

**STATE OF MISSOURI
PUBLIC SERVICE COMMISSION**

At a session of the Public Service
Commission held at its office in
Jefferson City on the 22nd day
of March, 2007.

In the Matter of the Joint Application of New Florence)
Telephone Company, Tiger Telephone, Inc., and)
Direct Communications Rockland, Inc., for an Order)
Authorizing Direct Communications Rockland, Inc.,)
to Purchase or Acquire, Take or Hold all of the Issued)
and Outstanding Capital Stock of Tiger Telephone,)
Inc.)

Case No. TO-2007-0139

ORDER AUTHORIZING SALE OF STOCK

Issue Date: March 22, 2007

Effective Date: March 31, 2007

Procedural History

On October 2, 2006, New Florence Telephone Company, Tiger Telephone, Inc. and Direct Communications Rockland, Inc. filed a Joint Application seeking authorization to transfer to Direct Communications, or an entity designated by Direct Communications, all of the capital stock of TigerTel, which includes all of the stock of New Florence. The Commission issued its notice of this application on October 5, directing that any applications for intervention be filed no later than October 25. There were no requests to intervene.

On February 26, the Staff of the Commission filed its Memorandum, recommending, with certain conditions, that the Commission approve the requested relief. Finally, on March 6, 2007, Joint Applicants filed a response to Staff's recommendation stating that it does not oppose the conditions suggested by Staff. Also, because Joint Applicants would

like to tentatively schedule the closing of this transaction on April 2, 2007, they request that any Commission approval be effective by April 1.

The Companies

New Florence is a Missouri corporation, subject to the Commission's jurisdiction, and engaged in the business of providing basic local telecommunications service to approximately 470 customers.

TigerTel is a Missouri corporation engaged in the business of acquiring, operating and managing telecommunications companies. TigerTel owns all of the stock of New Florence. The sole shareholder of TigerTel is Robert D. Williams.

Direct Communications is an Idaho corporation and engaged in the business of acquiring and operating communications businesses. In this matter, Direct Communications seeks to acquire all of the stock of TigerTel, which includes all of the stock of New Florence.

The Application

In Case No. TC-2006-0184, the Commission approved a Stipulation and Agreement resolving a complaint filed by Staff against New Florence. The following relevant language is from the Commission's order:

In addition, if New Florence has not arranged its sale to new, independent, owners by October 2, 2006, it will be obligated to pay an additional \$250,000 to the Public School Fund by October 3.

The stipulation and agreement also provides that Staff will recommend to the Commission that New Florence, or its new owners, be certified for receipt of federal Universal Service Fund disbursements, if Staff finds that the company's management is independent, has no relationship or ties to current owners and has sufficient knowledge and skill to be acceptable to Staff.

Joint Applicants filed this application to comply with this language of the Stipulation and Agreement.

TigerTel and Direct Communications entered into a Stock Purchase Agreement on September 29, 2006; thus, satisfying the condition of the above agreement that New Florence arrange its sale by October 2, 2006. Joint Applicants also state that the Boards of Directors of each applicant has resolved that the applicant may be a party to this transaction. Additionally, Joint Applicants aver that the proposed transaction is not detrimental to the public interest. In support thereof, Joint Applicants state that Direct Communications has operated telephone exchange systems in Idaho under a certificate granted by the Idaho Public Utilities Commission since 1952. The company provides local service to 1,500 customers and qualifies as a rural company for purposes of the Telecommunications Act of 1996.

Joint Applicants further state that after the sale of stock, New Florence will continue to operate in much the same manner as it does currently. There will be no change in rates or methods of operation and the present employees will be retained. Lastly, Joint Applicants point out that the proposed transaction satisfies the conditions that will enable Staff to recommend that the Commission certify New Florence for receipt of Universal Service Fund support. In this regard, Joint Applicants ask that the Commission so certify New Florence upon the closing of the proposed transaction.

In an Amended and Supplemental Application, the Applicants also request authorization from the Commission for TigerTel to borrow \$1,700,000 from Zions First National Bank to finance the purchase TigerTel. On February 16, 2007, Joint Applicants filed a Second Amended Application informing the Commission that Robert D. Williams

(seller) is the sole shareholder of TigerTel and that TigerTel is the sole shareholder of New Florence. Also in this filing, applicants inform the Commission that Direct Communications has designated Leonard May, Garrin Bott, Kip Wilson, Jeremy Smith, Scott Hendrickson and Elizabeth Dunn as the purchasers.

