

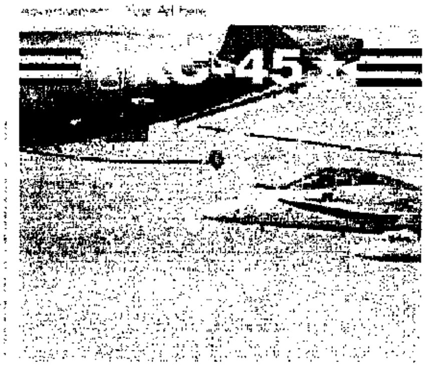
Carlyle spokesman Chris Ullman said yesterday that the various events are unrelated and that the firm is still producing healthy returns for investors. In all, Carlyle has $92 billion of investors' money under management, including $40 billion that it is looking to invest.

Carlyle Partners III, the $4 billion buyout fund that bought Hawaiian Telcom, is up 230 percent despite the telecom's bankruptcy filing, Ullman said.

Carlyle bought Hawaiian Telcom with an eye toward upgrading and expanding its network to deliver new products and services in bundled packages. The bundles would include broadband Internet, video and wireless telephone service.

But the deal took a year to get approved by regulators, and the company began losing land-line telephone customers faster than anticipated. Meanwhile, the company faced stiff competition from Time Warner Cable for its packages of services.

At the same time, Hawaiian Telcom had to create its own back-office operations to handle administrative tasks such as accounting, billing, public relations and human services. A person familiar with the process, who spoke on condition of anonymity because the company is in bankruptcy proceedings, said the process proved more difficult than Carlyle expected.



Carlyle, which reinvested $100 million in cash in the company, brought in management turnaround experts to help salvage Hawaiian Telcom, but it didn't work.

The company and seven affiliates filed for Chapter 11 protection yesterday in U.S. Bankruptcy Court in Wilmington, Del., listing $1.4 billion in assets and $1.3 billion in debts.

The telecom company said it will continue to operate its business without interruption to customers and employees.

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<u>Exhibit CPOH-MDP-19</u>

Frontier/Verizon Interrogatory Response No. 1.04

INTERROGATORY NO. 1.04

If the Transaction is approved, does Frontier intend to claim or petition the Public Utility Commission of Ohio to establish that it or any of the operating entities in Ohio it currently operates or acquires as a result of the Transaction are entitled to treatment as a rural telephone company under Section 251(f) of the Telecommunications Act of 1996 ("Act") or otherwise exempt from the obligations on incumbent local exchange carriers under Sections 251(b) and (c) of the Act? If so, please identify the operating entities and explain Frontier's position.

RESPONSE TO INTERROGATORY NO. 1.04

Without limitation of its other General Objections, please see, in particular, Applicants' General Objection Nos. 1, 3, 4, 6, 7, and 10. Subject to and without waiver of its general and specific objections, Applicants respond as follows:

Verizon North is currently not a rural telephone company under Section 251(f) and Frontier will not claim or petition the Public Utilities Commission of Ohio to designate Verizon North as a rural telephone company. Frontier Communications of Michigan, Inc. will remain a separate legal entity from Verizon North and is a "rural telephone company" as defined in the 1996 Act.

Exhibit CPOH-MDP-20

Frontier/Verizon Interrogatory Response No. 1.010

INTERROGATORY NO. 1.010

Does Frontier intend to permit interconnection agreements between Verizon North Inc. and competing carriers to remain effective after the Transaction is completed if the initial term of those agreements has expired and the parties are currently operating under those agreements? If so, for how long?

RESPONSE TO INTERROGATORY NO. 1.010

Without limitation of its other General Objections, please see, in particular, Applicants' General Objection Nos. 1, 3, 4, 6, 7, and 10. Subject to and without waiver of its general and specific objections, Applicants respond as follows:

Frontier will assume and honor all obligations under Verizon's interconnection agreements and other wholesale arrangements that are in place at the time of closing. Frontier has no plans to renegotiate all existing interconnection agreements between Verizon North and competing carriers and will review specific interconnection agreements on a case-by-case basis as they terminate or expire.

Exhibit CPOH-MDP-21

Frontier/Verizon Interrogatory Response No. 1.03

INTERROGATORY NO. 1.03

Will Frontier increase or seek to increase rates for any wholesale service provided in Ohio, including interconnection and related services and facilities, during the three years after the Transaction is completed? If so, please identify all rates that Frontier anticipates increasing or seeking to increase.

RESPONSE TO INTERROGATORY NO. 1.03

Without limitation of its other General Objections, please see, in particular, Applicants' General Objection Nos. 1, 3, 4, 6, 7, and 10. Subject to and without waiver of its general and specific objections, Applicants respond as follows:

Frontier will assume and honor all obligations under Verizon's interconnection agreements and other wholesale arrangements including the rates in these agreements that are in place at the time of closing. Frontier has no plans to increase rates for any interconnection or wholesale services.