

**BEFORE THE PUBLIC SERVICE COMMISSION
STATE OF MISSOURI**

Staff of the Public Service Commission of the)	
State of Missouri,)	
)	
Complainant,)	
)	
v.)	Case No. TC-2006-
)	
New Florence Telephone Company,)	
)	
Respondent.)	

**STAFF’S COMPLAINT AGAINST
NEW FLORENCE TELEPHONE COMPANY**

COMES NOW the Staff of the Missouri Public Service Commission (“Staff”), pursuant to Sections 386.240 and 386.390.1 RSMo 2000,¹ and Commission Rule 4 CSR 240-2.070, and for its complaint against New Florence Telephone Company states:

Count I

Jurisdiction

1. Section 386.600 provides:

An action to recover a penalty or a forfeiture under this chapter or to enforce the powers of the commission under this or any other law may be brought in any circuit court in this state in the name of the state of Missouri and shall be commenced and prosecuted to final judgment by the general counsel to the commission. No filing or docket fee shall be required of the general counsel. In any such action all penalties and forfeitures incurred up to the time of commencing the same may be sued for and recovered therein, and the commencement of an action to recover a penalty or forfeiture shall not be, or be held to be, a waiver of the right to recover any other penalty or forfeiture; if the defendant in such action shall prove that during any portion of the time for which it is sought to recover penalties or forfeitures for a violation of an order or decision of the commission the defendant was actually and in good faith prosecuting a suit to review such order or decision in the manner as provided in this chapter, the court shall remit the penalties or forfeitures incurred during the

¹ All statutory citations are to RSMo 2000, unless otherwise noted.

pendency of such proceeding. All moneys recovered as a penalty or forfeiture shall be paid to the public school fund of the state. Any such action may be compromised or discontinued on application of the commission upon such terms as the court shall approve and order.

2. Missouri courts require that matters within the jurisdiction of an administrative agency such as the Commission must be determined by that agency and, therefore, before it may bring a penalty action in court the agency must first hold a contested hearing to determine the matters in its jurisdiction. *See State ex rel Sure-way Transp., Inc. v. Division of Transp., Dept. of Economic Development, State of Mo.*, 836 S.W.2d 23, 27 (Mo.App. W.D. 1992).

3. Section 386.390.1 provides, “Complaint may be made by the commission of its own motion, ..., by petition or complaint in writing, setting forth any act or thing done or omitted to be done by any corporation, person or public utility..., in violation, or claimed to be in violation, of any provision of law, or of any rule or order or decision of the commission;”

4. Section 386.240 provides, “The commission may authorize any person employed by it to do or perform any act, matter or thing which the commission is authorized by this Chapter [386] to do or perform; provided, that no order, rule or regulation of any person employed by the commission shall be binding on any public utility or any person unless expressly authorized or approved by the commission.”

5. Commission Rule 4 CSR 240-2.070(1) provides that the “commission staff through the general counsel” may file a complaint.

6. By its order dated October 18, 2005 issued in Case No. TO-2006-0143, the Commission has expressly stated that the General Counsel has the authority to file, on behalf of the Staff, a complaint against New Florence Telephone Company.

7. New Florence Telephone Company is a Missouri corporation and its registered agent is Sondra B. Morgan, 312 East Capital Avenue, Jefferson City, Missouri 65102.

8. New Florence Telephone Company provides basic local telecommunications service to customers in and about New Florence, Montgomery County, Missouri.

9. New Florence Telephone Company is a “public utility” as defined in Section 386.020(42) and a “telecommunications company” as defined in Section 386.020(51), and is subject to the Commission’s jurisdiction. Sections 386.020(42) and 386.250(2).

Requirements of Law

10. Section 386.570 provides:

1. Any corporation, person or public utility which violates or fails to comply with any provision of the constitution of this state or of this or any other law, or which fails, omits or neglects to obey, observe or comply with any order, decision, decree, rule, direction, demand or requirement, or any part or provision thereof, of the commission in a case in which a penalty has not herein been provided for such corporation, person or public utility, is subject to a penalty of not less than one hundred dollars nor more than two thousand dollars for each offense.

2. Every violation of the provisions of this or any other law or of any order, decision, decree, rule, direction, demand or requirement of the commission, or any part or portion thereof, by any corporation or person or public utility is a separate and distinct offense, and in case of a continuing violation each day's continuance thereof shall be and be deemed to be a separate and distinct offense.

3. In construing and enforcing the provisions of this chapter relating to penalties, the act, omission or failure of any officer, agent or employee of any corporation, person or public utility, acting within the scope of his official duties of employment, shall in every case be and be deemed to be the act, omission or failure of such corporation, person or public utility.

11. Commission Rule 4 CSR 240-30.040 provides:

(1) The uniform system of accounts prescribed by the Federal Communications Commission (FCC) for Class A and Class B telecommunications companies effective January 1, 1988, and the text pertaining to the accounts, and contents of the accounts system, a copy of which be approved by the commission and prescribed for the use of Class A and Class B telecommunications companies

subject to the jurisdiction of the commission and that every such telecommunications company is required to keep all accounts in conformity with and those telecommunications companies that have not already adopted the uniform system of accounts of the FCC are ordered to do so for intrastate recordkeeping purposes. For purposes of recordkeeping conformity with the uniform system of accounts prescribed by the FCC for telecommunications companies effective January 1, 1988, this commission classifies for accounting purposes Class A and Class B telecommunications companies as follows:

- (A) Class A. Companies having annual revenues from regulated telecommunications operations of more than \$100,000,000 system-wide;
- (B) Class B. Companies having annual revenues from regulated telecommunications operations of \$100,000,000 or less system-wide; and
- (C) Class B companies that desire more detailed accounting may adopt the accounts prescribed for Class A companies upon the submission of a written notification to the commission.

(2) The uniform system of accounts prescribed by the FCC for Class A and Class B telecommunications companies consists of: general instructions; balance sheet accounts—current and noncurrent assets; telecommunications plant accounts; balance sheet accounts—depreciation and amortization; balance sheet accounts—liabilities and stockholders equity; revenue accounts; expense accounts; and income accounts. The uniform system of accounts breaks down each of these major items into individual subitems or accounts.

(3) The adoption by telecommunications companies in Missouri of the uniform system of accounts issued by the FCC shall in no wise bind the commission to the approval or acceptance of any item or account for the purpose of fixing rates or in determining any other matter that may come before the commission.

(4) Class B companies that desire more detailed accounting than is required of them under this rule may do so upon the submission of a written notification to the commission.

(5) All Class B telecommunications companies shall keep their plant accounts in Part 32, Class A detail.

12. Included in the general instructions of the uniform system of accounts prescribed by the Federal Communications Commission effective January 1, 1988 and incorporated by reference in Commission Rule 4 CSR 240-30.040 for intrastate recordkeeping purposes are, at 47 CFR 32.27, the following requirements for transactions of the regulated entity with affiliates:

(a) Unless otherwise approved by the Chief, Common Carrier Bureau, transactions with affiliates involving asset transfers into or out of the regulated accounts shall be recorded by the carrier in its regulated accounts as provided in paragraphs (b) through (f) of this section.

