

1 STATE OF MISSOURI
2 PUBLIC SERVICE COMMISSION
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6 TRANSCRIPT OF PROCEEDINGS
7 On-the-Record Presentation
8 July 6, 2006
9 Jefferson City, Missouri
Volume 2
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12 Staff of the Public Service)
Commission of the State of)
13 Missouri)
Complainant,)
14)
15 v.) Case No. TC-2006-0184
New Florence Telephone Company,)
16)
17 Respondent.)
18)
MORRIS L. WOODRUFF, Presiding,
19 SENIOR REGULATORY LAW JUDGE.
STEVE GAW,
20 ROBERT M. CLAYTON,
COMMISSIONERS.
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22
23 REPORTED BY:
24 KELLENE K. FEDDERSEN, CSR, RPR, CCR
MIDWEST LITIGATION SERVICES
25

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25

1 P R O C E E D I N G S

2 JUDGE WOODRUFF: Good afternoon everyone.
3 Welcome to Case No. TC-2006-0184, which is Staff of the
4 Commission vs. New Florence Telephone Company. We're here
5 today for an on-the-record presentation for Commissioner
6 questions, and we'll begin today by taking entries of
7 appearance, beginning with Staff.

8 MR. WILLIAMS: Nathan Williams, P.O.
9 Box 360, Jefferson City, Missouri 65102.

10 JUDGE WOODRUFF: And for New Florence
11 Telephone?

12 MR. ENGLAND: Thank you, your Honor. Let
13 the record reflect the appearance of W.R. England and Paul
14 Boudreau on behalf of New Florence. Our mailing address
15 is Brydon, Swearngen & England, P.C., Post Office
16 Box 456, Jefferson City, Missouri 65102.

17 JUDGE WOODRUFF: Thank you. For Public
18 Counsel?

19 MR. MILLS: On behalf of Office of the
20 Public Counsel and the public, my name is Lewis Mills.
21 My address is Post Office Box 2230, Jefferson City,
22 Missouri 65102. I'd like to also enter the appearance of
23 Michael F. Dandino of my office. Thank you.

24 JUDGE WOODRUFF: Thank you. And Local
25 Exchange Company, LLC also signed the Stipulation &

1 Agreement. Are they separately represented today?

2 MR. ENGLAND: They are separately
3 represented, but they are not appearing today.

4 JUDGE WOODRUFF: All right. Well, as I
5 indicated, this is -- the purpose of this proceeding is to
6 allow for Commissioner questions concerning the
7 Stipulation & Agreement. Turn it over to Commissioner
8 Clayton.

9 COMMISSIONER CLAYTON: Thank you, Judge.
10 I'd like -- the room is not as full as it was at the last
11 hearing, as many people. I want to go through some
12 similar questions that I asked on the Cass County, and I
13 apologize if they're repetitive. Regarding the sale of
14 the company, and I guess I'll address this to Staff, and
15 then if anyone else wants to chime in, they can.

16 Mr. Williams, the agreement contemplates
17 the potential sale of the company; is that correct?

18 MR. WILLIAMS: Yes, but it's not required.

19 COMMISSIONER CLAYTON: It contemplates it.
20 It doesn't mandate it.

21 MR. WILLIAMS: Correct.

22 COMMISSIONER CLAYTON: And when you say the
23 sale or ownership of the assets of New Florence, does that
24 mean that New Florence Telephone as a corporate entity
25 would no longer be in existence or does it mean the owners

1 of the stock of New Florence will no longer own the
2 company? What are we talking about, new ownership?

3 MR. WILLIAMS: We're contemplating that it
4 could be a stock transfer or it could be an asset sale,
5 but in the end, there would be a new company that would be
6 regulated by the Commission.

7 COMMISSIONER CLAYTON: Who owns New
8 Florence Telephone?

9 MR. WILLIAMS: Tiger Telephone.

10 COMMISSIONER CLAYTON: In its entirety?

11 MR. WILLIAMS: Yes.

12 COMMISSIONER CLAYTON: 100 percent is owned
13 by Tiger?

14 MR. WILLIAMS: Yes.

15 COMMISSIONER CLAYTON: And who owns Tiger?

16 MR. WILLIAMS: It's owned by three
17 different entities. I believe that information's public.

18 MR. ENGLAND: Yes.

19 MR. WILLIAMS: It would be LEC, Rebecca
20 Malcolm and Robert Williams.

21 COMMISSIONER CLAYTON: Rebecca Malcolm?

22 MR. WILLIAMS: Yes. Formerly Matzdorf.

23 COMMISSIONER CLAYTON: Thank you. That
24 helps. So they're no longer married?

25 MR. WILLIAMS: Correct.

1 COMMISSIONER CLAYTON: Okay. So New
2 Florence would be sold, so basically the concept of new
3 ownership would mean that Tiger no longer owns New
4 Florence?

5 MR. WILLIAMS: Correct.

6 COMMISSIONER CLAYTON: So is it possible
7 that someone like Robert Williams would buy out the other
8 two? Is that contemplated by this agreement? Is that a
9 possibility?

10 MR. WILLIAMS: That's not the sale that's
11 contemplated. It's something that could occur.

12 COMMISSIONER CLAYTON: But it's not
13 prohibited? Mr. England, do you know, the agreement
14 doesn't prohibit that?

15 MR. ENGLAND: I believe I would probably
16 agree with what Mr. Nathan Williams said, and that is it's
17 not -- I don't know if you would say it's not prohibited,
18 but it's not prohibited in my opinion.

19 COMMISSIONER CLAYTON: I guess what I'm
20 getting at --

21 MR. ENGLAND: But there's certain
22 provisions that are triggered if there's not a sale to an
23 independent third party, and I believe Mr. Williams would
24 not qualify under that. So there's an additional payment
25 that could be made, but Mr. Williams could end up owning

1 the entire company.

2 COMMISSIONER CLAYTON: So LEC, LLC, Rebecca
3 Malcolm and Robert Williams would not be considered
4 independent third-party purchasers of the assets or the
5 stock of New Florence Telephone?

6 MR. ENGLAND: That would be my
7 understanding.

8 COMMISSIONER CLAYTON: So then the other
9 penalty provisions or payment provisions would kick in
10 unless an independent third party were to purchase the
11 assets?

12 MR. ENGLAND: That's correct.

13 COMMISSIONER CLAYTON: Does Mr. Williams
14 own other telephone companies in the state of Missouri?

15 MR. WILLIAMS: Not to my knowledge.

16 MR. ENGLAND: Not to mine either, but
17 Mr. Williams is here, and let me check.

18 COMMISSIONER CLAYTON: Well, I know he's
19 active on a national level, and I'm assuming --

20 MR. WILLIAMS: He's also present in the
21 room.

22 MR. ENGLAND: The answer to your question
23 is no, he does not own any other telephone companies.

24 COMMISSIONER CLAYTON: Mr. -- and to
25 Mr. Nathan Williams, was that a goal of Staff or just

1 incidental to changing the ownership of New Florence?

2 MR. WILLIAMS: I'm sorry? What -- was what
3 a goal?

4 COMMISSIONER CLAYTON: Does -- does Staff
5 see it as a goal to see that all three of these owners of
6 Tiger are not doing business with New Florence?

7 MR. WILLIAMS: Yes.

8 COMMISSIONER CLAYTON: Okay. We've
9 discussed LEC or we've discussed LEC in the Cass County
10 circumstance. And so a similar position is being taken by
11 Staff on the other owners as well?

12 MR. WILLIAMS: Yes.

13 COMMISSIONER CLAYTON: The treatment of ETC
14 certification or USF certification, what is the difference
15 between the treatment of New Florence Telephone versus the
16 treatment of Cass County Telephone in that settlement?

17 MR. WILLIAMS: One, there's no provision
18 dealing with any retroactive Universal Service Funds
19 federal. And additionally, unlike CassTel, New Florence
20 does not have independent management that satisfies Staff.
21 So Staff is not in a position to make any favorable
22 recommendation on prospective federal USF until that
23 condition is met with regard to New Florence.

24 COMMISSIONER CLAYTON: And does the
25 agreement contemplate when Staff would take a position on

1 prospective certification?

2 MR. WILLIAMS: Whenever New Florence
3 Telephone Company has -- let me find the exact provision.
4 Sufficient and -- sufficient financial and managerial
5 control so that it has independent management with no
6 relationship or ties to current owners and that also has
7 sufficient knowledge and skill to be acceptable to the
8 Staff.

9 COMMISSIONER CLAYTON: And it's
10 contemplated that that management would be under new
11 ownership, not in a circumstance where an independent
12 manager came in under the current ownership?

13 MR. WILLIAMS: It could come in under the
14 current ownership.

15 COMMISSIONER CLAYTON: It could?

16 MR. WILLIAMS: Yes.

17 COMMISSIONER CLAYTON: The payment of
18 penalty on the first couple pages of the agreement is for
19 \$100,000?

20 MR. WILLIAMS: I wouldn't characterize it
21 as a penalty, but there's a payment to be made to the
22 State School Fund in the amount of \$100,000.

23 COMMISSIONER CLAYTON: How would you
24 characterize that payment if it's not a penalty?

25 MR. WILLIAMS: It's part of the overall

1 agreement, and it is a payment to the School Fund and it
2 is a part of the settlement, which includes settlement of
3 the complaint case, and also a potential earnings case.

4 COMMISSIONER CLAYTON: And a potential
5 earnings case?

6 MR. WILLIAMS: Yes.

7 COMMISSIONER CLAYTON: Okay.

8 MR. WILLIAMS: There is a rate moratorium
9 involved in this agreement.

10 COMMISSIONER CLAYTON: All right. Could
11 you explain how the customer credits under paragraph E
12 work on page 7?

13 MR. WILLIAMS: The customers of New
14 Florence Telephone Company who are receiving basic local
15 service and paying the full tariff rate as of June, I
16 believe, 2nd of this year, which is when the Stipulation &
17 Agreement was filed, are entitled to receive a \$50 credit.

18 COMMISSIONER CLAYTON: Okay. And what is
19 the value of that \$50 credit over all of the customers?

20 MR. WILLIAMS: I believe it's something
21 over \$25,000, in that neighborhood.

22 COMMISSIONER CLAYTON: And that's in
23 addition to the \$100,000 payment?

24 MR. WILLIAMS: Yes. And the timing of the
25 credits is dependent upon the filing of a sale case, I

1 believe it's within 30 days after that or within 30 days
2 after December 29th of this year, whichever is earlier.

3 COMMISSIONER CLAYTON: Okay. Are the
4 provisions associated with the rate moratorium and the
5 rate of return regulation and perhaps decision to become
6 price cap, are all those provisions similar with the Cass
7 County Telephone case?

8 MR. WILLIAMS: They're similar. There's
9 nothing dealing with amortizations, though.

10 COMMISSIONER CLAYTON: Okay. I apologize
11 for taking so much time here. We've had other things
12 going on that distracted me. Is Mr. Winter your primary
13 accounting witness?

14 MR. WILLIAMS: Mr. Winter and
15 Mr. Schallenberg.

16 COMMISSIONER CLAYTON: I wanted to ask some
17 questions regarding the nature of problems or alleged
18 problems or potential problems that they found within New
19 Florence. Would it be appropriate to ask Mr. Winter or
20 Mr. Schallenberg?

21 MR. WILLIAMS: I would say probably
22 Mr. Winter.

23 COMMISSIONER CLAYTON: Judge, would that be
24 all right?

25 JUDGE WOODRUFF: That would be fine.

1 COMMISSIONER CLAYTON: Since I'm not
2 competing with anyone else on the Bench. Before you swear
3 him in, if I could ask Mr. England, Mr. England, are you
4 or any New Florence folks testifying for you-all today or
5 available to answer questions or no?

6 MR. ENGLAND: Mr. Robert Williams is
7 available to ask questions.

8 COMMISSIONER CLAYTON: Okay. Thank you.

9 (Witness sworn.)

10 JUDGE WOODRUFF: You may be seated. Why
11 don't you tell us your name.

12 THE WITNESS: My name is David Winter.

13 JUDGE WOODRUFF: And you work for the
14 Commission?

15 THE WITNESS: I work as a regulatory
16 auditor with the Missouri Public Service Commission.

17 COMMISSIONER CLAYTON: Thank you.

18 DAVID WINTER testified as follows:

19 QUESTIONS BY COMMISSIONER CLAYTON:

20 Q. Mr. Winter, you have worked in the same
21 capacity on New Florence Telephone Company as you did in
22 the Cass County Telephone?

