

STATE OF NEW HAMPSHIRE  
BEFORE THE  
PUBLIC UTILITIES COMMISSION

DT 10-025

Request for Approvals in Connection with the  
Reorganization Plan of FairPoint Communications, Inc.  
and Subsidiaries

TESTIMONY OF  
LISA R. HOOD  
ON BEHALF OF FAIRPOINT COMMUNICATIONS, INC.

APRIL 30, 2010

Ms. Hood sponsors the following Exhibits:

Exhibit LH-1            Form 10-Q/A for period ending March 31, 2009

Exhibit LH-2            Form 10-Q/A for period ending June 30, 2009

Exhibit LH-3            Form 10-Q/A for period ending September 30, 2009

1   **Q.    Please state your name and your business address.**

2    A.    My name is Lisa R. Hood. My office address is 908 W. Frontview Street, Dodge City,  
3           Kansas 67801.

4  
5   **Q.    By whom are you employed and in what capacity?**

6    A.    I have held leading finance, accounting and operational roles with FairPoint  
7           Communications, Inc. ("FairPoint") and its predecessor companies since 1993. Since  
8           February 2008, I have been employed by FairPoint as Senior Vice President and  
9           Corporate Controller. After the resignation of Chief Financial Officer Alfred C.  
10          Giammarino in March 2010, I was appointed Chief Financial Officer on an interim basis  
11          while FairPoint seeks a permanent Chief Financial Officer.

12  
13   **Q.    Please describe your educational and professional background?**

14   A.    I am a graduate of Fort Hays State University in Hays, Kansas, where I received a  
15          Bachelor of Business Administration. I am a certified public accountant, and an active  
16          member of the AICPA and the Kansas Society of CPAs.  
17          Before becoming interim Chief Financial Officer in March of this year and Senior Vice  
18          President/Corporate Controller for the entirety of FairPoint in 2008, I served as Corporate  
19          Controller for the legacy FairPoint companies and as Chief Operating Officer of the  
20          legacy FairPoint companies. Before joining FairPoint, I served as manager of a public  
21          accounting firm in Kansas. I have over 20 years of experience in telecommunications  
22          and accounting.

1   **Q.    What are your duties and responsibilities at FairPoint?**

2    A.    As interim Chief Financial Officer, I am responsible for all financial aspects of  
3          FairPoint's business, including, financial reporting and internal controls, financial  
4          planning and budgeting, taxation, investor relations, treasury and risk management.

5  
6   **Q.    In the course of your duties, have you participated in the management of FairPoint**  
7          **during its Chapter 11 bankruptcy proceeding and in the development of FairPoint's**  
8          **plan of reorganization?**

9    A.    Yes.

10  
11   **Q.    What is the purpose of your testimony?**

12   A.    The overall purpose of my testimony is to adopt and supplement certain portions of the  
13          previous testimony of my immediate predecessor, Alfred C. Giammarino. In addition to  
14          adopting Mr. Giammarino's testimony, I will provide a brief explanation and update  
15          regarding the restatements of 2009 quarterly revenues that Mr. Giammarino referenced in  
16          his testimony. I will also discuss certain aspects of FairPoint's Plan Supplement, filed  
17          with the Bankruptcy Court on April 23, 2010.

18  
19   **Q.    Have you reviewed the testimony in this proceeding of Alfred C. Giammarino, dated**  
20          **February 24, 2010?**

21   A.    Yes.

22

1 **Q. Is it true and accurate to the best of your knowledge, information and belief?**

2 **A.** Yes, and as Mr. Giammarino's successor as Chief Financial Officer, I ratify, adopt and  
3 sponsor Sections I through III, as well as the witness introductions beginning at page 4,  
4 line 6.