(b) Charges for assets purchased by or transferred to the regulated telephone activity of a carrier from affiliates shall be recorded in the operating accounts of the regulated activity at the invoice price if that price is determined by a prevailing price held out to the general public in the normal course of business. If a prevailing price for the assets received by the regulated activity is not available, the charges recorded by the regulated activity for such assets shall be the lower of their cost to the originating activity and the affiliated group less all applicable valuation reserves, or their fair market value.

(c) Assets sold or transferred from the regulated accounts to affiliates shall be recorded as operating revenues, incidental revenues or asset retirements according to the nature of the transaction involved. If such sales are reflected in tariffs on file with a regulatory commission or in a prevailing price held out to the general public, the associated revenues shall be recorded at the prices contained therein in the appropriate revenue accounts. If no tariff or prevailing price is applicable, the proceeds from such sales shall be determined at the higher of cost less all applicable valuation reserves, or estimated fair market value of the asset.

(d) Services provided to an affiliate pursuant to a tariff, including a tariff filed with a state commission, shall be recorded in the appropriate revenue accounts at the tariffed rate. Services provided by an affiliate to the regulated activity, when the same services are also provided by the affiliate to unaffiliated persons or entities, shall be recorded at the market rate. When a carrier provides substantially all of a service to or receives substantially all of a service from an affiliate which are not also provided to unaffiliated persons or entities, the services shall be recorded at cost which shall be determined in a manner that complies with the standards and procedures for the apportionment of joint and common costs between the regulated and nonregulated operations of the carrier entity.

(e) Income taxes shall be allocated among the regulated activities of the carrier, its nonregulated divisions, and members of an affiliated group. Under circumstances in which income taxes are determined on a consolidated basis by the carrier and other members of the affiliated group, the income tax expense to be recorded by the carrier shall be the same as would result if determined for the carrier separately for all time periods, except that the tax effect of carry-back and carry-forward operating losses, investment tax credits, or other tax credits generated by operations of the carrier shall be recorded by the carrier during the period

in which applied in settlement of the taxes otherwise attributable to any member, or combination of members, of the affiliated group.

(f) Companies that employ average schedules in lieu of actual costs are exempt from the provisions of this section. For other organizations, the principles set forth in this section shall apply equally to corporations, proprietorships, partnerships and other forms of business organizations.

13. The uniform system of accounts prescribed by the Federal Communications Commission effective January 1, 1988 incorporated by reference in 4 CSR 240-30.040 includes, at 47 CFR 32.9000, the following definitions:

Affiliated companies means companies that directly or indirectly through one or more intermediaries, control or are controlled by, or are under common control with, the accounting company. See also control.

* * * *

Common carrier or *carrier* means any person engaged as a common carrier for hire, in interstate or *foreign* communications by wire or radio or in interstate or foreign radio transmission of energy, except where reference is made to common carriers not subject to this Act; but a person engaged in radio broadcasting shall not, insofar as such person is so engaged, be deemed a common carrier.

Company or the company, when not otherwise indicated in the context, means the accounting entity. It includes such unincorporated entities which may be subject to the Communications Act of 1934, as amended.

Control (including the terms “controlling,” “controlled by,” and “under common control with”) means the possession directly or indirectly, of the power to direct or cause the direction of the management and policies of a company, whether such power is exercised through one or more intermediary companies, or alone, or in conjunction with, or pursuant to an agreement with, one or more other companies, and whether such power is established through a majority or minority ownership or voting of securities, common directors, officers, or stockholders, voting trusts, holding trusts affiliated companies, contract, or any other direct or indirect means.

* * * *

Entity means a legal enterprise (common carrier) engaged in interstate communications within the meaning of the Communications Act of 1934, as amended.

14. Federal rule 47 C.F.R. § 69.601 (c) requires that all data submissions made to the National Exchange Carriers Association, Inc. for settlements be accompanied by the certification of an officer or employee responsible for the overall preparation of the data submission that “the data have been examined and reviewed and are complete, accurate, and consistent with the rules of the Federal Communications Commission.”

15. Section 386.560 provides:

Any person who shall willfully make any false entry in the accounts, books of account, records or memoranda kept by any corporation, person or public utility governed by the provisions of this chapter, or who shall willfully destroy, mutilate, alter or by any other means or device falsify the record of any such account, book of accounts, record or memoranda, or who shall willfully neglect or fail to make full, true and correct entries of such account, book of accounts, record or memoranda of all facts and transactions appertaining to the business of such corporations, persons or public utilities, or who shall falsely make any statement required to be made to the public service commission, in which a penalty has not heretofore been provided for, shall be deemed guilty of a felony, and upon conviction shall be punished by a fine of not less than one thousand dollars nor more than five thousand dollars, or by imprisonment for not less than two years nor more than five years, or by both such fine and imprisonment; provided, that the commission may, in its discretion, issue orders specifying such operating, accounting or financial papers, records, books, blanks, tickets, stubs or documents, of carriers which may after a reasonable time be destroyed, and prescribing the length of time such books, papers or documents shall be preserved; and provided further, that such orders shall be in harmony with those of the Interstate Commerce Commission.

Common Allegations of Fact

16. New Florence Telephone Company is, and at all times pertinent to the allegations in this complaint was, a Class B telecommunications company as defined in Commission Rule 4 CSR 240-30.040.

17. New Florence Telephone Company is, and at all times pertinent to the allegations in this complaint was, wholly owned by Tiger Telephone, Inc.

18. At all times pertinent to the allegations in this complaint, Local Exchange Company, LLC (LEC, LLC) and Robert D. Williams owned Tiger Telephone, Inc. stock.

19. At all times pertinent to the allegations in this complaint, Kenneth M. Matzdorff was a member of LEC, LLC and, until sometime in 2005, Kenneth M. Matzdorff held shares of Tiger Telephone, Inc. in his name.

20. Under Commission Rule 4 CSR 240-30.040, at all times pertinent to the allegations in this complaint, LEC, LLC, Robert D. Williams and Kenneth M. Matzdorff controlled New Florence Telephone Company.

21. Under Commission Rule 4 CSR 240-30.040, at all times pertinent to the allegations in this complaint, LEC, LLC was an affiliate of New Florence Telephone Company.

22. Under Commission Rule 4 CSR 240-30.040, at all times pertinent to the allegations in this complaint, Robert D. Williams was an affiliate of New Florence Telephone Company.

23. Under Commission Rule 4 CSR 240-30.040, at all times pertinent to the allegations in this complaint, Kenneth M. Matzdorff was an affiliate of New Florence Telephone Company.

24. On or about July 1, 2001, New Florence Telephone Company elected to receive federal Universal Service Fund support based on New Florence Telephone Company's costs determined by annual cost studies specific to New Florence Telephone Company.

25. As a result of its election to receive federal Universal Service Fund support based on New Florence Telephone Company's costs determined by annual cost studies specific to New Florence Telephone Company, New Florence Telephone Company also received National

Exchange Carriers Association, Inc. settlements based on New Florence Telephone Company's costs determined by those same studies.