23 A. Yes, I did.

24 Q. Or Cass Telephone Company. Do you know
25 when the last New Florence Telephone Company rate case

1 was?

2 A. I have no earthly idea. That was probably
3 maybe in the early '60s at the latest was the last rate
4 case.

5 Q. I'm not going to ask whether you were here
6 in the '60s.

7 A. No.

8 Q. So we don't have a frame of reference to
9 compare back at prior rate cases as we did with CassTel?

10 A. No, we do not.

11 Q. What is the total amount of rate reduction
12 that Staff is seeking in this by asking us to enter into
13 this stipulation? Is it the \$100,000?

14 A. We are not -- in this particular case, this
15 is a settlement of the complaint case. There is no rate
16 reduction in this particular case.

17 Q. Okay. No rate reduction?

18 A. No.

19 Q. What is the \$100,000 based upon? In the
20 CassTel case, I recall that that figure was structured
21 similarly with a rate reduction complaint case. In this
22 case, how was the \$100,000 figure established?

23 A. That was through extensive negotiations
24 with the company for \$100,000.

25 Q. Okay. I don't want to go -- want to get

1 into the negotiations and how they worked, but is it
2 possible to ask what Staff's original position was or did
3 it start at 100,000? Was it significantly higher? If
4 that's an inappropriate question to ask, someone please
5 say so.

6 A. I don't remember what our original position
7 was, original number.

8 Q. So the \$100,000, is it -- is that based
9 on -- can it be based on rates being out of line or is
10 that -- should I look at it more as a -- I know it's not
11 called a penalty. I guess there was a basis on which the
12 CassTel penalty was based,, which this isn't making any
13 sense, and I'm going to hate to read the record after
14 this. Where did this \$100,000 figure come from?

15 A. The 100,000, in order to settle this case,
16 to get the company sold, the Staff and the company entered
17 into an agreement and there was negotiations on 100,000.
18 I don't remember all the numbers that were thrown back and
19 forth, but it's a payment to settle the case for the past
20 transgressions, and also as a means to get the process
21 started to sell the company, new ownership.

22 Q. Let me ask you about those past
23 transgressions or transactions that you've just
24 referenced. In reviewing the books of New Florence, how
25 many different lines or how many different areas did Staff

1 find potential inappropriate charges or overcharging?

2 A. Well, we can go into probably two separate
3 areas. One was the consulting management fees which went
4 to LEC, LLC, Matzco, and, in our opinion, also South Holt
5 Communication.

6 Q. South Holt?

7 A. South Holt Communications.

8 Q. Okay.

9 A. The other piece was the LEC overhead
10 charges that we found, what we talked about during Cass
11 County, the 40/80 percent additives that were added to
12 the LEC bill. And lastly is the switch transaction that
13 they -- that rules require original costs, and in this
14 particular case the switch was priced at well above
15 original cost.

16 Q. So the switch was priced over its actual
17 cost?

18 A. Yes.

19 Q. By how much? Is that HC or --

20 MR. ENGLAND: I believe that information is
21 proprietary.

22 BY COMMISSIONER CLAYTON:

23 Q. Okay. Regarding the consulting fees or the
24 management fees by LLC, is it public information or can
25 you answer the dollar amount of overcharging in rates for

1 that particular service?

2 A. Those were -- I believe are highly
3 confidential. I think most of that was mentioned in my
4 testimony in this proceeding, in that all that is highly
5 confidential.

6 Q. Okay. So Staff's concerns are associated
7 with the consulting and management fees from LEC,
8 potential charges from Matzco, South Holt?

9 A. South Holt Communication.

10 Q. Is it Holt?

11 A. Holt, H-o-l-t.

12 Q. And then an incorrect value of the switch
13 cost?

14 A. Yes. And let me clarify the LEC piece.
15 There's two pieces of LEC. There's LEC overhead charges,
16 which we're talking -- we've talked about, the 40/80
17 percent, and then there's the other piece which they were
18 being paid management fees on top of their fees that they
19 were charging for their operations. So I think if you go
20 down there, you'll count five separate pieces.

21 Q. Okay. Now, there's a rate moratorium where
22 they can't file a rate case for a particular amount of
23 time?

24 A. I believe it's two years, yes.

25 Q. And are rates being decreased by the

1 amounts based on those five items in this case?

2 A. No, they're not.

3 Q. They're not? Why are they not?

4 A. Why are they not?

5 Q. Yeah. If you found -- if you found that
6 the rates were based on inflated costs in five areas, why
7 are not the rates being reduced by those overcharges?

8 A. When we went through there, we went and
9 cleaned all that out. The rates were just -- our revenue
10 requirement was just about zero. In other words, when you
11 cleared everything out and came down to what the cost of
12 service was, the rates were appropriate where they're at
13 today.

14 Q. So there was some other increase in costs
15 that -- on a different line that -- that would make it a
16 wash in terms of evaluating it today?

17 A. Yes. And additionally, our test year was
18 2004-2005. At the end of 2004, beginning of 2005,
19 Mr. Williams changed, I will call it the companies that
20 took care of the books and records, the human resources
21 and all this to another company, and also we have a
22 different management structure. So not only have you
23 changes from 2004, but you also have major material
24 changes in 2005 also.

25 Q. And those changes are what made up the --

1 caused the increase in costs to zero out any potential
2 change in cost of service?

3 A. We did not look that closely at 2005
4 because we were in a settlement process, but our initial
5 look at it was that we would still be around -- we would
6 not have to change rates for this process.

7 Q. How was the \$25,000 figure, the credit on
8 people's bills, how was that figure established since you
9 have -- since rates shouldn't change, how do you justify
10 the \$50 credit?

11 A. That was -- again, that was a part of the
12 settlement. It was also a part of the piece to look at a
13 rate moratorium, that if you want a rate moratorium there
14 should be some tradeoffs here, and a \$50 credit we believe
15 was quite appropriate.

16 Q. So this is an agreement to fix perhaps
17 older overcharges?

18 A. Potentially.

19 Q. Potential or inappropriate overcharges.

20 Okay. In your review of each of the five
21 overcharges, was it possible to identify within management
22 or ownership of the company who was responsible for those
23 overcharges? I mean, was the board aware of it? Was it
24 just a few employees? Was it just Mr. Matzdorf?

25 A. We believe the board and the management

1 team of New Florence knew of the charges, yes.

2 Q. Were they aware that they -- do you think
3 they were aware or should have been aware of their
4 inflated cost?

5 A. Well, let me back up. Some of the dollars
6 from the management charges were being paid to the owner
7 of the company and the board members of the company. So
8 that pretty well says that they did know about the charges
9 that they were receiving from management fees.

10 Q. Was there anyone other than Mr. Matzdorf
11 that you're referring to?

12 A. There was Mr. Matzdorf. Again, there was
13 LEC, LLC and South Holt Communications, which is owned by
14 Mr. Williams.

15 Q. What is South Holt Communications?

16 A. It's been represented to us that South Holt
17 is Mr. Williams' consulting company now.

18 Q. Does it provide services to any other
19 regulated Missouri companies that you're aware of?

20 A. I do not know the answer, and if it is, it
21 might be highly confidential. We did --

22 Q. Well, do you know? Do you know the answer
23 first?

24 A. No, I don't.

25 Q. Okay. You don't know the answer. Okay.

1 And the dollar amount of overcharges for that consulting
2 company is an HC or proprietary figure?

3 A. Yes, it is.

4 Q. What is -- the date for the sale of the
5 company is supposed to occur by October 2nd, 2006?

6 A. They're supposed to file a case with this
7 Commission by October 2nd, 2006.

8 Q. If that does not happen, if they do not
9 file an application, what occurs?

10 A. They will have to write a check for
11 \$250,000 to the School Fund.

12 Q. Anything else?

13 A. Not to my knowledge on that piece.

14 Q. So if the company is not sold, then LEC --
15 excuse me. If the company is not sold, they pay an
16 additional payment of \$250,000 and then Tiger Telephone
17 could continue owning New Florence Telephone?

18 A. They could continue to own Tiger Telephone,
19 but the 250,000 was put in place because the amount was
20 such a material amount that we had to give the company
21 incentive to sell. In other words, their total Missouri
22 revenues, and this is from the annual reports, \$223,000.
23 So with the cutoff of NECA and Universal Service money, it
24 would put them in a very bad position if they did not sell
25 the company.

1 Q. And that's payable immediately?

2 A. Yes.

3 Q. It's not a credit on customers' bills or --

4 A. No.

5 Q. -- pay over time?

6 And by this agreement you're not
7 prospectively certifying Universal Service Fund?

8 A. No. We will look at whoever the new
9 owners, if it meets the provisions of the stipulation,
10 then we may recommend or we may not. It depends on the
11 situation.

12 Q. There is no reference to retroactive
13 certification for Universal Service funding?

14 A. No, there is no retroactive provisions in
15 this agreement whatsoever.

16 Q. Is there any -- if you have a new manager
17 that comes in, is it prohibited in this agreement or
18 contemplated whether or not there will ever be a
19 retroactive certification?

20 A. I do not know if we addressed that piece
21 when we were negotiating this transaction, so I really
22 can't give you an answer.

23 COMMISSIONER CLAYTON: Do you know,
24 Mr. Nathan Williams?

25 MR. WILLIAMS: It's not contemplated in the

1 agreement, not addressed in it.

2 COMMISSIONER CLAYTON: So conceivably you
3 could have a new owner, a new manager come in and later
4 seek retroactive certification from the time period that
5 has been lost, correct?

6 MR. WILLIAMS: That's a possibility.

7 BY COMMISSIONER CLAYTON:

8 Q. Mr. Winter, what would be the value of the
9 dollars lost because we have not certified New Florence
10 Telephone? In the time -- looking backwards, what is the
11 value of those Universal Service Fund monies?

12 A. Let me give you a perspective. I don't
13 have the exact amount. The last year that New Florence
14 Telephone received the full amount of Universal Service,
15 and this includes all three pieces, the high cost, the
16 local switching and the long-term support, they received
17 368,000, almost \$369,000.

18 Q. For a year?

19 A. For a year, yes. 2004 would not be -- they
20 received \$188,000, but they were cut off I believe in
21 September or October of that year, so it would not be a
22 good comparison.

23 Q. Have they lost out for over a year now?
24 Has it been a year's worth of support?

25 A. October 2004 I believe was when they got

1 cut off, so --

2 Q. So we're approaching two years then?

3 A. Almost two years, yeah.

4 Q. Two years at 269,000. But according to
5 this agreement, Staff is saying that it would -- it would
6 never retroactively certify New Florence for USF support
7 if the current management or company is in place, correct?

8 A. That was my understanding, yes.

9 Q. Well, I guess this is what I'm getting at.
10 So you pass the October deadline, they don't file a joint
11 application for sale of the property, they come up with
12 \$250,000, can they then seek application for retroactive
13 approval?

14 A. We -- it's the Staff's position we will not
15 certify the current management of New Florence Telephone.

16 Q. Well, if you have a new company that steps
17 in and they buy the company, would they be able to seek
18 that money? I mean, that's \$740,000. Would anyone have
19 to be able to apply for that or successfully apply for it?

20 A. They could probably apply. What will
21 happen from then, I cannot give you an answer.

22 Q. Yeah. Okay. Can you tell me the total
23 dollar amount of the five overcharges of the five lines
24 that Staff believe had inflated costs? Is that an HC
25 number?

1 A. That's an HC number. I can give it to you,
2 but it's HC.

3 Q. Okay. There is only one case here. We
4 basically have a complaint case filed by Staff against New
5 Florence; is that correct?

6 A. That's true.

7 Q. We have no rate case or complaint rate case
8 before us?

9 A. That is true.

10 Q. And there's no application for sale of the
11 company before us?

12 A. That is true also.

13 COMMISSIONER CLAYTON: Judge, if we could
14 go into in-camera, I'm going to ask just the general
15 dollar amounts.

16 JUDGE WOODRUFF: All right. At this time
17 we will go into an in-camera session. If there's anyone
18 in the room that needs to leave, please do so.

19 (REPORTER'S NOTE: At this point an
20 in-camera session was held, which is contained in Volume
21 3, pages 32 through 48 of the transcript.)

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1 JUDGE WOODRUFF: At this point then, we're
2 out of the in-camera session back into regular session.