5  
6 **Q. On February 23, 2010, one day before Mr. Giammarino's testimony, FairPoint filed**  
7 **a Current Report on Form 8-K with the United States Securities and Exchange**  
8 **Commission ("SEC"). Mr. Giammarino testified that this filing was necessary due**  
9 **to an accounting error that impacted the accuracy of the interim consolidated**  
10 **financial statements previously issued in FairPoint's Quarterly Reports on Form 10-**  
11 **Q for the quarterly periods ended March 31, 2009, June 30, 2009 and September 30,**  
12 **2009. He described this error as resulting from (i) a deficiency in the transfer of**  
13 **certain known customer billing adjustments from the Company's billing platform to**  
14 **the general ledger, and (ii) procedural deficiencies that allowed these errors to go**  
15 **undetected. He testified that this matter was being reviewed by FairPoint's Audit**  
16 **Committee and its independent auditor, Ernst & Young, and that he would**  
17 **supplement his testimony at the conclusion of this review. Are you prepared to offer**  
18 **this supplemental testimony?**

19 **A.** Yes. The issues giving rise to the need for the restatement were (i) a deficiency in the  
20 transfer ("journaling") of customer billing adjustments to the general ledger and (ii) other  
21 billing adjustments and billing credits.

22

1 With regard to the journaling issue, we determined that an incorrect setting of certain  
2 system parameters within our Kenan billing system resulted in a mismatch in the  
3 interactions between Kenan and the FairPoint general ledger system. This error was  
4 confined to the particular case in which billing credits applied to a customer account  
5 resulted in an invoice with a negative balance (i.e., with a credit balance in favor of the  
6 customer). The Kenan billing system was configured not to allow an invoice with a  
7 negative balance. Although manual steps were undertaken to make sure that the proper  
8 credits were made to customer bills, portions of the credits were not recorded in the  
9 general ledger for accounting purposes, with the result that revenues were overstated.

10  
11 **Q. Did this problem occur with all billing adjustments?**

12 A. No, this problem was restricted to the situation I described, in which the credit exceeded  
13 the invoice balance. I also note that this problem did not cause incorrect bills to be  
14 issued; the error only affected the journaling process.

15  
16 **Q. Please describe the other billing adjustments and billing credits.**

17 A. Due to the issues we experienced at and after cut-over, a billing reconciliation process  
18 was put into place during the third quarter. As this process identified billing errors,  
19 adjustments were recorded. In conjunction with the restatement process, these  
20 adjustments have been reported in the quarter in which the billing error occurred.

1 **Q. Mr. Giammarino testified that these discrepancies were estimated to be less than**  
2 **3% of total revenues. Has that proven to be the case?**

3 A. Yes. The revenue adjustments amounted to \$25.0 million, or approximately 2.8% of  
4 originally reported revenues for the period from January 1, 2009 to September 30, 2009.  
5

6 **Q. Has FairPoint resolved the problem with the Kenan system that created these**  
7 **discrepancies?**

8 A. Yes. We have corrected the billing system settings so that they properly journal the  
9 identified transactions to the general ledger.  
10

11 **Q. Mr. Giammarino also referred to procedural deficiencies that allowed these**  
12 **journaling errors to go undetected. How has FairPoint addressed these?**

13 A. We have enhanced our account reconciliation and review procedures to detect this type of  
14 error on a timely basis in the future. We believe these measures have remedied the  
15 deficiencies described above and will strengthen our internal controls over financial  
16 reporting. We are committed to continuing to improve our internal control processes and  
17 will continue to review our financial reporting controls and procedures. To that end, a  
18 third party review will be conducted of our internal controls and reporting processes  
19 related to billing, accounts receivable and revenue reporting. We have been evaluating  
20 potential consultants, and expect to have retained a qualified consultant by May 5, 2010.

1 Our management, with the oversight of the audit committee of our board of directors, will  
2 continue to assess and take steps to enhance the overall design and capability of our  
3 control environment in the future.  
4

5 **Q. Mr. Giammarino also testified that the review would coincide with the filing of**  
6 **amended quarterly reports. Have these amended reports been prepared and filed?**

7 A. Yes. Amended Quarterly Reports on Form 10-Q/A for the quarterly periods ended  
8 March 31, 2009, June 30, 2009 and September 30, 2009 have been filed with the SEC  
9 today. Copies of those reports are attached to my testimony as Exhibits LH-1, LH-2 and  
10 LH-3.  
11

12 **Q. Have any other significant items been adjusted in the amended filings?**

13 A. Yes. The March 31, 2009 10Q-A includes an adjustment to other income to write off a  
14 \$9.6 million receivable associated with a disputed item. This is a one-time, non-  
15 operating charge and has no ongoing impact on earnings beyond March 31, 2009.  
16

17 **Q. What is the status of FairPoint's Annual Report on Form 10-K for the fiscal year**  
18 **ending December 31, 2009?**

19 A. FairPoint's financial statements for the fiscal year ended December 31, 2009 are being  
20 audited by FairPoint's independent accountants, Ernst & Young LLP. Following  
21 completion of the audit, FairPoint will file its Annual Report on Form 10-K for 2009.