LEC, LLC Administrative Services—Rule Violation

26. Since August 1998 until September 2004, LEC, LLC charged to New Florence Telephone Company, and New Florence Telephone Company entered into its accounting records, monthly amounts for administrative services denoted "support costs."

27. Since August 1998 until December 2004, New Florence Telephone Company received substantially all of these administrative services from LEC, LLC.

28. The amounts that LEC, LLC has charged to New Florence Telephone Company and that New Florence Telephone Company has recorded on its accounting records for the administrative services exceed the costs LEC, LLC incurred to provide these administrative services.

29. In particular, the monthly amounts LEC, LLC charged to New Florence Telephone Company for administrative services have included an amount, based on a percentage of the costs LEC, LLC incurred to provide the services, in excess of the costs LEC, LLC incurred to provide the services.

30. Based on Staff's information and belief, LEC, LLC does not and has not provided administrative services to any entity to which it is unaffiliated.

31. Pursuant to Commission Rule 4 CSR 240-30.040, New Florence Telephone Company was to record these administrative services at cost "determined in a manner that complies with the standards and procedures for the apportionment of joint and common costs between the regulated and nonregulated operations of [New Florence Telephone Company]."

32. During the period August 1998 through December 2002 New Florence Telephone Company recorded monthly in its books of account, amounts for administrative services provided by LEC, LLC that were one hundred and forty percent (140%) of the costs LEC, LLC incurred to provide the services.

33. In 2003 New Florence Telephone Company retroactively increased the amounts of monthly LEC, LLC administrative services for the 2002 year shown on its books of account from one hundred and forty percent (140%) of the costs LEC, LLC incurred to provide the services to one hundred and eighty percent (180%) of the costs LEC, LLC incurred to provide the services.

34. During the period January 2003 through September 2004 New Florence Telephone Company recorded monthly in its books of account, amounts for administrative services provided by LEC, LLC that were one hundred and eighty percent (180%) of the costs LEC, LLC incurred to provide the services.

35. In October 2004 New Florence Telephone Company made an entry in its books of account to reflect for each of the months January through December 2003 amounts for administrative services provided by LEC, LLC that are one hundred and three percent (103%) of the costs LEC, LLC incurred to provide the services, i.e., it had the effect of eliminating the eighty percent (80%) increase originally booked for those months and substituting for it a three percent (3%) increase.

36. A portion of the amounts recorded on New Florence Telephone Company's books of account for administrative services provided by LEC, LLC, including the forty percent (40%) and eighty percent (80%) additives, were capitalized and included in New Florence Telephone Company's plant in service in the years 1998 through 2002 and would be included in the cost of

service upon which this Commission would set rates for basic local telecommunications service customers of New Florence Telephone Company.

WHEREFORE, the Staff requests the Commission:

- (a) establish a case to address the allegations contained in Count I of this Complaint;
- (b) find New Florence Telephone Company is subject to the Commission's jurisdiction;
- (c) make New Florence Telephone Company a party to this case for purposes of Count I;
- (d) find, for purposes of Commission Rule 4 CSR 240-30.040, Local Exchange Company, LLC, Robert D. Williams and Kenneth M. Matzdorff controlled New Florence Telephone Company during the period August 1998 to August 2004;
- (e) find, for purposes of Commission Rule 4 CSR 240-30.040, Local Exchange Company, LLC was an affiliate of New Florence Telephone Company during the period August 1998 to August 2004;
- (f) find New Florence Telephone Company has, each month, commencing with August 1998 and continuing at least until September 2004, recorded in its accounting records charges for Local Exchange Company, LLC administrative services;
- (g) find Local Exchange Company, LLC does not and has not provided these administrative services to any entity to which it is unaffiliated;
- (h) find New Florence Telephone Company, each month August 1998 through December 2002, recorded in the books of account of New Florence Telephone Company amounts for administrative services provided by Local Exchange Company, LLC that were one hundred and forty percent (140%) of the costs Local Exchange Company, LLC incurred to provide the services;
- (i) find New Florence Telephone Company, in 2003, increased the monthly amounts for administrative "support costs" services provided by Local Exchange Company, LLC it had recorded monthly in 2002 from one hundred and forty percent (140%) of the costs Local Exchange Company, LLC incurred to provide the services to one hundred and eighty percent (180%) of the costs Local Exchange Company, LLC incurred to provide the services;
- (j) find New Florence Telephone Company, each month January 2003 through September 2004, recorded in the books of account of New Florence Telephone Company amounts for administrative "support costs" services provided by Local Exchange Company, LLC that were one hundred eighty percent (180%) of the costs Local Exchange Company, LLC incurred to provide the services;

- (k) find New Florence Telephone Company did not until October 2004 make any entry in its books of account to reduce the amounts of administrative services for the months of January to December 2003 to the costs Local Exchange Company, LLC incurred to provide the services in those months;
- (l) find that each entry in the books of account of New Florence Telephone Company for administrative services provided by Local Exchange Company, LLC that was one hundred and forty percent (140%) of the costs Local Exchange Company, LLC incurred to provide the services or one hundred and eighty percent (180%) of the costs Local Exchange Company, LLC incurred to provide the services is a separate violation of Commission Rule 4 CSR 240-30.040 subject to penalty under Section 386.570.1;
- (m) find that a portion of the amounts recorded on New Florence Telephone Company's books of account for administrative services provided by Local Exchange Company, LLC are included in New Florence Telephone Company's plant in service for the years 1998 through 2002 and would be included in the cost of service upon which this Commission would set basic local telecommunications service rates for customers of New Florence Telephone Company;
- (n) find that, unless and until revised by a subsequent entry or entries to reduce the amounts of administrative services to the costs Local Exchange Company, LLC incurred to provide the services, each entry in the books of account of New Florence Telephone Company for administrative services provided by Local Exchange Company, LLC that was one hundred and forty percent (140%) of the costs Local Exchange Company, LLC incurred to provide the services or one hundred and eighty percent (180%) of the costs Local Exchange Company, LLC incurred to provide the services is a continuing violation under Section 536.570.2 and, therefore, each day's continuance thereof is a separate and distinct offense subject to a penalty; and
- (o) authorize the General Counsel of the Commission to seek penalties against New Florence Telephone Company for these violations.

Count II

LEC, LLC Management Services—Rule Violation

37. The Staff incorporates by reference the allegations of paragraph nos. 1-14 and 16-25 above.

38. For each of the months July to December 2001 New Florence Telephone Company recorded in its books of account \$6,667 per month for management consulting services attributed to LEC, LLC.

39. For each of the months January, April, May and June 2002 New Florence Telephone Company recorded in its books of account \$3,334 per month for management consulting services attributed to LEC, LLC.

40. For each of the months July to November 2002 New Florence Telephone Company recorded in its books of account \$6,000 per month for management consulting services attributed to LEC, LLC.

41. For the month December 2002 New Florence Telephone Company recorded in its books of account \$10,000 for management consulting services attributed to LEC, LLC.