3 QUESTIONS BY COMMISSIONER GAW:

4 Q. Okay. I've been asking you several
5 questions in regard to things that I think ought to be
6 made public, and the Judge, as I understand, is going to
7 assist in helping to determine what areas those might be
8 and give the parties some opportunity to respond, but I've
9 asked the Judge to make sure we review that so that
10 information that might have come out from questions and
11 answers in this non-public session can be made public, if
12 it's appropriate to do that.

13 JUDGE WOODRUFF: As I consider it,
14 Commissioner, I believe what we can do is, once the
15 transcript comes out, we can edit to redact information
16 that is actually highly confidential and then release the
17 balance.

18 COMMISSIONER GAW: If there's disagreement
19 about that, then I would hope we'd have the opportunity to
20 make that decision.

21 JUDGE WOODRUFF: Sure.

22 BY COMMISSIONER GAW:

23 Q. In regard to these questions, I've been
24 asking questions regarding the payments of these
25 particular fees, and in one case the amount of money paid

1 for a switch and how that relates to the Universal Service
2 Fund. You recall that?

3 A. Yes.

4 Q. And generally, would it be the case that
5 you have -- you have said that in 2001 New Florence
6 Telephone Company went to a cost-based process in
7 determining how much US Cellular -- Universal Service
8 Funds it received from the federal government?

9 A. Yes.

10 Q. And in the year 2001, there were certain
11 changes made in regard to payments out from New Florence
12 Telephone Company to certain affiliates or certain other
13 companies that might have been owned by individuals who
14 were -- who had connection with New Florence Telephone
15 Company?

16 A. Those are when the payments started in
17 2001.

18 Q. And that was the year they went to a cost-
19 based --

20 A. Yes.

21 Q. -- USF?

22 And just very briefly, could you tell me
23 the difference between a cost-based system and the other
24 system that was available to them?

25 A. Average schedule is based upon a NECA

1 formula where you do not go and do a cost study as such.
2 They use a national formula and apply that to a model, and
3 you receive reimbursements through that national model.

4 A cost company is basically you receive
5 your reimbursements on the NECA side in Universal Service,
6 based upon your embedded costs, in other words, your plant
7 and then your -- there's a plant formula. There's also a
8 formula for determining your costs that are applied to
9 request reimbursements or reimbursements from Universal
10 Service or from NECA.

11 Q. And is it Staff's belief that there were
12 payments that were made that -- to these -- some of these
13 entities that were greater than the value of those
14 services?

15 A. Yes, we do. We believe that they were
16 greater than.

17 Q. And does Staff also believe that as a
18 result of -- that there were representations made to -- in
19 regard to the costs incurred by New Florence that would
20 have resulted in additional amounts of USF being paid
21 inappropriately?

22 A. Yes. We quantitized it, and that number is
23 in our report, what we believe the -- at least the three
24 consulting costs they received in Universal Service or
25 NECA monies.

1 Q. And there were four consulting-type
2 payments that were being made?

3 A. There was three consulting, quote, and then
4 there was the LEC 40/80 percent charges we have talked
5 about before.

6 Q. And then there was an amount that was
7 represented as being paid for, for a new switch?

8 A. Yes.

9 Q. And that amount was significantly more than
10 the actual cost for that switch?

11 A. Yes, it was.

12 Q. And I also believe you have testified that
13 there was no information -- at this point there has been
14 no direct conveyance of this information in regard to
15 Staff's findings to any other governmental authority?

16 A. Not to my knowledge, we have not.

17 Q. Is there anything in this agreement that
18 prevents that communication from occurring?

19 A. No.

20 Q. Is there any reason at this point the Staff
21 has not communicated that information on to any
22 prosecutorial authorities or to any entities that manage
23 the USF?

24 A. Not to my knowledge.

25 Q. I think you've already answered when the

1 last rate case was for the company, correct?

2 A. We do not know when the rate case was. We
3 were speculating that it was probably sometime in the
4 '60s.

5 Q. The companies that receive the money that
6 you were referring to earlier, we already know from
7 previous testimony in other cases about the general nature
8 of LEC, LLC, I believe?

9 A. Yes.

10 Q. The other -- the other companies, would you
11 go down through them again for me real quick?

12 A. We'll start off -- we've already talked
13 about LEC, LLC. We have Matzco, which was a company
14 organized -- I cannot find anything else other than it was
15 owned by Mr. Matzdorf.

16 Q. Do you know what its legal form was? Was
17 it a corporation, and if so, what kind, the type?

18 A. I would say off the top of my head it was
19 an LLC.

20 Q. Okay. Do you know if it was authorized to
21 do business in the state of Missouri?

22 A. Yes, it was.

23 Q. Okay. Is it still in existence?

24 A. I do not know.

25 Q. And do you know who the owners were of that

1 entity?

2 A. From our research, it appears to be
3 Mr. Matzdorf.

4 Q. Okay.

5 A. And Mr. Matzdorf's the only one I'm aware
6 of.

7 Q. And did Staff track any of the monies that
8 were paid from New Florence to Matzco beyond that, in
9 other words, to see what occurred with the money after --

10 A. No.

11 Q. -- Matzco received it?

12 A. No, we did not.

13 Q. Okay. What other companies were there?

14 A. The third one was South Holt
15 Communications.

16 Q. And is that a corporation?

17 A. I believe so. It's a corporation, state of
18 Missouri.

19 Q. Same question. Do you know if it's
20 currently authorized to do business?

21 A. I believe it is.

22 Q. Do you know who the owners are?

23 A. I know one owner is Mr. Robert Williams.

24 Q. Are there other owners?

25 A. I'm not aware of it right now.

1 Q. Okay. And same question, do you know about
2 what occurred with any money that went to South Holt --

3 A. No, I do not.

4 Q. -- from New Florence?

5 A. I do not know.

6 Q. And the other one was Consulting Management
7 or something? Have I got that?

8 A. There was three of them. We've talked
9 about two of them. We've talked about three of them.

10 Q. What's the third one?

11 A. We've talked about LEC, LLC. Now, let me
12 -- this kind of gets kind of confusing.

13 Q. Yes.

14 A. LEC, LLC was being paid not only to do
15 their books and records and human resources and all that
16 stuff, which that's the 40/80 percent we were talking
17 about, but they were also receiving a monthly check for
18 management services.

19 Q. Okay.

20 A. So LEC, LLC was receiving two pieces of the
21 five. They were receiving the 40/80 percent that was
22 going through there. They were receiving a management
23 fee. And then you have Matzco, South Holt, and then the
24 last one we talked about was the switch piece.

25 Q. Were there any other entities receiving

1 funds or payments from New Florence that were related to
2 Mr. Williams or Mr. Matzdorf?

3 A. From our review, we think we've picked all
4 the companies up that were receiving payments.

5 Q. So there were three companies?

6 A. Three companies.

7 Q. Okay. I'm going to jump around just a
8 minute here. The issue that Commissioner Clayton raised
9 about possibilities of recovering past USF monies that had
10 not been paid because of the fact that the company was not
11 certified to receive them in the last --

12 A. Yes.

13 Q. -- two or three years, first all, how many
14 years have they not been received funding now?

15 A. They received -- I believe what we were
16 talking about with Commissioner Clayton, I believe monies
17 were cut off in October of 2004. They haven't received
18 anything since then, so we're getting -- we're at a
19 minimum of 18, 19 months so far.

20 Q. I guess my question is whether or not a
21 scenario could -- might arise where a sale occurs and the
22 issue of who actually could pursue the recovery of that,
23 of those funds, if they could be recovered, could be
24 decided contractually in the sales agreement as to whether
25 or not the buyer or the seller might ultimately be able to

1 receive those funds?

2 A. It's our position the current owners would
3 not receive Universal Service monies or the NECA monies
4 that are outstanding. As to a new owner, this agreement
5 does not address what -- the potential for a new owner,
6 but in fact, it does not talk about prior Universal
7 Service monies that are still outstanding. We're talking
8 about an ongoing four phases.

9 Q. But what prevents an arrangement where the
10 new company actually makes the -- or the owners through
11 the new company actually make the application, but the
12 contract provides for some -- for some or all of that to
13 be paid back to the seller?

14 A. Again, this provision, our agreement does
15 not provide for that, but I would seriously doubt that the
16 Staff would agree to anything where the monies would go
17 back to the seller.

18 Q. Is there anything that Staff is aware of in
19 regard to a sale of this company --

20 A. No.

21 Q. -- without giving me specifics at this
22 point?

23 A. We're not aware. We know that there's been
24 talk about putting the company on the market and different
25 strategies of how to put the company on the market, but

1 other than that, we do not know what the status is of the
2 sale.

3 Q. Have you asked that question?

4 A. No, I have not asked.

5 Q. Because there is a deadline here in this
6 agreement regarding the sale of the company --

7 A. Yes.

8 Q. -- to occur by a certain date?

9 It would appear that someone is
10 contemplating that a sale is going to occur?

11 A. They do have the incentive by the 2nd of
12 October to sell the case -- or sell the company because of
13 the \$250,000 penalty.

14 Q. But again, Staff is not aware of any
15 potential particular buyer?

16 A. Not at this time, no.

17 Q. Could -- the breakdown on the USF, just if
18 you could, you had -- I believe you said there's a high
19 cost portion, local switching and then long-term support?

20 A. Yes.

21 Q. Could you tell me what the local switching
22 is for?

23 A. Local switching is dollars that are paid
24 to, I will call it to subsidize the local switching cost.
25 They've taken those costs and tried to move it from access

1 and also from local to subsidize the local switching costs
2 of an ILEC. Long-term support, I
3 believe -- I am not sure on that one. Ms. Dietrich might
4 know the answer to that question.

5 Q. And since we're back in public, I won't ask
6 you the amounts on the local switching.

7 A. Well, these I can give it to you, because
8 these are in the annual reports.

9 Q. I think you may have already done that, but
10 if you'd do that for me, I'd appreciate it.

11 A. What I gave Commissioner Clayton was the
12 last full year of dollars. That was in 2003. The high
13 cost fund paid 69,376. The local switching piece was
14 283,548, and the long-term support piece was 15,960. And
15 the total support for all three pieces was 368,884. That
16 was less than in 2004 because of the cutoff in dollars in
17 October, but that was the last full year of monies the
18 company received.

19 COMMISSIONER GAW: I'm done for now.

20 JUDGE WOODRUFF: Commissioner Clayton, do
21 you have any more?

22 COMMISSIONER CLAYTON: Yes, I have one
23 question.

24 FURTHER QUESTIONS BY COMMISSIONER CLAYTON:

25 Q. You said, Mr. Winter, there were two

1 employees of the company. Were either of those employees
2 on the board or management?

3 A. No. One runs the local office and one is
4 the outside plant person, from my understanding.

5 COMMISSIONER CLAYTON: Okay.

6 JUDGE WOODRUFF: Mr. Winter, you can step
7 down.

8 MR. WILLIAMS: Judge, if I might, I'd like
9 to ask Mr. Winter a couple questions.

10 JUDGE WOODRUFF: Go right ahead.

11 QUESTIONS BY MR. WILLIAMS:

12 Q. Mr. Winter, did Staff ever attempt to work
13 cooperatively with NECA or the FCC regarding CassTel as
14 well?

15 A. Yes, we did. We called them based upon the
16 guidance we received from the Commission that we should
17 work with other agencies. We called the FCC. We talked
18 to NECA, and we talked also to the Universal Service
19 Administration Company about working a cooperative audit.
20 They did not want to work with us whatsoever. So that's
21 one of the -- that's the main driver of why we did not
22 work with those agencies.

23 Q. And aren't there some statutory
24 prohibitions on information that Staff's able to share
25 that it receives from companies?

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4 Q. Isn't there a specific State statutory
5 prohibition on information that Staff employees obtain
6 from companies that are confidential, in sharing that?

7 A. Yes, there is.

8 COMMISSIONER GAW: May I follow up, Judge?

9 JUDGE WOODRUFF: Go right ahead.

10 FURTHER QUESTIONS BY COMMISSIONER GAW:

11 Q. Does that restriction that you're talking
12 about, can you cite the statute off the top of your head?

13 A. No, I cannot.

14 Q. And do you know if this Commission has the
15 authority to authorize a release of that information?

16 A. I believe it can.

17 Q. So has Staff requested that?

18 A. Not to my knowledge.

19 COMMISSIONER GAW: Thank you, Judge.

20 JUDGE WOODRUFF: Any other questions for
21 Mr. Winter?

22 (No response.)

23 JUDGE WOODRUFF: All right. Then, you may
24 step down.

25 Commissioner Gaw or Clayton, do you have

1 any other questions for any of the parties?