1 We estimate that we will complete and file our Annual Report on Form 10-K by May 31,  
2 2010.

3 **Q. Are there any other developments in the Chapter 11 process of which the**  
4 **Commission should be aware?**

5 A. Yes. On April 23, 2010, FairPoint filed its Chapter 11 Plan Supplement with the  
6 bankruptcy court. A copy of this document was filed with the Commission on April 26,  
7 2010. Although this document speaks for itself, I would like to summarize certain  
8 features of the Plan Supplement.

9  
10 First, FairPoint will not reject any wholesale agreements with competitive local exchange  
11 carriers, *e.g.* Section 252 interconnection agreements, wholesale tariffs, “commercial  
12 agreements” such as Wholesale Advantage Agreements or VISTA Agreements, or  
13 settlement agreements related to its acquisition of Verizon’s assets in DT 07-011. I  
14 should emphasize, however, that this does not necessarily mean that FairPoint has  
15 approved any or all claims based on those agreements, and it reserves the right to dispute  
16 those claims. Furthermore, FairPoint reserves the right to terminate and/or renegotiate  
17 those agreements in accordance with the terms of those agreements, as amended or as  
18 modified by other applicable agreements. I would point out that FairPoint’s bankruptcy  
19 reorganization plan allows for the possibility of further contract rejections, but FairPoint  
20 does not intend to exercise that right with respect to these agreements with wholesale  
21 customers. FairPoint has mailed notices of assumption and cure with respect to these  
22 agreements.

1 Second, in conformance with the Regulatory Settlement with the Commission Staff  
2 Advocates, FairPoint has proposed that New Hampshire resident Wayne Wilson be  
3 elected to its board of directors. Mr. Wilson, a resident of Sunapee, has been an  
4 independent business advisor since 2002. From 1995 to 2002, Mr. Wilson served in  
5 various roles as President, Chief Operating Officer and Chief Financial Officer of PC  
6 Connection, Inc., a Fortune 1000 direct marketer of information technology products and  
7 services. From 1986 to 1995, Mr. Wilson was a partner in the assurance and advisory  
8 services practice of Deloitte & Touche LLP. Mr. Wilson currently serves as a director of  
9 ARIAD Pharmaceuticals, Inc., Edgewater Technology, Inc. and Hologic, Inc. He  
10 previously served as a director of Cytoc Corporation. Mr. Wilson received an A.B. in  
11 political science from Duke University, and an MBA from the University of North  
12 Carolina at Chapel Hill. He is a certified public accountant in New Hampshire and North  
13 Carolina.

14  
15 Third, also in conformance with the Regulatory Settlement, the Plan Supplement  
16 provides that the Success Bonus Plan for participating FairPoint management will  
17 be based on the attainment of certain performance measures, as determined by the  
18 Compensation Committee of the board of directors, weighted as follows:

- 19 i. 67% for Cumulative EBITDAR,<sup>1</sup> and

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<sup>1</sup> Consolidated EBITDAR minus Consolidated Capital Expenditures, each as defined in the Debtor-in-Possession Credit Agreement dated as of October 27, 2009, as amended.

1           ii.   11% for each of “Calls Answered within 20 Seconds;” “Monthly  
2           Average of Installation Appointments Not Met for Company  
3           Reasons;” and “Monthly Average of Repair Appointments met on  
4           time.”<sup>2</sup>

5  
6           Fourth, the “New Term Loan Agreement” and the “New Revolving Facility” (collectively  
7           with all related loan documents, the “New Credit Agreements”) contain substantially the  
8           same material terms and conditions as contained in the Plan Support Agreement on file  
9           with the Bankruptcy Court as of October 26, 2009.

10  
11   **Q.   Does this conclude your testimony?**

12   **A.   Yes, it does.**

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<sup>2</sup> The Compensation Committee may make its determinations by taking into account or disregarding any extraordinary natural events relevant to any performance measures or results.