42. For each of the months January 2003 through August 2004 New Florence Telephone Company recorded in its books of account \$6,000 per month for management consulting services attributed to LEC, LLC.

43. New Florence Telephone Company and LEC, LLC did not execute a written agreement for management consulting services.

44. Based on Staff's information and belief, the amounts New Florence Telephone Company recorded on its books for management consulting services attributed to LEC, LLC were not based on management consulting services LEC, LLC provided to New Florence Telephone Company.

45. Based on Staff's information and belief, LEC, LLC does not and has not provided management consulting services to any entity to which it is unaffiliated.

46. Based on Staff's information and belief, the amounts New Florence Telephone Company recorded on its books for management consulting services attributed to LEC, LLC were based on increasing the revenues of New Florence Telephone Company.

47. Based on Staff's information and belief, New Florence Telephone Company willfully recorded management consulting services attributed to LEC, LLC on its books of account in furtherance of a scheme designed to increase New Florence Telephone Company's revenues.

48. Based on Staff's information and belief, New Florence Telephone Company used a scheme that relied on inflated or falsified costs to obtain an overall revenue increase from federal Universal Service Fund support payments and National Exchange Carriers Association, Inc. settlements.

WHEREFORE, the Staff requests the Commission:

- (a) establish a case to address the allegations contained in Count II of this Complaint;
- (b) find New Florence Telephone Company is subject to the Commission's jurisdiction;
- (c) make New Florence Telephone Company a party to this case for purposes of Count II;
- (d) find, for purposes of Commission Rule 4 CSR 240-30.040, Local Exchange Company, LLC, Robert D. Williams and Kenneth M. Matzdorff controlled New Florence Telephone Company during the period August 1998 to August 2004
- (e) find, for purposes of Commission Rule 4 CSR 240-30.040, Local Exchange Company, LLC was an affiliate of New Florence Telephone Company during the period August 1998 to August 2004;
- (f) find New Florence Telephone Company recorded in its books of account management consulting services attributed to Local Exchange Company, LLC for each month of the period July 2001 through August 2004, with the exceptions of the months of February and March 2002;
- (g) find Local Exchange Company, LLC did not provide management consulting services to any entity to which it is unaffiliated during the period September 2001 through August 2004;
- (h) find each amount New Florence Telephone Company recorded in its books of account for management consulting services attributed to Local Exchange

Company, LLC for the period July 2001 through August 2004 exceeded the costs Local Exchange Company, LLC incurred to provide the services;

- (i) find the amounts New Florence Telephone Company recorded on its books for management consulting services attributed to Local Exchange Company, LLC were not based on management consulting services Local Exchange Company, LLC provided to New Florence Telephone Company;
- (j) find New Florence Telephone Company elected on or about July 1, 2001 to receive federal Universal Service Fund support based on New Florence Telephone Company's costs determined by annual cost studies specific to New Florence Telephone Company;
- (k) find New Florence Telephone Company recorded management consulting services attributed to Local Exchange Company, LLC on its books of account as part of a scheme designed to increase revenues to New Florence Telephone Company;
- (l) find New Florence Telephone Company used a scheme that relied on inflated or falsified costs to obtain an overall revenue increase from federal Universal Service Fund support payments and National Exchange Carriers Association, Inc. settlements;
- (m) Local Exchange Company, LLC find each entry in the books of account of New Florence Telephone Company for management consulting services attributed to Local Exchange Company, LLC is a separate violation of Commission Rule 4 CSR 240-30.040 subject to penalty under Section 386.570.1;
- (n) find each entry in the books of account of New Florence Telephone Company for management consulting services attributed to Local Exchange Company, LLC is a continuing violation under Section 386.570.2 as long as it remains in the books of account without an offsetting entry and, therefore, each day's continuance thereof is a separate and distinct offense subject to a penalty; and
- (o) authorize the General Counsel of the Commission to seek penalties against New Florence Telephone Company for these violations.

Count III

South Holt Communications, Inc. Management Services—Rule Violation

49. The Staff incorporates by reference the allegations of paragraph nos. 1-14 and 16-25 above.

50. Robert D. Williams, at all times pertinent to the allegations in this complaint, owned and controlled South Holt Communications, Inc.

51. Under Commission Rule 4 CSR 240-30.040, at all times pertinent to the allegations in this complaint, South Holt Communications, Inc. was an affiliate of New Florence Telephone Company.

52. For each of the months August to December 2001 New Florence Telephone Company recorded in its books of account \$8,000 per month for management consulting services attributed to South Holt Communications, Inc.

53. For each of the months January to June 2002 New Florence Telephone Company recorded in its books of account \$4,000 per month for management consulting services attributed to South Holt Communications, Inc.

54. For each of the months July to December 2004 New Florence Telephone Company recorded in its books of account \$6,000 per month for management consulting services attributed to South Holt Communications, Inc.

55. New Florence Telephone Company and South Holt Communications, Inc. did not execute a written agreement for management consulting services.

56. Based on Staff's information and belief, the amounts New Florence Telephone Company recorded on its books for management consulting services attributed to South Holt Communications, Inc. were not based on management consulting services South Holt Communications, Inc. provided to New Florence Telephone Company.

57. Based on Staff's information and belief South Holt Communications, Inc. does not and has not provided management consulting services to any entity to which it is unaffiliated.

58. Based on Staff's information and belief, the amounts New Florence Telephone Company recorded on its books for management consulting services attributed to South Holt

Communications, Inc were based on increasing the revenues of New Florence Telephone Company.

59. Based on Staff's information and belief, New Florence Telephone Company willfully recorded management consulting services attributed to South Holt Communications, Inc. on its books of account as part of a scheme designed to increase New Florence Telephone Company's revenues.

60. Based on Staff's information and belief, New Florence Telephone Company used a scheme that relied on inflated or falsified costs to obtain an overall revenue increase from federal Universal Service Fund support payments and National Exchange Carriers Association, Inc. settlements.

WHEREFORE, the Staff requests the Commission:

- (a) establish a case to address the allegations contained in Count III of this Complaint;
- (b) find New Florence Telephone Company is subject to the Commission's jurisdiction;
- (c) make New Florence Telephone Company a party to this case for purposes of Count III;
- (d) find, for purposes of Commission Rule 4 CSR 240-30.040, Local Exchange Company, LLC, Robert D. Williams and Kenneth M. Matzdorff controlled New Florence Telephone Company during the period August 2001 to December 2004;
- (e) find, for purposes of Commission Rule 4 CSR 240-30.040, Robert D. Williams controlled South Holt Communications, Inc. during the period August 2001 to December 2004;
- (f) find, for purposes of Commission Rule 4 CSR 240-30.040, South Holt Communications, Inc. was an affiliate of New Florence Telephone Company during the period August 2001 to December 2004;
- (g) find New Florence Telephone Company recorded in its books of account management consulting services attributed to South Holt Communications, Inc. for each month of the period August 2001 through December 2004;