2 COMMISSIONER GAW: Who else is available?

3 JUDGE WOODRUFF: Mr. Robert Williams I
4 understand is here from the company and, of course, the
5 attorneys are here.

6 COMMISSIONER GAW: I want a few minutes.

7 JUDGE WOODRUFF: We'll take a short break.
8 We'll come back at 2:45.

9 (A BREAK WAS TAKEN.)

10 JUDGE WOODRUFF: Let's go back on the
11 record. Commissioner Clayton, do you have any questions
12 for any of the witnesses?

13 COMMISSIONER CLAYTON: I'd like -- if
14 Mr. Williams is available, I'd like to ask him a few
15 questions, if I could.

16 JUDGE WOODRUFF: Mr. Williams, if you'd
17 come forward.

18 (Witness sworn.)

19 JUDGE WOODRUFF: And for the record, can
20 you tell us your name?

21 THE WITNESS: Robert Williams.

22 JUDGE WOODRUFF: And what's your position?

23 THE WITNESS: I'm the president and CEO of
24 New Florence Telephone Company.

25 JUDGE WOODRUFF: Commissioner Clayton?

1 COMMISSIONER CLAYTON: Thank you, Judge.

2 ROBERT WILLIAMS testified as follows:

3 QUESTIONS BY COMMISSIONER CLAYTON:

4 Q. Mr. Williams, thank you for making yourself
5 available today. I've heard your name many times over the
6 last couple of years in a number of different capacities.
7 I don't think we've ever met. I appreciate you being
8 available here today.

9 How long have you been in the telephone
10 business?

11 A. Since 1965.

12 Q. 1965. Were you a part of New Florence's
13 last rate case?

14 A. No, I wasn't, but I was part of Oregon
15 Farmers Mutual's last one.

16 Q. Oregon Farmers. Okay. Was that the first
17 phone company that you were affiliated with or worked for?

18 A. Yes. Yes.

19 Q. And how many telephone companies in
20 Missouri have you worked for or owned since 1965?

21 A. I've worked for three. I worked for --
22 Oregon Farmers Mutual was my parents' company that I took
23 over ownership of in '91. For a short period of time I
24 helped out at CassTel, but just for, oh, about two years,
25 I think it was. Helped them get started, helped them set

1 up their operation. Then I've been involved with New
2 Florence since '98.

3 Q. What years did you work at CassTel?

4 A. Gosh, the first two years they were in. I
5 can't remember when those were, '98, '99, '96, somewhere
6 in there.

7 Q. Was that about the same time
8 Mr. Matzdorf --

9 A. Yes.

10 Q. -- purchased Cass?

11 A. Yes. I helped Mr. Matzdorf get started.

12 Q. Okay. So you've mentioned Oregon Farmers,
13 CassTel, New Florence. Have you owned any other telephone
14 companies in Missouri?

15 A. No, sir.

16 Q. All right. Have you owned any other
17 telephone companies outside of Missouri?

18 A. I owned a small part of one in Texas.

19 Q. Is that Crawford?

20 A. No. We never got that deal done. It
21 was --

22 Q. I remember seeing it somewhere.

23 A. Yeah, that was Lake Livingston Telephone
24 Company.

25 Q. You know, I've got to ask. I remember

1 reading -- is it Crawford County Telephone or just
2 Crawford Telephone?

3 A. Crawford Telephone.

4 Q. And you-all tried to buy that?

5 A. Yes.

6 Q. Is that Crawford, Texas where the
7 President's from?

8 A. Yes.

9 Q. Wow. There's a whole line of questions I'd
10 want to ask about that.

11 A. Well, we might be lucky.

12 Q. I'll avoid that. Are you affiliated with
13 any national telephone organizations?

14 A. Yes. I've been very active in OPASTCO,
15 which is Organization for the Promotion and Advancement of
16 Small Telephone Companies -- Small Telecommunications
17 Companies. I'm past chairman and currently serve as past
18 chairman on their board of directors and executive
19 committee.

20 Q. So past chairman, that would be the head of
21 the whole organization?

22 A. Yes, I was chairman of it last year.

23 Q. So you testified before Congress?

24 A. Yes.

25 Q. Make appearances before the FCC?

1 A. Done all that, yes.

2 Q. Haggle with the Commissioners?

3 A. Yes.

4 Q. Do you -- did you work with any other state
5 commissions, aside from Missouri?

6 A. No. Several years ago when we adopted the
7 rural -- the Rural Plan for Intercarrier Compensation, we
8 made several visits to state commissioners throughout the
9 Midwest. I also spoke at the MARC convention last year in
10 Little Rock.

11 Q. Can't beat a good regulatory conference,
12 can you?

13 A. Absolutely.

14 Q. Any other national organizations with whom
15 you affiliate?

16 A. Not right now. I formerly was a member of
17 the board of directors of United States Telecom
18 Association, and I currently serve on the steering
19 committee for the Coalition to Keep America Connected,
20 which is a group of -- started by the four main trade
21 organizations for rural companies, Western Telecom
22 Alliance, Independent Telephone -- it's the mid size
23 companies -- and MTCA, which is the cooperatives, and
24 OPASTCO.

25 Q. Is a mutual a cooperative? Like, is Oregon

1 Farmers, would it be a member of MTCA?

2 A. No, it would not be a cooperative. A
3 mutual is -- it had a lot of cooperative characteristics,
4 but every customer would not be an owner. They would have
5 had maybe a group of 30 customers got together and started
6 the company, and that happened in 1906 in Oregon.

7 Q. Okay. We heard earlier today that you are
8 affiliated with South Holt Communications; is that
9 correct?

10 A. That's correct.

11 Q. How many other organizations or consulting
12 firms are you affiliated with?

13 A. That's the only one.

14 Q. And how long has that been in existence?

15 A. It's been in existence probably about -- I
16 want to say eight years. Seven, eight years.

17 Q. And how many companies in Missouri does it
18 consult for or has it consulted for?

19 A. Right now, it is not consulting for any
20 Missouri companies. My affiliation with New Florence is
21 direct from me to New Florence. It does not go through
22 South Holt.

23 Q. Has South Holt Communications done any
24 consulting work with any Missouri companies in the past
25 seven to eight years?

1 A. Yes.

2 Q. Can you tell me those companies?

3 A. It did some work -- all of the employees

4 when I owned Oregon Farmers, the employees were employees

5 of South Holt Communications, and we leased them back to

6 Oregon Farmers. We went through two earnings

7 investigations on that.

8 Q. At Oregon Farmers?

9 A. Yes, with Mr. Winter.

10 Q. So you've met Mr. Winter?

11 A. I know Mr. Winter.

12 Q. Okay. So for how many companies has South

13 Holt Communications done consulting work in its existence?

14 A. Three or four.

15 Q. And which companies are those?

16 A. That would have been Oregon, New Florence,

17 and then we do consulting work for a company in Texas.

18 Q. I'm sorry. Oregon Farmers, New Florence, a

19 Texas company?

20 A. Yes.

21 Q. And didn't you say there were four?

22 A. Three or four, I said. Could be three.

23 Q. Lake Livingston is who that is?

24 A. Correct.

25 Q. Okay. So South Holt Communications only

1 does work for companies for whom you are employed or
2 companies that you own --

3 A. Yes.

4 Q. -- or have ownership interest?

5 A. It was formed to do a common paymaster for
6 tax reasons. Rather than having a salary from each
7 company that you work for, we bring the money in to one
8 and that way we don't get stuck with, you know, the
9 payroll taxes.

10 Q. Okay. And South Holt didn't hold itself
11 out to -- didn't hold itself out to the general public or
12 the general telephone community to offer its services?

13 A. No, but we're available.

14 Q. You're always available. Okay. Are you
15 familiar with a company, Matzco?

16 A. Yeah, a little bit.

17 Q. What is Matzco?

18 A. Matzco is a company that Ken formed, Ken
19 Matzdorf formed to receive his compensation for his work
20 at New Florence.

21 Q. Are you affiliated at all with Matzco?

22 A. No, I'm not.

23 Q. Are you on the board of directors?

24 A. No, I'm not.

25 Q. And what services did Ken Matzdorf provide

1 for New Florence Telephone?

2 A. Ken was -- performed the executive
3 services, the -- you know, some regulatory executive
4 functions, upper management function.

5 Q. Okay. Now, you're the president and CEO of
6 New Florence?

7 A. No. This was prior to 2000 -- October of
8 2004.

9 Q. Prior to October. That's when you became
10 president?

11 A. When all of the controversy started, I took
12 over as president and CEO, sole voting member of the board
13 of directors at New Florence. I had total authority.

14 Q. Did you have a position at the company when
15 I guess Mr. Matzdorf was president and CEO?

16 A. Yes. We had South Holt Communications.
17 Through South Holt Communications, I did a lot of their
18 operations, planning, outside plant stuff.

19 Q. Were you an officer of the corporation?

20 A. Yes, I was.

21 Q. What was your title then?

22 A. I think I was vice president and secretary.
23 Don't quote me on that, but that's --

24 Q. That's all right. You're on the record. I
25 won't quote you, but somebody will.

1 A. I'm on the record. Okay. I was an
2 officer, how's that?

3 Q. Okay. And at that time Mr. Matzdorf was
4 the president and CEO?

5 A. Yes.

6 Q. All right. And Matzco was paid in place of
7 paying Mr. Matzdorf a salary?

8 A. That's correct.

9 Q. So his salary would have been 70,000 -- I
10 guess --

11 A. Approximately.

12 Q. Is that --

13 A. That's approximate. That's okay.

14 Q. Okay. And I guess you received a similar
15 amount as vice president?

16 A. That's correct.

17 Q. And what type of services did you provide?

18 A. I just said the operational side of the
19 house, planning, operations, outside plant, switching,
20 like that.

21 Q. Were you in the -- were you in the hearing
22 room when Mr. Winter testified earlier today?

23 A. Yes, I was.

24 Q. Were you here when Mr. Winter suggested
25 that Matz-- in Staff's opinion, Matzco and South Holt

1 Communications provided a negligible value --

2 A. I was.

3 Q. -- to the company?

4 Would you care to respond to that? Do you
5 agree or disagree?

6 A. I completely disagree.

7 Q. Why?

8 A. I think we were -- we were compensated in
9 a -- a fair manner for the services that we provided.
10 Plus the fact I think that if -- if there was a
11 disagreement over the amount, that is a ratemaking issue,
12 and it's not a -- not an issue for a complaint. And we
13 felt as though we were compensated fairly and I'll leave
14 it at that. You can't run a telephone company for
15 nothing.

16 Q. Where is New Florence?

17 A. It's between Columbia and St. Louis, right
18 on I-70.

19 Q. And it has all of two employees?

20 A. All of two employees, and me now.

21 Q. So were there any other executives or
22 management in the business?

23 A. No, not at that time.

24 Q. So basically the two of you were paid 100--
25 I guess I can't say. Is that proprietary or highly

1 confidential? The total amount that's been referenced the
2 two of you-all were paid, that amount to supervise two
3 employees; is that correct?

4 A. Well, it's more than supervising two
5 employees. I mean, you have decisions that you have to
6 make every day. You have cost studies you have to
7 administer. You have -- I mean, it's not like it was -- I
8 don't know how much you want to go into this, but when I
9 got in the telephone company, if I sent one piece of
10 correspondence out in a month out of the office in Oregon,
11 that was a lot. When I sold out two years ago, I was
12 probably sending out 30 pieces of correspondence a month
13 and had requests and et cetera.

14 So it's not just supervising two employees.
15 It's taking care of the management functions and the
16 planning functions also.

17 Q. It was suggested earlier today that the
18 amount taken out of the company by South Holt, Matzco and
19 LEC, I believe on an annual basis, exceeded what the
20 annual revenue requirement or the -- I guess the amount of
21 rates that was actually being paid by the customers of New
22 Florence; is that accurate?

23 A. That was accurate to a certain extent. I
24 believe, and Dave can correct me if I was wrong, but he
25 was referring to the intrastate revenue. There's also a

1 piece of interstate revenue, which is the piece that, you
2 know, that we have been talking about. When you're an
3 average schedule company, you still have a piece of
4 interstate, and when you're a cost company, you get a
5 piece of interstate revenue. So the 230,000 that David
6 was referring to is state revenue only.

7 Q. Well, what -- since you said that figure in
8 public -- I don't know if it's a public figure or not, but
9 could you just give me a comparison of what the interstate
10 revenue, what percentage of that? It can't be -- it can't
11 be 100 percent. Maybe 50, 25 percent?

12 A. It could be anywhere from 200 percent to
13 25 percent.

14 Q. That narrowed it down.

15 A. I mean, it really could. I mean, that's --
16 seriously, it depends on your costs, and it depends on how
17 you're -- you know, what your situation is. I mean, this
18 isn't an easy subject to get into and discuss but, you
19 know, the reason that people convert from average schedule
20 to cost is because their costs have increased enough that
21 they're not receiving enough money from the average
22 schedule process, that they convert to the cost process.

23 That's the way the business is done, and I
24 didn't make the rules. That's the rules the way they are.
25 And so you could have a very, very high-cost company, like

1 say a company in Montana that draws \$200,000 from their
2 intrastate side and may draw a million and a half from the
3 interstate side, just because of the way the system works.
4 Now, the high-cost piece of that is subject to intrastate
5 ratemaking, not the rest of it, but the high-cost piece,
6 the high-cost USF.

7 Q. So in your opinion, you don't believe that
8 the amounts paid for Matzco or South Holt were out of
9 line?

10 A. I've always said that, yes.

11 Q. And you don't believe that the management
12 fees that were paid to LEC were out of line?

13 A. No. I reviewed the amounts, and I didn't
14 think they looked out of line at all.

15 Q. What service does LEC do for the company?

16 A. They did human resources.

17 Q. For those two employees.

18 A. Billing. A lot of stuff.

19 Q. I thought the billing was done through
20 South Holt through your master paymaster, common
21 paymaster?

22 A. No. The billing was -- we converted the
23 billing effective January 1, 2005 up to South Holt -- or
24 not to South Holt. Actually, it's Northwest Holdings.

25 Q. So costs 70,000 -- well, it cost that much

1 money to send bills to 500 customers?

2 A. Well, no. They did human resources. They
3 did some reporting. They did a lot of stuff.

4 Q. Human resources are two, right? Two
5 employees? I mean, what are they doing for human
6 resources?

7 A. You've still got to deal with your
8 insurance problems, you've got to deal with benefit
9 problems, you've got to deal with -- you know, there's a
10 lot of stuff.

11 Q. What are some problems that -- that they
12 would deal with?

13 A. Oh, coverages. You might have, you know, a
14 dispute over whether medical insurance is going to pay.
15 You might have a short-term disability. You might have a
16 long-term disability. You know, in this day and age,
17 you've got to document everything and anything to --

18 Q. How many employees went on disability in
19 the last ten years at New Florence?

20 A. One.

21 Q. One went on disability?

22 A. Yeah.

23 Q. Wow, 50 percent of your work force went on
24 disability?

25 A. Yes.

1 Q. So what do you do when 50 percent --

2 A. Well, you -- you know, you find some
3 temporary help or whatever you can do.

4 Q. So you have to --

5 A. I might have to go over this and spend a
6 lot of time.

7 Q. Well, we wouldn't want you to have to spend
8 too much time over there.

9 A. Well, I wouldn't mind it. It's okay.

10 Q. Well, that's an interesting point. I mean,
11 how much time were you spending in New Florence?

12 A. I didn't spend a lot of time in New
13 Florence. I spent a lot of time working on a lot of their
14 stuff. But as far as being there physically, I wasn't
15 there a whole lot.

16 Q. What percentage of -- how much of your time
17 a week would you work on New Florence issues?

18 A. Oh, probably 25 percent maybe, 20. I don't
19 know.

20 Q. And did you -- were you providing services
21 to someone else the rest of the time?

22 A. Yeah. Sure.

23 Q. To Oregon Farmers and -- well, CassTel, you
24 only worked in '98, '99?

25 A. Something like that, yeah.

1 Q. So Oregon Farmers, New Florence, and then
2 Lake Livingston?

3 A. Uh-huh.

4 Q. So were you doing more than 50 percent of
5 your work in Texas?

6 A. No.

7 Q. More in Missouri?

8 A. Yeah. What time frame are we -- what time
9 frame are we --

10 Q. I'm talking about the August of 2001 to
11 August 2004 time period.

12 A. I would have been doing more work in
13 Missouri.

14 Q. More work in Missouri. I guess I'm
15 having -- I'm struggling with the sum of money that was
16 being paid to three organizations that our Staff has
17 assessed a zero value received by the company, to handle
18 managing two employees and sending bills to 500 people. I
19 guess I'm struggling with why it cost that much.

20 A. As I said, I mean, I think you just have
21 management functions. We try to -- you know, we all try
22 to look at guidelines of -- the NTCA puts out on what the
23 average salaries are for those type of services. I think
24 we were pretty close to those on those things. And, you
25 know, I'd like to point out that from '98 to 2001 none of

1 those payments were paid until we got the company healthy
2 enough that they could start to make those payments.

3 Q. Do you agree or disagree with Staff's
4 allegation that the switch was -- that the cost of the
5 switch was -- was significantly greater than its actual
6 cost?

7 A. I agree with the statement that the cost,
8 the booked cost of the switch was considerably more than
9 the actual cost. I do not necessarily agree with the fact
10 that that was a violation of any rules. It's a timing
11 thing, and that switch was ordered before July 31st of
12 2001, and those affiliate transaction rules do not apply
13 to average schedule companies, which we were at that time.

14 Q. So is this a common occurrence, this
15 significant difference between actual and booked cost, is
16 this a common occurrence in the telephone industry?

17 A. No, I don't -- I don't know.

18 Q. Or is this a -- is this the exception or
19 the rule?

20 A. I think it would be the exception.

21 Q. The way that this is done?

22 A. The way this one was done, yes. I wouldn't
23 disagree with that, and I would like to point out that we
24 did -- as we had discussions with your Staff, we did go
25 back and remove the overinflated cost of that switch from

1 the rate base and reported the new rate base amounts to
2 NECA and to USAC and have gone back and corrected that. I
3 didn't necessarily agree that that needed to be done, but
4 I did it as the president and CEO in an effort to try to
5 get this case settled.

6 Q. This may have been stated earlier, and I
7 apologize if I'm being repetitive, but is New Florence
8 paying any money back to NECA or FCC, USAC, any federal
9 agency?

10 A. I would guess that over the last two years,
11 we've paid back about \$350,000.

12 Q. Could you tell me where that -- how that
13 figure was determined?

14 A. When we recast our cost studies, and then
15 we also we have a -- we're doing an audit right now to try
16 to determine if those amounts are right, and if we have
17 the -- if we've been assessed the right amounts, because
18 the system was not built to deal with what has happened
19 here. And we have a feeling on our side that we have been
20 asked to refund monies that we never received because the
21 system doesn't recognize the fact that they didn't send
22 those monies to us.

23 Q. Is that a computer problem or person
24 problem?

25 A. It's a -- I think it's just a system

1 problem. It's never -- they've never had to deal with it.

2 Q. Well, how did -- how did they account for
3 the 350,000? Is there a particular place where there's a
4 difference in costs?

5 A. Yes. It was -- when we went back and we
6 recast the cost studies, of course we pulled the -- in the
7 forecast the LEC costs were in there and there were some
8 other costs in there, and when we pulled those out -- and
9 there was a two-year lag in USF. When we went to cost
10 company in 2001, July 31st, 2001, we did not start
11 receiving the USF funding for two years after that.
12 There's a two-year lag in there that it takes cost studies
13 to get filed. So there was, you know, a time in there
14 that we had to go back and recast. And when you're
15 forecasting those things, you receive monies based on your
16 forecast, and then if you don't -- if you don't --

17 Q. I thought the money was based on what
18 you've actually spent?

19 A. The money you receive on a monthly basis is
20 based on forecast, then it's trued up at the end of every
21 year to your actual costs.

22 Q. For all three portions of Universal
23 Service, the high costs, or is this just a particular --

24 A. No, it's the whole settlement system.
25 That's the way the whole settlement system works, cost

1 settlement system works. It's all pieces. In other
2 words, you forecast your cost, you forecast your cap X,
3 and if you don't meet those numbers, then you owe NECA and
4 you send money back. If you exceed those numbers, maybe
5 you have a year where you have to put in a lot of plant or
6 something, you will receive more back at the end of the
7 year, and that's why the pools have a hard time keeping
8 the rate of returns solid.

9 Q. So the \$350,000 was based on a difference
10 between the actual and the -- you-all received more than
11 you should have? You didn't spend the 350?

12 A. We didn't spend the 350. We haven't spent
13 any money over there.

14 Q. Why -- how come you haven't spent?

15 A. It's pretty hard to spend money when you're
16 losing money.

17 Q. What do you mean, losing money?

18 A. If we didn't have an income coming in from
19 wireless partnership, we would be in the red by \$100,000 a
20 year in New Florence, without our -- without our NECA
21 settlement and our USF settlements.

22 Q. Without your -- without Universal --

23 A. We're basically getting no interstate
24 settlements to speak of.

25 Q. Interstate settlement being the interstate

1 portion that you talked about earlier?

2 A. Yes.

3 Q. Are you still in the red if you remove the
4 amount taken out by the consulting team?

5 A. We've removed the amount taken out by the
6 consulting team, except for what they're paying me.

7 Q. When did you become familiar with Local
8 Exchange Company, LLC?

9 A. I've known about it ever since it was
10 formed.

11 Q. Which was when?

12 A. '96.

13 Q. And are you a partner or a member of LEC?

14 A. No, sir.

15 Q. How did you get to know them?

16 A. I've known Ken Matzdorf for years, and I
17 knew that -- through him, I knew that was the company that
18 they formed to hold the stock of CassTel.

19 Q. And that was in 1996?

20 A. I think so.

21 Q. And in the eight years or ten years since
22 you've been working with LEC, what is your assessment of
23 LEC as an investor, an operator of telephone companies?

24 A. I thought that -- I thought that LEC -- I
25 thought Ken Matzdorf was a good operator. I thought he

1 ran a pretty good company. I was -- we kind of grew apart
2 over the years. I didn't -- he went to work and did other
3 endeavors and I did other endeavors. We weren't as close
4 as we once were. But like I said, I helped him get it
5 started. I thought it was a pretty well-run company.
6 Matter of fact, I'd like to have been able to buy when
7 Fairpoint did.

8 Q. That's CassTel, not LEC?

9 A. CassTel, yeah.

10 Q. But what has your experience been with LEC?
11 That's not Ken Matzdorf.

12 A. Well, to me it was. To me it was. You
13 know, I knew -- I met a couple of the principals, but Ken
14 Matzdorf, as far as I was concerned, he was LEC and
15 CassTel both.

16 Q. What other principals of LEC did you meet?

17 A. Gosh, some guy by the name of Norman.

18 Q. You don't know their full names?

19 A. No. I don't know their names. I can't
20 remember. It's been quite a while.

21 Q. You think Mr. Matzdorf has gotten a raw
22 deal out of this whole deal?

23 A. Yes.

24 Q. He has?

25 A. I do.

1 Q. You don't think he should have faced a
2 federal indictment?

3 A. I think he got -- was a victim of a lot of
4 circumstances. I won't condone -- I won't condone the USF
5 fraud.

6 Q. What fraud is that?

7 A. Well, the so-called fraud.

8 Q. Which fraud did you not condone that he
9 did?

10 A. The payments to, was it Overland Data, I
11 think, that I read about in the paper. That's what I know
12 about it.

13 Q. Have you ever done business with Overland
14 Data?

15 A. No, I have not.

16 Q. There's another company. I don't remember
17 that one. Do you believe that he brought any of those
18 practices to New Florence Telephone Company?

19 A. No, sir.

20 Q. Can you explain why he committed fraud at
21 CassTel but would not commit fraud at New Florence?

22 A. No, I can't. New Florence was a completely
23 different situation. He did not have a group of
24 shareholders to answer to. It was a cooperative effort
25 between him and I, and the LEC guys were just silent

1 investors.

2 Q. Who was the shareholders that he had to
3 answer to at CassTel?

4 A. The LEC people. I don't know.

5 Q. They were the same people that are
6 affiliated with New Florence, aren't they?

7 A. But they were affiliated in a different
8 way. They didn't hold all the stock.

9 Q. Well, they provided consulting and
10 management services, they were collecting overhead
11 charges, they were an owner of one-third of the company.
12 How can you say it was any different?

13 A. I can say it's a lot different.

14 Q. Explain to me based on each of those
15 different things why it's different.

16 A. Because they didn't -- we didn't answer to
17 their board of directors at New Florence. We answered to
18 ourselves. As I said, we had a cooperative effort, and
19 we -- you know, they were two separate entities. They
20 were not run anywhere alike.