- (h) find South Holt Communications, Inc. does not, and has not, provided management consulting services to any entity to which it is unaffiliated;
- (i) find each amount New Florence Telephone Company recorded in its books of account for management consulting services attributed to South Holt Communications, Inc. for the period August 2001 through December 2004 exceeded the costs South Holt Communications, Inc. incurred to provide the services;
- (j) find the amounts New Florence Telephone Company recorded on its books for management consulting services attributed to South Holt Communications, Inc. were not based on management consulting services South Holt Communications, Inc. provided to New Florence Telephone Company;
- (k) find New Florence Telephone Company elected on or about July 1, 2001 to receive federal Universal Service Fund support based on New Florence Telephone Company's costs determined by annual cost studies specific to New Florence Telephone Company;
- (l) find New Florence Telephone Company recorded management consulting services attributed to South Holt Communications, Inc. on its books of account as part of a scheme designed to increase revenues to New Florence Telephone Company;
- (m) find New Florence Telephone Company used a scheme that relied on inflated or falsified costs to obtain an overall revenue increase from federal Universal Service Fund support payments and National Exchange Carriers Association, Inc. settlements;
- (n) find each entry in the books of account of New Florence Telephone Company for management consulting services attributed to South Holt Communications, Inc. is a separate violation of Commission Rule 4 CSR 240-30.040 subject to penalty under Section 386.570.1;
- (o) find each entry in the books of account of New Florence Telephone Company for management consulting services attributed to South Holt Communications, Inc. is a continuing violation under Section 536.570.2 as long as it remains in the books of account without an offsetting entry and, therefore, each day's continuance thereof is a separate and distinct offense subject to a penalty; and
- (p) authorize the General Counsel of the Commission to seek penalties against New Florence Telephone Company for these violations.

Count IV

Matzco, LLC Management Services—Rule Violation

61. The Staff incorporates by reference the allegations of paragraph nos. 1-14 and 16-25 above.

62. Kenneth M. Matzdorff, at all times pertinent to the allegations in this complaint, owned and controlled Matzco, LLC.

63. Under Commission Rule 4 CSR 240-30.040, at all times pertinent to the allegations in this complaint, Matzco, LLC was an affiliate of New Florence Telephone Company.

64. For each of the months August to December 2001 New Florence Telephone Company recorded in its books of account \$8,000 per month for management consulting services attributed to Matzco, LLC.

65. For each of the months January to June 2002 New Florence Telephone Company recorded in its books of account \$4,000 per month for management consulting services attributed to Matzco, LLC.

66. For each of the months July 2002 to August 2004 New Florence Telephone Company recorded in its books of account \$6,000 per month for management consulting services attributed to Matzco, LLC.

67. New Florence Telephone Company and Matzco, LLC did not execute a written agreement for management consulting services.

68. Based on Staff's information and belief, the amounts New Florence Telephone Company recorded on its books for management consulting services attributed to Matzco, LLC

were not based on management consulting services Matzco, LLC provided to New Florence Telephone Company.

69. Based on Staff's information and belief, Matzco, LLC did not and has not provided management consulting services to any entity to which it is unaffiliated.

70. Based on Staff's information and belief, the amounts New Florence Telephone Company recorded on its books for management consulting services attributed to Matzco, LLC were based on increasing the revenues of New Florence Telephone Company.

71. Based on Staff's information and belief, New Florence Telephone Company willfully recorded management consulting services attributed to Matzco, LLC on its books of account as part of a scheme designed to increase New Florence Telephone Company's revenues.

72. Based on Staff's information and belief, New Florence Telephone Company used a scheme that relied on inflated or falsified costs to obtain an overall revenue increase from federal Universal Service Fund support payments and National Exchange Carriers Association, Inc. settlements.

WHEREFORE, the Staff requests the Commission:

- (a) establish a case establish a case to address the allegations contained in Count IV of this Complaint;
- (b) find New Florence Telephone Company is subject to the Commission's jurisdiction;
- (c) make New Florence Telephone Company a party to this case for purposes of Count IV;
- (d) find, for purposes of Commission Rule 4 CSR 240-30.040 Local Exchange Company, LLC, Robert D. Williams and Kenneth M. Matzdorff controlled New Florence Telephone Company during the period August 2001 to August 2004;
- (e) find, for purposes of Commission Rule 4 CSR 240-30.040 Kenneth M. Matzdorff was in control of Matzco, LLC during the period August 2001 to August 2004;

- (f) find, for purposes of Commission Rule 4 CSR 240-30.040, Matzco, LLC was an affiliate of New Florence Telephone Company during the period August 2001 to August 2004;
- (g) find New Florence Telephone Company recorded in its books of account management consulting services attributed to Matzco, LLC for each month of the period August 2001 through August 2004;
- (h) find Matzco, LLC does not and has not provided management consulting services to any entity to which it is unaffiliated;
- (i) find each amount New Florence Telephone Company recorded in its books of account for management consulting services attributed to Matzco, LLC for the period August 2001 through August 2004 exceeded the costs Matzco, LLC incurred to provide the services;
- (j) find the amounts New Florence Telephone Company recorded on its books for management consulting services attributed to Matzco, LLC were not based on management consulting services provided to New Florence Telephone Company;
- (k) find New Florence Telephone Company elected on or about July 1, 2001 to receive federal Universal Service Fund support based on New Florence Telephone Company's costs determined by annual cost studies specific to New Florence Telephone Company;
- (l) find New Florence Telephone Company willfully recorded management consulting services attributed to Matzco, LLC on its books of account as part of a scheme designed to increase New Florence Telephone Company revenues;
- (m) find New Florence Telephone Company used a scheme that relied on inflated or falsified costs to obtain an overall revenue increase from federal Universal Service Fund support payments and National Exchange Carriers Association, Inc. settlements;
- (n) find each entry in the books of account of New Florence Telephone Company for management consulting services attributed to Matzco, LLC is a separate violation of Commission Rule 4 CSR 240-30.040 subject to penalty under Section 386.570.1;
- (o) find each entry in the books of account of New Florence Telephone Company for management consulting services attributed to Matzco, LLC is a continuing violation under Section 386.570.2 as long as it remains in the books of account without an offsetting entry and, therefore, each day's continuance thereof is a separate and distinct offense subject to a penalty; and
- (p) authorize the General Counsel of the Commission to seek penalties against New Florence Telephone Company for these violations.

Count V

Switch—Rule Violation

73. The Staff incorporates by reference the allegations of paragraph nos. 1-13 and 16-23 above.

74. The Staff is informed and believes that at all times pertinent to this complaint Kenneth M. Matzdorff owned and controlled Pegasus Communications, Inc.

75. Under Commission Rule 4 CSR 240-30.040, at all times pertinent to the allegations in this complaint, Pegasus Communications, Inc. was an affiliate of New Florence Telephone Company.

76. Robert D. Williams, at all times pertinent to the complaint, owned and controlled Williams Holdings, L.L.C.

77. Under Commission Rule 4 CSR 240-30.040, at all times pertinent to the allegations in this complaint, Williams Holdings, L.L.C. was an affiliate of New Florence Telephone Company.