21 Q. So --

22 A. And I don't know anything about how LEC run
23 CassTel. I just said I thought it was a good operation.

24 Q. All right. So how did LEC run its
25 one-third interest in New Florence?

1 A. It was a silent partner.

2 Q. Never participated at all?

3 A. It participated to the extent we asked them
4 to do, but as far as having any input over the management
5 decisions, no.

6 Q. They didn't have any role in the management
7 decisions except they were collecting \$70,000 a year in
8 management fees. How can you say they weren't having an
9 influence?

10 A. They were providing some services for that.

11 Q. So they weren't -- they didn't have any
12 influence over the company, but they were performing
13 \$70,000 worth of work; is that correct?

14 A. Yeah.

15 Q. Okay. And who did they take direction
16 from?

17 A. Ken Matzdorf.

18 Q. Ken Matzdorf. Who's pled guilty to a
19 federal indictment, correct?

20 A. That's correct.

21 Q. Okay. And you're saying that he operated
22 the two companies completely different?

23 A. As far as I am concerned, he did, yes.

24 Q. What did he do differently over at CassTel
25 that you think is fraudulent that he didn't do at New

1 Florence?

2 A. I said I disagreed with the Overland Data
3 thing. That's the only thing I said. And I don't know
4 what he did over there is fraudulent. I don't know what
5 he did in the day-to-day operations. I know what we did
6 at New Florence, and that's what I know.

7 Q. Okay. And you reported to Mr. Matzdorf; is
8 that correct?

9 A. I was an equal partner, but he was the
10 president and CEO.

11 Q. And you were the vice president and
12 secretary?

13 A. Yeah.

14 Q. Did you hold any officer position at
15 CassTel?

16 A. No, I did not.

17 Q. Do you believe that the overhead charges
18 that LEC charged New Florence were accurate?

19 A. I believe that when I reviewed them, I
20 thought that they were -- they were okay. According to
21 the affiliate transaction rule, they are not, as I've
22 since come to learn.

23 Q. As I understand it, the overcharges were
24 almost identical between CassTel and New Florence, 40 to
25 80 percent greater. Wouldn't that be running identical

1 terms?

2 A. As I said, what I reviewed was the cost of
3 the services to New Florence. I thought that the cost of
4 those services were fine. What I have since found out is
5 those services -- because LEC was a shareholder, those
6 costs that we were charged to New Florence for those
7 services violated the affiliate transaction rule because
8 of the markup.

9 I did not know that at the time. I knew
10 something about LEC's costs. I didn't know what their
11 costs were. All I knew was what they charged us, and what
12 I know about the inflated cost is what I learned in this
13 investigation.

14 Q. Have you read the Stipulation & Agreement
15 in the CassTel --

16 A. No, sir, I haven't.

17 Q. Haven't looked at it at all?

18 A. No.

19 Q. Haven't looked at the joint application for
20 sale?

21 A. No, I have not.

22 Q. Okay. So you have -- so frankly, is it
23 possible for you to know whether or not LEC was operating
24 over CassTel and New Florence in the same way or not?

25 A. No.

1 Q. So they may have been operating or managing
2 in the same way?

3 A. They could have been, but I was involved to
4 a certain extent in New Florence, and I know -- you know,
5 I know what I know about New Florence.

6 Q. Do you know if Matzco was providing
7 services to CassTel?

8 A. I do not.

9 Q. Was South Holt Communications providing
10 services to CassTel?

11 A. No, sir.

12 Q. Have you ever met the parties that have
13 pled guilty in companion cases to Mr. Matzdorf's criminal
14 case?

15 A. I have met one.

16 Q. Which one was that?

17 A. That would be Rich Martino.

18 Q. And have you ever done business with
19 Mr. Martino?

20 A. No.

21 Q. Can you tell me the nature of your meeting
22 with Mr. Martino?

23 A. I met him at a Chiefs football game.

24 Q. Were you aware of his alleged involvement
25 or actual -- I guess he's pled guilty, so I guess it's

1 known involvement with certain criminal organizations?

2 A. No, I wasn't.

3 COMMISSIONER CLAYTON: Mr. Williams, I
4 appreciate you coming in today, making yourself available.
5 I don't think I have any other questions.

6 JUDGE WOODRUFF: Commissioner Gaw?

7 COMMISSIONER GAW: Thank you.

8 QUESTIONS BY COMMISSIONER GAW:

9 Q. Good afternoon, Mr. Williams.

10 A. Good afternoon.

11 Q. If you would, please, I'd like to spend
12 some time in this year 2001, and I want to ask you in
13 regard to the -- to New Florence's papers and
14 communication in order to receive USF funding, what
15 documents would they have been required to file?

16 A. I believe we filed a cost study with NECA.

17 Q. All right. And when would that have been
18 done again, then?

19 A. That cost study would have been filed in --
20 and don't hold me to this. It would have either been
21 filed shortly after the first of the year in 2002 or -- I
22 can't remember whether it would have been filed for a
23 whole year, which would have been after July of 2002.

24 Q. Okay. And prior to that time, there was an
25 average cost basis used to determine the amount of USF

1 funding?

2 A. Well, it's not USF funding. It would be
3 your interstate settlement.

4 Q. What is that composed of?

5 A. It's composed of interstate access.
6 There's a portion of it that goes for switching. There's
7 a portion of it that was long-term support, which is no
8 longer there. And then there is a USF component, but
9 average schedule companies received very, very little USF.

10 Q. Okay. And New Florence was an average
11 schedule company?

12 A. Yes.

13 Q. Until when?

14 A. We converted I believe it was July 31st,
15 2001 or July 1st, one of the two.

16 Q. All right. And I want you to tell me when
17 the payments to Matzco began.

18 A. I am not aware. I believe I heard
19 Mr. Winter say it was July 1st, 2001, and I was not -- I
20 mean, I don't have that stuff in front of me.

21 Q. But you don't have any reason to disagree
22 with that?

23 A. No, no, no.

24 Q. And that would have been, assuming that's
25 accurate, the exact same day when there would have been a

1 conversion over from average cost to --

2 A. Correct.

3 Q. -- to a cost basis?

4 A. Yes.

5 Q. What about payments to the corporation that
6 you had, South Holt?

7 A. That would have been around the same time.

8 Q. And the payments to LEC, would they have
9 changed around that time? Would they have remained the
10 same?

11 A. The management fees to LEC would have
12 started about that time.

13 Q. Okay. Now, those services that were
14 represented to be done by those companies, were there --
15 did they replace any employees that New Florence had?

16 A. No, they did not.

17 Q. And were there monies or savings that were
18 generated to New Florence as a result of having contracted
19 with these three companies for those services?

20 A. Well, let me explain a little bit about how
21 that all came about. When we bought the company in '98,
22 we all worked for New Florence basically for three years
23 for nothing because we weren't in a position to be able to
24 pay any salaries. But we did the same -- we did --
25 performed the same functions from '98 to 2001.

1 And then as we increased our investment in
2 the plant, which had to do with the switch, and, you know,
3 we got in a position to be able to be a cost company,
4 which was a business decision, there was more dollars
5 coming in, and we were able to pay ourselves for the
6 services that we rendered.

7 Q. So would it be accurate to say from '98
8 until July of 2001 you were collecting the money from NECA
9 based upon an average cost, which would have been to your
10 benefit since you were not, as you say, paying yourselves,
11 and then as soon as you got to the point where you could
12 pay something to yourselves, you flipped over to capture
13 that money on a cost basis?

14 A. That's absolutely correct.

15 Q. All right. Now, when that occurred, you're
16 telling me that those services by these three companies
17 replaced services that someone else was rendering at no
18 charge?

19 A. That those three companies were -- I was
20 doing the same thing in '98 that I was doing in 2001.

21 Q. Okay. Help me to understand this. These
22 three companies, then, were performing those services, or
23 were individuals performing these services?

24 A. Well --

25 Q. Prior to July 2001?

1 A. It would have been the individuals. I
2 think the companies -- in my case we used South Holt
3 Communications as the common paymaster, as I said earlier.

4 Q. And how were those services reflected on
5 any tax records?

6 A. Well, they're referred to -- in my case
7 it's referred -- I get it as income to South Holt
8 Communications.

9 Q. When you weren't being paid?

10 A. When we weren't being paid?

11 Q. Yes.

12 A. They weren't reflected on any tax records.

13 Q. So those contributions didn't show up in
14 any record?

15 A. No. But we were all three investors in
16 that company, and it was -- it was to our benefit to make
17 sure that the company operated.

18 Q. Okay. And when were these entities, South
19 Holt entity and the Matzco entity, legally formed?

20 A. As I think, I think South Holt was '95,
21 '96. I don't know about Matzco. The South Holt facility
22 was about '95 or '96 somewhere. I don't have it in front
23 of me.

24 Q. Did it receive income beginning in the year
25 it was formed?

1 A. Yes.

2 Q. And where did it receive income from?

3 A. Oregon Farmers Mutual Telephone Company.

4 Q. Okay. And did you clarify earlier that

5 South Holt, did you own 100 percent of that?

6 A. Yes, I do.

7 Q. And that was the same all the way through?

8 A. Yes.

9 Q. And Oregon Farmers until it was -- until

10 you sold your interest in that, what percentage interest

11 did you hold in Oregon Farmers?

12 A. I owned 95, 94.5 percent or something like

13 that.

14 Q. The rest of this was held by whom?

15 A. My kids.

16 Q. Your kids. Okay. And did Oregon Farmers

17 receive USF money?

18 A. Yes.

19 Q. And money from NECA?

20 A. Yes.

21 Q. All right. And was it done on a cost

22 basis?

23 A. Yes, it was.

24 Q. Beginning for the entire time you had an

25 interest in it?

1 A. Not for the entire time. We converted in
2 the mid '90s sometime.

3 Q. Mid '90s?

4 A. Uh-huh.

5 Q. And --

6 A. We did a major plant upgrade. That was
7 when we converted.

8 Q. Was that about the same time that you
9 formed South Holt?

10 A. No. I don't think so.

11 Q. Didn't you say it came into existence
12 sometime about '96?

13 A. Yeah. It may have coincided. I don't
14 know.

15 Q. Who filed the paperwork with NECA and
16 whoever else it was filed with in order to receive USF
17 money?

18 A. The cost study -- again, I want to clarify,
19 it's not just the USF money. It's -- there's other monies
20 that are involved. It was filed by our consultant at the
21 time with New Florence was Beacon Consulting out of
22 Oklahoma.

23 Q. Are they in any way affiliated with you?

24 A. No.

25 Q. Or LEC?

1 A. No. No, sir.

2 Q. But they filed the paperwork?

3 A. I believe they did.

4 Q. No one from the company would have signed

5 any documentation in order to --

6 A. Oh, I'm sure -- yeah. I'm sure that there

7 was -- Ken would have signed some stuff.

8 Q. Would you have signed any?

9 A. I have since October of 2004, yes.

10 Q. Let's just stick with prior to that. Would

11 you have signed any--

12 A. No, I would not.

13 Q. --thing at all on behalf of New Florence?

14 A. Not that I can remember, no.

15 Q. Your particular role in regard to this

16 company New Florence was as a part owner?

17 A. Uh-huh.

18 Q. And how much was your interest again?

19 A. 33 percent.

20 Q. And Matzdorf's, 33 percent?

21 A. 33 and a third each.

22 Q. And then LEC?

23 A. Yes.

24 Q. And was there a board of directors?

25 A. Yes.

1 Q. And prior to '04, who was on the board?

2 A. Ken and I were, and at one time Rebecca
3 Matzdorf, and my wife, Letha Williams were on the board,
4 but I think we changed that over the years.

5 Q. So you were on the board at the time?

6 A. Yes.

7 Q. And you were also an officer prior to '04?

8 A. Yes, sir.

9 Q. And what was the work that South Holt was
10 doing for --

11 A. We were basically overseeing the
12 operations, operational end of the business, planning,
13 engineering, stuff like that.

14 Q. And you did this personally?

15 A. Yes.

16 Q. And you did it onsite?

17 A. I did part of it onsite. Part of it I did
18 at my home base.

19 Q. And give me the -- give me an idea about
20 what in particular you would do as in overseeing
21 operations.

22 A. Well, you would oversee the people that
23 maintained the plant or the person that maintained the
24 outside plant, did the planning, if there was plant needed
25 to be replaced, needed to put in more, if we needed

1 circuits to tie into the outside world, if we needed a new
2 switch, if we needed special circuits, you know,
3 et cetera, et cetera. Just day-to-day stuff that goes on.