78. In 2001, New Florence Telephone Company posted on its books of account a transaction for purchase of a switch in the amount of \$584, 000.

79. New Florence Telephone Company received an invoice from Pegasus Communications, Inc. that showed the amount of \$584,000 for the switch.

80. The manufacturer of the switch, Siemens Carrier Networks, LLC, invoiced Williams Holdings, L.L.C. for the same switch at a total price of \$183,754.

81. The amount New Florence Telephone Company recorded on its books of account for the switch exceeds the lower cost of the acquisition of the switch from the manufacturer and the fair market value of the switch.

82. Pursuant to Commission Rule 4 CSR 240-30.040 New Florence Telephone Company was to record the value of the switch at the lower of (1) the cost of the switch to the affiliates of New Florence Telephone Company less all applicable valuation reserves, or (2) the fair market value of the switch.

83. Near the time New Florence Telephone Company posted on its books of account a transaction for purchase of a switch in the amount of \$584,000 it posted on its books of account multiple entries totaling \$135,532 to reduce loan balances owed by Robert D. Williams to New Florence Telephone Company.

84. Near the time New Florence Telephone Company posted on its books of account a transaction for purchase of a switch in the amount of \$584, 000 it posted on its books of account multiple entries totaling \$135,532 to reduce loan balances owed by Kenneth M. Matzdorff to New Florence Telephone Company.

85. Near the time New Florence Telephone Company posted on its books of account a transaction for purchase of a switch in the amount of \$584, 000 it posted on its books of account multiple entries totaling \$135,532 for capital distribution(s) to LEC, LLC.

86. Based on Staff's information and belief, New Florence Telephone Company willfully recorded the amount of \$584,000 for the switch as part of a scheme designed to benefit LEC, LLC, via offsetting capital distribution(s), and Robert D. Williams and Kenneth M. Matzdorff, by reducing the balances of loans they owed to New Florence Telephone Company.

87. On or about December 21, 2004 New Florence Telephone Company made an entry in its books of account that had the effect of reducing the value of the switch from \$584,000 to \$183,754.

88. The value of the switch recorded in New Florence Telephone Company's books of account would be included in the cost of service upon which this Commission would set rates for basic local telecommunications service customers of New Florence Telephone Company.

WHEREFORE, the Staff requests that the Commission:

- (a) establish a case to address the allegations contained in Count V of this Complaint;
- (b) find New Florence Telephone Company is subject to the Commission's jurisdiction;
- (c) make New Florence Telephone Company a party to this case for purposes of Count V;
- (d) find, for purposes of Commission Rule 4 CSR 240-30.040, Local Exchange Company, LLC, Robert D. Williams and Kenneth M. Matzdorff controlled New Florence Telephone Company when it acquired a switch in 2001;
- (e) find, for purposes of Commission Rule 4 CSR 240-30.040, Robert D. Williams controlled Williams Holdings, L.L.C. when New Florence Telephone Company acquired the foregoing switch in 2001;
- (f) find, for purposes of Commission Rule 4 CSR 240-30.040, Kenneth M. Matzdorff controlled Pegasus Communications, Inc. when New Florence Telephone Company acquired the foregoing switch in 2001;
- (g) find, for purposes of Commission Rule 4 CSR 240-30.040, Williams Holdings, L.L.C. was an affiliate of New Florence Telephone Company when New Florence Telephone Company acquired the foregoing switch in 2001;
- (h) find, for purposes of Commission Rule 4 CSR 240-30.040, Pegasus Communications, Inc. was an affiliate of New Florence Telephone Company when New Florence Telephone Company acquired the foregoing switch in 2001;
- (i) find New Florence Telephone Company acquired a switch from an affiliate in 2001;
- (j) find New Florence Telephone Company recorded on its books of account an amount for the switch that exceeds the lower cost of the acquisition of the switch from the manufacturer and the fair market value of the switch;
- (k) find the \$584,000 amount New Florence Telephone Company recorded on its books of account for the switch violates Commission Rule 4 CSR 240-30.040 subject to penalty under Section 386.570.1;

- (l) find that while the \$584,000 amount New Florence Telephone Company recorded on its books of account for the switch was not reduced by an offsetting entry or otherwise in its books of account to \$183,754 or less it was a continuing violation under Section 386.570.2 and, therefore, each day's continuance thereof is a separate and distinct offense subject to a penalty; and
- (m) authorize the General Counsel of the Commission to seek a penalty against New Florence Telephone Company for this violation.

Count VI

LEC, LLC Administrative Services—Statute Violation

- 89. The Staff incorporates by reference the allegations of paragraph nos. 1-36 above.
- 90. New Florence Telephone Company willfully, each month, commencing with August 1998 and continuing at least until September 2004, recorded false entries in its accounts attributed to LEC, LLC administrative services.

WHEREFORE, the Staff requests the Commission:

- (a) establish a case to address the allegations contained in Count VI of this Complaint;
- (b) find New Florence Telephone Company is subject to the Commission's jurisdiction;
- (c) make New Florence Telephone Company a party to this case for purposes of Count VI;
- (d) find New Florence Telephone Company has, each month, commencing with August 1998 and continuing at least until September 2004, recorded in its accounting records charges for Local Exchange Company, LLC administrative services;
- (e) find New Florence Telephone Company, each month August 1998 through December 2002, recorded in the books of account of New Florence Telephone Company amounts for administrative services provided by Local Exchange Company, LLC that were one hundred and forty percent (140%) of the costs Local Exchange Company, LLC incurred to provide the services;
- (f) find New Florence Telephone Company, in 2003, increased the monthly amounts for administrative "support costs" services provided by Local Exchange Company, LLC it had recorded monthly in 2002 from one hundred and forty percent (140%) of the costs Local Exchange Company, LLC incurred to provide the services to

one hundred and eighty percent (180%) of the costs Local Exchange Company, LLC incurred to provide the services;

- (g) find New Florence Telephone Company, each month January 2003 through September 2004, recorded in the books of account of New Florence Telephone Company amounts for administrative “support costs” services provided by Local Exchange Company, LLC that were one hundred eighty percent (180%) of the costs Local Exchange Company, LLC incurred to provide the services;
- (h) find each entry made in the books of account of New Florence Telephone Company for administrative services provided by Local Exchange Company, LLC that was one hundred and forty percent (140%) of the costs Local Exchange Company, LLC incurred to provide the services or one hundred and eighty percent (180%) of the costs Local Exchange Company, LLC incurred to provide the services is a false entry;
- (i) find New Florence Telephone Company willfully made each false entry in the accounts and books of account of New Florence Telephone Company attributed to Local Exchange Company, LLC administrative services in violation of Section 386.560 subject to penalty under Section 386.570.1; and
- (j) authorize the General Counsel of the Commission to seek penalties against New Florence Telephone Company for these violations.

Count VII

LEC, LLC Management Services—Statute Violation

91. The Staff incorporates by reference the allegations of paragraph nos. 1-25 and 38-48 above.

92. New Florence Telephone Company willfully, each month with the exception of the months February and March 2002, commencing with July 2001 and continuing at least until August 2004, recorded false entries in its accounts attributed to LEC, LLC management services.

WHEREFORE, the Staff requests that the Commission:

- (a) establish a case to address the allegations contained in Count VII of this Complaint;
- (b) find New Florence Telephone Company is subject to the Commission’s jurisdiction;

- (c) make New Florence Telephone Company a party to this case for purposes of Count VII;
- (d) find New Florence Telephone Company recorded in its books of account management consulting services attributed to Local Exchange Company, LLC for each month of the period July 2001 through August 2004, with the exceptions of the months of February and March 2002;
- (e) find the amounts New Florence Telephone Company recorded on its books for management consulting services attributed to Local Exchange Company, LLC were not based on management consulting services Local Exchange Company, LLC provided to New Florence Telephone Company;
- (f) find New Florence Telephone Company recorded management consulting services attributed to Local Exchange Company, LLC on its books of account as part of a scheme designed to increase revenues to New Florence Telephone Company;
- (g) find New Florence Telephone Company used a scheme that relied on inflated or falsified costs to obtain an overall revenue increase from federal Universal Service Fund support payments and National Exchange Carriers Association, Inc. settlements;
- (h) find each entry made in the books of account of New Florence Telephone Company for management consulting services attributed to Local Exchange Company, LLC is false;
- (i) find New Florence Telephone Company willfully made each false entry in the accounts and books of account of New Florence Telephone Company attributed to Local Exchange Company, LLC management services in violation of Section 386.560 subject to penalty under Section 386.570.1; and
- (j) authorize the General Counsel of the Commission to seek penalties against New Florence Telephone Company for these violations.

Count VIII

South Holt Communications, Inc. Management Services—Statute Violation

93. The Staff incorporates by reference the allegations of paragraph nos. 1-25 and 50-60 above.

94. New Florence Telephone Company willfully, each month, commencing with August 2001 and continuing at least until December 2004, recorded false entries in its accounts and books of account attributed to South Holt Communications, Inc. management services.

WHEREFORE, the Staff requests that the Commission:

- (a) establish a case to address the allegations contained in Count VIII of this Complaint;
- (b) find New Florence Telephone Company is subject to the Commission's jurisdiction;
- (c) make New Florence Telephone Company a party to this case for purposes of Count VIII;
- (d) find New Florence Telephone Company recorded in its books of account management consulting services attributed to South Holt Communications, Inc. for each month of the period August 2001 through December 2004;
- (e) find the amounts New Florence Telephone Company recorded on its books for management consulting services attributed to South Holt Communications, Inc. were not based on management consulting services South Holt Communications, Inc. provided to New Florence Telephone Company;
- (f) find New Florence Telephone Company recorded management consulting services attributed to South Holt Communications, Inc. on its books of account as part of a scheme designed to increase revenues to New Florence Telephone Company;
- (g) find New Florence Telephone Company used a scheme that relied on inflated or falsified costs to obtain an overall revenue increase from federal Universal Service Fund support payments and National Exchange Carriers Association, Inc. settlements;
- (h) find each entry made in the books of account of New Florence Telephone Company for management consulting services attributed to South Holt Communications, Inc. is false;
- (i) find New Florence Telephone Company willfully made each false entry in the accounts and books of account of New Florence Telephone Company attributed to South Holt Communications, Inc. management services in violation of Section 386.560 subject to penalty under Section 386.570.1; and
- (j) authorize the General Counsel of the Commission to seek penalties against New Florence Telephone Company for these violations.

Count IX

Matzco, LLC Management Services—Statute Violation

95. The Staff incorporates by reference the allegations of paragraph nos. 1-25 and 62-72 above.

96. New Florence Telephone Company willfully, each month, commencing with August 2001 and continuing at least until August 2004, willfully made false entries in the accounts and books of account attributed to Matzco, LLC management services.

WHEREFORE, the Staff requests that the Commission:

- (a) establish a case to address the allegations contained in Count IX of this Complaint;
- (b) find New Florence Telephone Company is subject to the Commission's jurisdiction;
- (c) make New Florence Telephone Company a party to this case for purposes of Count IX;
- (d) find New Florence Telephone Company recorded in its books of account management consulting services attributed to Matzco, LLC for each month of the period August 2001 through August 2004;
- (e) find the amounts New Florence Telephone Company recorded on its books for management consulting services attributed to Matzco, LLC were not based on management consulting services provided to New Florence Telephone Company;
- (f) find New Florence Telephone Company willfully recorded management consulting services attributed to Matzco, LLC on its books of account as part of a scheme designed to increase New Florence Telephone Company revenues;
- (g) find New Florence Telephone Company used a scheme that relied on inflated or falsified costs to obtain an overall revenue increase from federal Universal Service Fund support payments and National Exchange Carriers Association, Inc. settlements;
- (h) find each entry made in the books of account of New Florence Telephone Company for management consulting services attributed to Matzco, LLC is false;
- (i) find New Florence Telephone Company willfully made each false entry in the accounts and books of account of New Florence Telephone Company attributed to Matzco, LLC management services in violation of Section 386.560 subject to penalty under Section 386.570.1; and
- (j) authorize the General Counsel of the Commission to seek penalties against New Florence Telephone Company for these violations.

Count X

Switch—Statute Violation

97. The Staff incorporates by reference the allegations of paragraph nos. 1-23 and 74-88 above.

98. New Florence Telephone Company, in 2001, willfully made a false entry in the accounts and books of account of New Florence Telephone Company for the acquisition of a switch in the amount of \$584,000.

WHEREFORE, the Staff requests that the Commission:

- (a) establish a case to address the allegations contained in Count X of this Complaint;
- (b) find New Florence Telephone Company is subject to the Commission's jurisdiction;
- (c) make New Florence Telephone Company a party to this case for purposes of Count X;
- (d) find New Florence Telephone Company acquired a switch in 2001;
- (e) find New Florence Telephone Company recorded on its books of account an amount for the switch that was not based on the cost of the acquisition of the switch from the manufacturer or the fair market value of the switch;
- (f) find New Florence Telephone Company willfully recorded an amount for the switch on its books of account as part of a scheme designed to benefit Local Exchange Company, LLC, Robert D. Williams and Kenneth M. Matzdorff;
- (g) find New Florence Telephone Company entered in its books of account an amount for acquisition of the switch that is false;
- (h) find New Florence Telephone Company willfully made a false entry in the accounts and books of account of New Florence Telephone Company for the acquisition of a switch in 2001 in violation of Section 386.560 subject to penalty under Section 386.570.1; and
- (i) authorize the General Counsel of the Commission to seek a penalty against New Florence Telephone Company for this violation.

Count XI

Loans—Statute Violation

99. The Staff incorporates by reference the allegations of paragraph nos. 1-23, 74-82, 87-88 and 98 above.

100. Robert D. Williams executed a promissory note in favor of New Florence Telephone Company in the principal sum of \$84,000 in December 2000.

101. Kenneth M. Matzdorff executed a promissory note in favor of New Florence Telephone Company in the principal sum of \$84, 000 in December 2000.