4 Q. And did Mr. Matzdorf have anything to do
5 with that portion?

6 A. No. He pretty well left that up to me.

7 Q. And his role was what?

8 A. The executive role. He oversaw the cost
9 studies, the decisions that have to be made, regulatory
10 matters, legislative matters, et cetera, et cetera, things
11 that general managers do.

12 Q. And how often would the two of you
13 communicate about New Florence prior to 2000?

14 A. Gosh, early on, we probably communicated
15 two or three times a week. As time went on we probably
16 communicated once a week, maybe once every couple of
17 weeks.

18 Q. Who was responsible for the NECA and USF
19 involvement?

20 A. Ken.

21 Q. You had nothing to do with that?

22 A. I just -- I had every bit of faith that Ken
23 was doing it and doing it the right way, and I depended on
24 him for doing that.

25 Q. And the certification that would have been

1 sought from the Missouri Public Service Commission in
2 regard to receiving Universal Service Funds, would that
3 have been Ken's responsibility?

4 A. Yes.

5 Q. You would have had no signatures on any
6 documents that went -- or involved that -- involved that?

7 A. Not that I remember prior to 2004.
8 However, I could have been -- if Ken was not available,
9 they could have asked me to sign something, so I won't say
10 100 percent that I didn't, but I don't remember if I did.

11 Q. So it's possible that you signed?

12 A. It's possible. I signed it last year and
13 this year, which did no good.

14 Q. Since 2004, did you make -- did you also
15 sign the paperwork that went to the federal government?

16 A. Yes.

17 Q. And during that time frame, did you make
18 representations in regard to payments to South Holt?

19 A. No. Those payments come directly to me
20 now, but those representations are in there.

21 Q. So South Holt does not receive
22 compensation --

23 A. From New Florence today.

24 Q. And when did that begin to be the case?

25 A. 1/1/2005.

1 Q. And why was that change made?

2 A. Just because that seemed to be the better
3 way to do it.

4 Q. For what reason did it seem to be the
5 better way to do it?

6 A. Just was -- it kept away from getting to --
7 it took South Holt Communications out of the loop and put
8 me in it.

9 Q. Why would you want to do that?

10 A. Because I just didn't want to -- I didn't
11 want to open up South Holt Communications to a lot of
12 information that's not public.

13 Q. And why would you not want that to occur?

14 A. Because that's my business. That's not a
15 regulated business, and it's my business and that's the
16 way I feel about it.

17 Q. In 2004, would you have filed any paperwork
18 in regard to any funds from the federal government for New
19 Florence?

20 A. For New Florence I probably did, after
21 October 1st. I think we have to do certification.

22 Q. And at that time would you have made
23 representations about payments that would have been made
24 to South Holt?

25 A. Yes. I mean, the payments are the same

1 regardless whether they go to South Holt or to me, there's
2 still a cost of doing business.

3 Q. And Staff agrees with you on those
4 payments; is that what you're saying?

5 A. Staff disagreed with me on those payments,
6 and I disagree with Staff.

7 Q. Sounds like we have a disagreement that we
8 have to decide whether it needs further resolution. So
9 what about Mr. Matzdorf's company, Matzco, when did the
10 payments to that company stop?

11 A. Right around October 1st of 2004, as soon
12 as all this -- all the federal stuff came up. It may have
13 stopped a little earlier than that, but as soon as that
14 came up, that was when we made the management change and I
15 took over the company, the payments to Matzco and to LEC,
16 LLC for services stopped.

17 Q. And what were those payments to Matzco
18 supposed to be for again?

19 A. Matzco was doing -- it was Ken. He was
20 performing executive functions.

21 Q. And after that, you say you performed them?

22 A. Yes.

23 Q. Did you change the payments to you as a
24 result of taking over those responsibilities?

25 A. I increased them, yes. I increased them.

1 Not by 70, not by the amount that it was.

2 Q. You didn't increase them by the amount that
3 had been being paid to Matzco?

4 A. No. Let's use 30 percent as the number.

5 Is that okay?

6 Q. Okay. And is that because you felt that
7 was the appropriate number?

8 A. I felt as though that was what we could do
9 at that time.

10 Q. What does that mean, sir?

11 A. I felt that's what the company could afford
12 to pay me at that time, based on the finances of the
13 company.

14 Q. Because of the USF issue?

15 A. Yes. We did not know where that was going.

16 Q. When did you first meet Mr. Matzdorf?

17 A. I can't be exact on that. Let's say late
18 '80s when he worked for ComTel.

19 Q. So it was through the telephone business
20 that you met him?

21 A. Absolutely, yes.

22 Q. And when was the first time that you had a
23 business relationship with him?

24 A. Would have been '94, '95, '96, somewhere in
25 there.

1 Q. What did that entail?

2 A. We have a group together that was trying to
3 buy the Crawford -- four exchanges down in Texas that GTE
4 was selling, and we were trying to buy those.

5 Q. Were any of the individuals involved in
6 that also involved in LEC later?

7 A. Yes.

8 Q. Who?

9 A. LEC was involved. That's all I know, is
10 the people that were involved with LEC were involved in
11 that.

12 Q. Anyone else involved?

13 A. There were some other people, but I can't
14 remember who they were.

15 Q. You don't remember their names?

16 A. No. It was NRPT. You can go in and look.

17 Q. NRPT?

18 A. NRPT.

19 Q. What does that mean?

20 A. Not Ready for Prime Time.

21 Q. That was the name of the company?

22 A. Well, it was NRPT, but we said it was Not
23 Ready for Prime Time.

24 Q. I'm just trying to make sure I'm following
25 you, but that was a corporation?

1 A. Yes.

2 Q. Missouri corporation?

3 A. Yes.

4 Q. But you don't remember any of the other
5 individuals?

6 A. I don't remember. We took a run at a
7 couple things and never were successful, so it kind of
8 dissolved of its own weight.

9 Q. You must not have any relationship with
10 those people anymore?

11 A. No.

12 Q. Correct?

13 A. Correct.

14 Q. In regard to the next -- an actual venture
15 where you actually purchased something or had some sort of
16 business with Mr. Matzdorf, when would that have been?

17 A. That would have been in about '97. We
18 actually were part of a group that purchased Lake
19 Livingston Telephone Company in Texas.

20 Q. Okay. And do you still own that interest?

21 A. No, we do not.

22 Q. When was that extinguished?

23 A. 2003, 2004, somewhere in there.

24 Q. And Mr. Matzdorf was involved in that?

25 A. Yes.

1 Q. Were any of them LEC?

2 A. No.

3 Q. They were not?

4 A. No.

5 Q. And that would include individuals that
6 might have been around?

7 A. No.

8 Q. So it's a totally different --

9 A. Totally different. We -- actually, Ken and
10 I found the deal and it was one of those we got sweat
11 equity in the company and there was a primary owner out of
12 Texas.

13 Q. Okay. When is the first time that you -- I
14 guess you've already told me when you first had anything
15 to do with LEC was in the previous Crawford, Texas deal?

16 A. Uh-huh. Yeah.

17 Q. So when was the first time that you had
18 some relationship with Matzdorf that involved LEC where
19 you had a successful transaction?

20 A. Well, that would have been -- I wouldn't
21 say we had a successful transaction, but it would have
22 been when I worked -- helped Ken start the CassTel
23 operation down there, and I spent -- I was spending
24 probably three days a week or four days a week in
25 Peculiar, helping him put all that together and start up

1 their business office and all that stuff.

2 Q. I've heard you say several times, I
3 believe -- and I'm not trying to put words in your
4 mouth -- that you helped Ken --

5 A. I did.

6 Q. -- get started.

7 Tell me why you're phrasing that that way.

8 Did -- for instance, did you have knowledge of the
9 telephone business that he didn't have, or was it --

10 A. Yes. I'd operated -- I'd operated small
11 telephone companies for 30 years, and so he and I, we're
12 extremely good friends. I mean, make no mistake about it.
13 And he's still a friend of mine, even though he's going to
14 jail. That's -- that happens. And we had become very
15 good friends through the telephone industry and gained a
16 very healthy respect for each other's knowledge.

17 And my knowledge was in operations and
18 day-to-day stuff, and so I helped him go down there and
19 get that stuff -- get that stuff started. He asked me to
20 do it. I asked him to pay me for it, and he paid me for
21 it, but I would have done it for nothing.

22 Q. But he did pay you for it?

23 A. He did pay me. And that was good.

24 Q. The switch I want to talk about for a
25 little bit. The switch was a Siemen switch; is that

1 right?

2 A. That's correct.

3 Q. Was it brand-new when it was purchased by
4 New Florence?

5 A. Yes. It was supposed to be a refurb
6 switch, but when they got ready to ship it, they didn't
7 have a refurb switch, so they sent us a brand-new one.

8 Q. All right. And the cost was a much
9 different number than what --

10 A. Correct.

11 Q. -- was actually shown --

12 A. That's correct.

13 Q. -- when you sent the numbers in?

14 A. That's correct.

15 Q. Were you aware of the amount that was being
16 represented to the federal government at the time?

17 A. Yes, I was. And I'll tell you why I was
18 aware of it. I was under the impression that that was the
19 market value of the switch, that we did some research or
20 Ken did some research, found out what those switches were
21 selling for, that size, that kind, that everything. That
22 was the number that he submitted and that was the number
23 we went off of, and it's an average schedule company.
24 That is perfectly fine.

25 Q. Doesn't really matter what your cost is

1 when you have an average schedule company, does it?

2 A. No, it doesn't.

3 Q. It's irrelevant to the determination?

4 A. It's irrelevant. But what I'm saying is
5 the affiliated transaction rules don't apply. What
6 applied there that -- that the question about the timing
7 is, is those affiliated transaction rules. And I have to
8 admit that I was not as familiar with those rules at that
9 time as I should have been either.

10 Q. Was that because you'd already been running
11 Oregon Farmers as a cost-based company --

12 A. Correct.

13 Q. -- for several years by that time?

14 A. That's true. I never had been -- we'd
15 never, you know, had anything like that occur, and I --
16 you know, you depend on -- sometimes you depend on
17 consultants for that kind of stuff and then to bring those
18 things to your attention, and because nothing ever
19 occurred along those lines, my consultants or my
20 accountants never brought it to my attention.

21 Q. Did you ask your consultants or accountants
22 whether or not that was allowable?

23 A. The switch?

24 Q. Yes.

25 A. No, I did not, because I -- Ken took care

1 of that whole transaction. I just knew what the numbers
2 were. And we had a CPA and we had, you know, the auditor,
3 and the accountants, and we also had Beacon as a
4 consultant, and they did not bring it to his attention, to
5 my knowledge.

6 Q. But you didn't ask the question?

7 A. I did not ask the question. That's
8 correct.

9 Q. Have you ever been through a rate case with
10 the Public Service Commission?

11 A. Yes, I have.

12 Q. When was that?

13 A. I went through a rate case in 19 -- I
14 believe it was 1976. We've had -- we had two earnings
15 investigations that we settled with stipulations. One --
16 gosh, I can't remember when they were. One was with
17 Mr. Winter and one was Mr. Traxler in Kansas City, and
18 both times, you know, at the end of the day we agreed to
19 disagree and went on.

20 Q. Do you know whether or not a switch of the
21 kind that you had involved in this case in a rate case
22 would have been allowed to be placed in rate base at a
23 value that exceeded the amount of money you paid for it?

24 A. I don't know. I guess it would matter
25 whether you were an average schedule company or cost

1 company.

2 Q. Is there an average schedule company in
3 Missouri ratemaking?

4 A. I'm sure there is some average schedule
5 companies, but an average schedule company in Missouri
6 is -- you don't have jurisdictional ratemaking with an
7 average schedule company. It's a total ratemaking
8 procedure.

9 Q. You don't know the answer to that question
10 about --

11 A. I don't.

12 Q. -- whether or not that that would be
13 allowable?

14 A. No, I don't. I made the argument early on
15 in this that the -- that the switch should be allowed in
16 at the price on the books because it benefited the
17 ratepayers of Missouri.

18 Q. You must explain that to me.

19 A. It benefited the ratepayers of Missouri
20 because it brought more money in from the interstate
21 jurisdiction and allowed you to keep your local rates low.

22 Q. Oh, I see what you're talking about now.
23 You're talking about the amount of funding you got from
24 the federal government?