102. Robert D. Williams executed a promissory note dated March 7, 2001 in favor of New Florence Telephone Company in the principal sum of \$125,000.

103. Kenneth M. Matzdorff executed a promissory note dated March 7, 2001 in favor of New Florence Telephone Company in the principal sum of \$125,000.

104. Robert D. Williams and Kenneth M. Matzdorff approved New Florence Telephone Company loaning money to Robert D. Williams and Kenneth M. Matzdorff pursuant to the four above-referenced promissory notes.

105. When New Florence Telephone Company posted on its books of account a transaction for the acquisition of a switch in the amount of \$584,000, within a short period of time posted on its books of account multiple entries totaling \$135,532 to reduce the loan balances owed by Robert D. Williams to New Florence Telephone Company.

106. When New Florence Telephone Company posted on its books of account a transaction for the acquisition of a switch in the amount of \$584, 000, within a short period of time posted on its books of account multiple entries totaling \$135,532 to reduce the loan balances owed by Kenneth M. Matzdorff to New Florence Telephone Company.

107. When New Florence Telephone Company posted on its books of account a transaction for the acquisition of a switch in the amount of \$584, 000, within a short period of time posted on its books of account multiple entries totaling \$135,532 as a capital distribution to LEC, LLC. This amount was paid by check by New Florence Telephone Company to LEC, LLC on or about January 22, 2003.

108. While New Florence Telephone Company has made an entry in its books of account that had the effect of reducing the value of the switch from \$584,000 to \$183,754, it has made no entry that has the effect of offsetting or reversing the reduction of the loan balances owed by Robert D. Williams to New Florence Telephone Company by \$135,532.

109. While New Florence Telephone Company has made an entry in its books of account that had the effect of reducing the value of the switch from \$584,000 to \$183,754, it has made no entry that has the effect of offsetting or reversing the reduction of the loan balances owed by Kenneth M. Matzdorff to New Florence Telephone Company by \$135,532.

110. While New Florence Telephone Company has made an entry in its books of account that had the effect of reducing the value of the switch from \$584,000 to \$183,754, it has made no entry that has the effect of offsetting or reversing the capital distribution to LEC, LLC paid by New Florence Telephone Company of \$135,532.

111. New Florence Telephone Company, in 2002, willfully posted on its books of account a \$135,532 reduction in the loan balances owed by Robert D. Williams to New Florence Telephone Company as part of its transaction for the acquisition of the switch.

112. New Florence Telephone Company, in 2002, willfully posted on its books of account a \$135,532 reduction in the loan balances owed by Kenneth M. Matzdorff to New Florence Telephone Company as part of its transaction for the acquisition of the switch.

113. New Florence Telephone Company, in 2002, willfully posted on its books of account a \$135,532 capital distribution to LEC, LLC as part of its transaction for the acquisition of the switch.

WHEREFORE, the Staff requests that the Commission:

- (a) establish a case to address the allegations contained in Count XI of this Complaint;
- (b) find New Florence Telephone Company is subject to the Commission's jurisdiction;
- (c) make New Florence Telephone Company a party to this case for purposes of Count XI;
- (d) find New Florence Telephone Company acquired a switch in 2001;
- (e) find Robert D. Williams executed a promissory note in favor of New Florence Telephone Company in the principal sum of \$84,000 in December 2000;
- (f) find Robert D. Williams executed a promissory note dated March 7, 2001 in favor of New Florence Telephone Company in the principal sum of \$125,000;
- (g) find Kenneth M. Matzdorff executed a promissory note in favor of New Florence Telephone Company in the principal sum of \$84, 000 in December 2000;
- (h) find Kenneth M. Matzdorff executed a promissory note dated March 7, 2001 in favor of New Florence Telephone Company in the principal sum of \$125,000;
- (i) find New Florence Telephone Company recorded on its books of account a \$135,532 reduction in the loan balances owed by Robert D. Williams to New Florence Telephone Company as part of its transaction for the acquisition of the switch in 2001;
- (j) find New Florence Telephone Company recorded on its books of account a \$135,532 reduction in the loan balances owed by Kenneth M Matzdorff to New Florence Telephone Company as part of its transaction for the acquisition of the switch in 2001;
- (k) find New Florence Telephone Company recorded on its books of account capital distributions to Local Exchange Company, LLC totaling \$135,532 as part of New Florence Telephone Company's transaction for the acquisition of the switch in 2001
- (l) find New Florence Telephone Company willfully recorded on its books of account reductions in the loan balances owed by Robert D. Williams as part of a scheme

designed to benefit Local Exchange Company, LLC, Robert D. Williams and Kenneth M. Matzdorff in connection with New Florence Telephone Company's acquisition of a switch in 2001;

- (m) find New Florence Telephone Company willfully recorded on its books of account reductions in the loan balances owed by Kenneth M. Matzdorff as part of a scheme designed to benefit Local Exchange Company, LLC, Robert D. Williams and Kenneth M. Matzdorff in connection with New Florence Telephone Company's acquisition of a switch in 2001;
- (n) find New Florence Telephone Company willfully recorded on its books of account capital distributions to Local Exchange Company, LLC as part of a scheme designed to benefit Local Exchange Company, LLC, Robert D. Williams and Kenneth M. Matzdorff in connection with New Florence Telephone Company's acquisition of a switch in 2001;
- (o) find the entries New Florence Telephone Company entered in its books of account to reduce the loan balances owed by Robert D. Williams in connection with New Florence Telephone Company's acquisition of a switch in 2001 are false;
- (p) find the entries New Florence Telephone Company entered in its books of account to reduce the loan balances owed by Kenneth M. Matzdorff in connection with New Florence Telephone Company's acquisition of a switch in 2001 are false;
- (q) find the entries New Florence Telephone Company entered in its books of account for capital distributions to Local Exchange Company, LLC in connection with New Florence Telephone Company's acquisition of a switch in 2001 are false;
- (r) find New Florence Telephone Company willfully made false entries in the accounts and books of account of New Florence Telephone Company with regard to loan balances owed by Robert D. Williams in violation of Section 386.560 subject to penalty under Section 386.570.1;
- (s) find New Florence Telephone Company willfully made false entries in the accounts and books of account of New Florence Telephone Company with regard to loan balances owed by Kenneth M. Matzdorff in violation of Section 386.560 subject to penalty under Section 386.570.1;
- (t) find New Florence Telephone Company willfully made false entries in the accounts and books of account of New Florence Telephone Company with regard to capital distributions made to Local Exchange Company, LLC in violation of Section 386.560 subject to penalty under Section 386.570.1; and
- (u) authorize the General Counsel of the Commission to seek penalties against New Florence Telephone Company for these violations.

Respectfully submitted,

DANA K. JOYCE
General Counsel

/s/ Nathan Williams

Nathan Williams

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Certificate of Service

I hereby certify that copies of the foregoing have been mailed, hand-delivered, transmitted by facsimile or electronically mailed to all counsel of record as shown below this 24th day of October 2005.

/s/ Nathan Williams

Nathan Williams

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