25 A. That's correct.

1 Q. You're not suggesting that if we had a rate
2 case, that putting it in in a value that exceeded cost
3 somehow would benefit ratepayers in the amount of --

4 A. No, I wouldn't say. I wouldn't say that,
5 no.

6 Q. -- local payments they would make?

7 But back to your issue, do you think -- so
8 do you think that the ratepayers -- well, let me go on.

9 This issue in regard to the -- to the money
10 that was received from the federal government, how much of
11 that money was used to improve the system that New
12 Florence has?

13 A. Early on we used some of it. There hasn't
14 been any of it used lately, because we haven't got any.

15 Q. Let's just stick with this time frame
16 between 2000--

17 A. But we did not receive any -- we did not
18 receive any of that high-cost money until 2003. At that
19 time we did spend some money on the plant over there, but
20 we have not spent any since.

21 Q. You did spend some money. How much money
22 did you spend?

23 A. Probably \$100,000 over a period of time.

24 Q. How much period of time?

25 A. That year, year and a half.

1 Q. 2003?

2 A. '03 and '04, probably, or '03 and early
3 part of '04.

4 Q. Since you've had the company, how many --
5 how much money have you averaged spending on improvements,
6 not repair, but improvements?

7 A. We probably spent 30, 40,000 a year is all.

8 Q. Okay.

9 A. I've got a million and half dollar plan
10 laying in my briefcase that I can't do.

11 Q. Let's talk about how much money you
12 received from up until the payments were terminated, how
13 much money did you receive from the federal government?

14 A. You know, that's a hard figure to get your
15 hands around because we've repaid so much of it.

16 Q. Let's not talk about how much you repaid.
17 Let's just talk about how much you received.

18 A. You can't talk about one without the other.

19 Q. I'm asking you the question right now.

20 A. Okay. Let's say --

21 Q. How much did you receive?

22 A. I don't have the -- I don't have the report
23 in front of me.

24 Q. Do you need to get it?

25 A. I would say that it was -- I think I heard

1 of the number 360,000 one year, and --

2 Q. 360,000?

3 A. And then 100 and something the next year.

4 Q. So one year -- what year do you think that

5 was you got?

6 A. That would have been 2003.

7 Q. 2003?

8 A. Or '04.

9 Q. Think you might have spent how much money

10 that year on improvements?

11 A. Maybe 100,000 in that total year. I don't

12 know.

13 Q. What was that spent on?

14 A. It would have been outside plant, upgrades

15 to the switch. You have periodic upgrade to the switch,

16 but that's, when you're talking about that, you're talking

17 about high cost. There's other pieces to USF besides high

18 cost. There's the switching piece. There's the ICLS

19 piece, which went to reduce access. It's not all -- it's

20 not all that. So the high-cost piece of that, I believe

21 if I go back, was only about \$80,000.

22 Q. So you would be receiving some money for --

23 you said for switching?

24 A. You receive money for switching, you

25 receive money for -- there's a complicated algorithm out

1 there that it all goes into. It's expenses, it's
2 investment, it's depreciation, it's debt service. All
3 those figures figure in, in your cost study?

4 Q. The switching, the switching number, how is
5 that calculated?

6 A. You're going to have to ask a consultant
7 about that. It has to do with your switching costs.

8 Q. Do you have any idea what kind of numbers
9 that the consultant gets in regard to making that
10 calculation?

11 A. I don't.

12 Q. Where does he get those numbers?

13 A. He gets them from our books.

14 Q. And who does your books?

15 A. We have -- Northwest Holdings has a CPA
16 that does our books.

17 Q. Do they stay onsite and do that?

18 A. They're done in Oregon, Missouri.

19 Q. In Oregon, Missouri?

20 A. Uh-huh. That's where we --

21 Q. Where do they get those numbers in order to
22 put them together?

23 A. Well, the numbers come from the every day
24 accounting of the telephone company.

25 Q. And who does that?

1 A. The -- the -- we have an office girl who
2 takes care of taking care of the collecting of the monies
3 from the customer, and all the rest of the stuff floats
4 through accounting system that is operated by Northwest
5 Holdings, which is where we moved it to get it away from
6 CassTel. We don't have the ability to have an accountant
7 on staff.

8 Q. Northwest Holdings is owned by whom?

9 A. You know, it's owned by -- I don't know,
10 American Broadband, I guess.

11 Q. You don't have any ownership in that
12 company?

13 A. I don't have any ownership in it, nope.

14 Q. But this -- the actual numbers that they
15 receive are done by New Florence employees or employee?

16 A. Employees and contract employees.

17 Q. And the contract employees would have been?

18 A. The Northwest Holding Company.

19 Q. But they're -- they get their numbers from
20 your from New Florence's employee?

21 A. They get the billing numbers from New
22 Florence employees, the payables, the receivables from
23 NECA and all that flows through straight to them, doesn't
24 flow through the two employees of New Florence. We
25 basically have a CSR and an outside/inside plant guy over

1 there.

2 Q. I don't know, what do you mean a CSR?

3 A. Customer service representative.

4 Q. Thank you. Okay. So they really don't do

5 any of the numbers?

6 A. No.

7 Q. Do you ever look at the numbers?

8 A. I sure do.

9 Q. When do you do that?

10 A. I look at them every month.

11 Q. Are those numbers that are delivered to

12 Northwest Holdings, do you review them when they go over

13 there?

14 A. I review the -- I review the accounting

15 every month. I review the income statement, balance

16 sheet.

17 Q. Okay. And the -- who makes the decision

18 on -- who made the decision on how much money to pay to

19 South Holt?

20 A. To me?

21 Q. Yes.

22 A. I did.

23 Q. When was that decision made?

24 A. I made it -- I make it yearly.

25 Q. And that would have been the case prior to

1 2004, too; is that right?

2 A. No, I did not make that decision. Ken made
3 the decision before then.

4 Q. And did he consult with you about how much
5 you --

6 A. He consulted with me about how much he
7 thought he could pay me, and I said that's fine.

8 Q. Did he consult with you about how much
9 money was going to go to Matzco?

10 A. Yes.

11 Q. And did you agree with that amount as well?

12 A. Yes.

13 Q. And did he explain to you what it was that
14 he'd be doing for that money?

15 A. Yes.

16 Q. And is that basically what you've already
17 detailed to us?

18 A. That's correct.

19 Q. Was there any contract, a written contract
20 for the services that were to be provided by Matzco?

21 A. No, sir.

22 Q. How about for South Holt?

23 A. No, sir.

24 Q. And what about the services provided by
25 LEC, LLC?

1 A. I don't believe so.

2 Q. Did you approve the amount being paid to
3 LEC, LLC?

4 A. I wouldn't say I formally approved it. I
5 did review it and saw nothing wrong with it.

6 Q. Did you have a conversation with
7 Mr. Matzdorf about that amount?

8 A. No, I did not.

9 Q. Even though you were a third owner, he
10 didn't consult with you in that regard?

11 A. No.

12 Q. And you didn't have a problem with that?

13 A. No, I did not.

14 Q. But you didn't have any -- you didn't see
15 any problem with the amount of money being paid?

16 A. No, I did not.

17 Q. Did you have any conversation with
18 Mr. Matzdorf in regard to going to a cost-based company in
19 '01?

20 A. The conversation we had is he called me and
21 he said, it looks like we finally have the ability to go
22 cost. I'm going to do it. I said that's fine.

23 Q. And did you have discussion about what that
24 would mean to the company in regard to revenues?

25 A. No, I did not. I knew it would increase

1 our revenues, but I did not know by how much.

2 Q. The current methodology of making payments
3 to you that used to go to South Holt, I think you've
4 already told me this. Did you say that amount was the
5 same or a different amount since '04?

6 A. It's a different amount now.

7 Q. Less?

8 A. More.

9 Q. It's more. That's right, because you said
10 you also -- there was some --

11 A. I assumed some other duties, like being
12 here.

13 Q. And is that amount -- has that amount been
14 disclosed?

15 A. No, it has not. I mean, it's there.

16 Q. Is it in some of the documents that we
17 have?

18 A. Take the amount of -- in '05, it was
19 30 percent more than the original amount, and then I
20 increased it another -- by the same amount in '06.

21 Q. Okay.

22 A. I think that's -- I think that's
23 approximately right.

24 Q. And --

25 A. That will get you to the number.

1 Q. Is that on the total or is it on the
2 portion that was on the Matzco?

3 A. No, that's the total. That's the total
4 amount and that's -- you've got to remember that there's
5 no taxes, payroll taxes or anything, so it's probably
6 equivalent about 70 percent of that in salary, if you were
7 taking salary, by the time you paid all your taxes.

8 Q. Okay. And when that money goes to you now,
9 is that money that you keep or does some of that go to
10 other people?

11 A. No, that -- that goes to me.

12 Q. Okay. So you keep that?

13 A. Absolutely.

14 Q. When it was going to South Holt, did some
15 of that money go elsewhere or --

16 A. No.

17 Q. It all went to you?

18 A. It all went to me. My wife's on the
19 payroll, but that's --

20 Q. Okay.

21 A. You can say it went to her.

22 Q. Was she an employee at any time of Oregon
23 Farmers?

24 A. Yes, she was my secretary.

25 Q. What time frame would that have been?

1 A. 1991 to 19 -- 'til I sold.

2 Q. 'Til you sold it?

3 A. Yeah.

4 Q. And you made reference to having leased

5 services, I thought you said, leased services?

6 A. Right.

7 Q. From Oregon to South Holt?

8 A. No, from South Holt to Oregon.

9 Q. Okay. Explain to me --

10 A. The employees -- the employees were at

11 South Holt, and so we didn't want to have employees both

12 places because benefit plans, et cetera, et cetera, so we

13 just put them in South Holt. That was one of the

14 questions that David and I went through in the earnings

15 investigation and worked it out and it was all -- it was

16 all what it was. There wasn't any -- there wasn't any

17 40/80 percent markups, I can tell you that.

18 Q. The amount of money that was being paid to

19 South Holt by New Florence, did any of that --

20 A. No.

21 Q. -- get credited or in any way back to

22 Oregon?

23 A. No.

24 Q. Okay.

25 A. Absolutely not.

1 Q. So that was money that went to you?

2 A. That was to me, yes.

3 COMMISSIONER GAW: I think that's all I
4 have right now, Judge. Thank you.

5 JUDGE WOODRUFF: Anyone else have any
6 questions for Mr. Williams?

7 MR. ENGLAND: I do if none of the other
8 parties do.

9 JUDGE WOODRUFF: Go ahead.

10 QUESTIONS BY MR. ENGLAND:

11 Q. Mr. Williams, one of the provisions of the
12 stipulation, I believe, is that you're going to seek a
13 buyer for New Florence for --

14 A. That's correct.

15 Q. -- the assets of the stock.

16 And have you been pursuing that effort?

17 A. Yes. We've engaged Lexicon out of Owasa,
18 Oklahoma to act as our agent in the sale.

19 Q. And I guess my next question is, are you
20 committed to following through with the sale of the
21 company?

22 A. Yes, I am.

23 MR. ENGLAND: Thank you, sir. No other
24 questions.

25 JUDGE WOODRUFF: Thank you. Anything

1 further?

2 (No response.)

3 JUDGE WOODRUFF: Mr. Williams, you can step
4 down.

5 Mr. Williams? I'm sorry. The other
6 Mr. Williams?

7 MR. NATHAN WILLIAMS: I think I'd like to
8 make a statement, and I don't know if Mr. Williams or his
9 attorney may want to make some kind of a statement, but
10 Staff had a contact with NECA, and wanted -- requested
11 that Staff state on the record that Staff's belief that
12 this agreement does not have any binding effect on NECA or
13 USAC or the FCC on any action it may take.

14 JUDGE WOODRUFF: Anyone want to make any
15 response to that?

16 MR. ENGLAND: I don't believe so.

17 THE WITNESS: I wouldn't disagree with it.

18 JUDGE WOODRUFF: Then you can step down.
19 Commissioner Gaw, do you have anything else you want to
20 bring up?

21 COMMISSIONER GAW: No, not now.

22 JUDGE WOODRUFF: Any matters that anyone
23 else wants to bring up, any statements or evidence?

24 (No response.)

25 JUDGE WOODRUFF: All right. Well, thank

1 you all very much then. I'm going to ask the court
2 reporter to expedite the transcript so that we have it by
3 next Tuesday, which I believe would be July 11th. And
4 with that, we are off the record.

5 WHEREUPON, the on-the-record presentation
6 was concluded.

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