Staff Memorandum

The Public Interest

Staff opines that the proposed transaction will not be a detrimental to the public interest. Staff defines the public as those customers in Missouri receiving service from New Florence. In support of its opinion, Staff states that through data requests it has found that the purchasers of TigerTel will enter into a management contract with Direct Communications to provide management and support service, accounting, billing and other related services. Staff further states that Direct Communications operates telephone exchange in Idaho, Utah, Washington and Oregon. All of Direct Communications' companies qualify as rural telephone companies for the purposes of the federal Telecommunications Act of 1996.

To further verify Direct Communications' abilities, Staff contacted the agencies that regulate direct in the above states. Through its contacts, Staff has found that Direct Communications:

- provided quality telecommunications service;
- offers advance services such as broadband to their rural customers;
- has no abnormal level of customer complaints;
- is a well-run independent telephone company; and
- responds to the needs of customers and regulatory commissions.

Further, Staff determined that none of the purchasing shareholders have been indicted, charged or convicted of any federal or state felony proceedings.

Although not required in stock acquisition cases, Staff believes that Direct Communications has sufficient technical, financial and managerial resources and abilities to provide service. Finally, to ensure that the management contract has been formalized, Staff recommends that the purchasing shareholders provide Staff with a copy of the management contract with Direct Communications.

Accounting Issues

Staff states that there will be no acquisition adjustment resulting from the proposed sale of stock and that the value of New Florence's assets and liabilities will not be restated for either financial or regulatory purposes. As noted above, all of the accounting, management, regulatory consulting and human resources administration will be handled by Direct Communications. To provide Staff with the necessary information as to the final valuation of this transaction, Staff recommends that the purchasing shareholders provide Staff with all closing journal entries to record the stock sale.

Federal Universal Service Funds

Staff states that New Florence does not receive universal service funds as of September 30, 2004. The Commission declined to certify that the company was using the support in accordance with the law. However, under the Stipulation and Agreement resulting from Staff's complaint against the company, it was agreed that Staff would recommend such certification upon the sale of the company and a showing that the management of the company has no ties with the current owners.

Staff has determined that the purchasing shareholders and Direct Communications are independent, have no relationship to the current owners and have sufficient knowledge and skill to provide basic local telecommunications services. Further, upon consummation of the transaction, the service agreement with the sole shareholder (Robert D. Williams) of TigerTel will be terminated. Staff recommends that, upon closing of the transaction, the purchasing shareholders file a notice with the Commission that the Stock Purchase Agreement has been executed and that the certification be effective as of the closing date of the transaction.

Decision

Staff lists 14 suggested ordered paragraphs. As Joint Applicants do not object to Staff's suggested conditions, the Commission will adopt them. Furthermore, Staff discusses several Commission rules under Chapter 32 – Telecommunications Service Review. Specifically, Staff notes the requirements under section .050 (Customer Service), .060 (Engineering and Maintenance), and .080 (Service Objectives and Surveillance Levels) and Financing Issues. The content of the financing issues are proprietary. However, Staff suggests that the following as a condition in this regard:

If Tiger Telephone Inc.'s Total Debt/EBITDA ratio should exceed 5.15x or Tiger Telephone, Inc.'s Fixed Charge Coverage ratios should fall below the lender's required ratio, then Tiger Telephone must, within 30 days, provide a report to the Staff of the Commission demonstrating that this event was not caused by an increase in TigerTel's financial risk (this calculation shall be done on a quarterly basis based on a trailing twelve month basis and shall start as soon as a full 12 months of operating history is available). If TigerTel cannot demonstrate to Staff's satisfaction that the deterioration of these ratios was due to factors other than an increase in TigerTel's financial risk, then TigerTel must, within 30 days, provide a report to Staff demonstrating that the downgrade will not have a negative impact on TigerTel's continued quality of service to its Missouri customers or cause a reduction in its investment in its basic telecommunications services. In the event that TigerTel is unable to demonstrate the aforementioned items to the

Commission's satisfaction, TigerTel shall be required to take the necessary financial action to reduce its Total Debt/EBITDA ratio to below 5.15x or the Fixed Charge Coverage ratio to above the lender's ratio by the next quarterly report in which these ratios are evaluated.

Joint Applicants do not oppose these conditions. The Commission shall adopt them.

The Commission has reviewed the application and Staff's memorandum, which are hereby admitted into evidence. There are no pleadings filed by any other party. The Commission finds that the proposed transfer of assets will provide the customers of New Florence with continued service, under the same rates and terms. The Commission finds that the proposed transaction is not detrimental to the public interest and shall be approved.

IT IS ORDERED THAT:

1. The purchasing shareholders, Leonard May, Garrin Bott, Kip Wilson, Jeremy Smith, Scott Hendrickson and Elizabeth Dunn, are each joined as parties to this matter.
2. New Florence Telephone Company, Tiger Telephone, Inc. and Direct Communications Rockland, Inc. are authorized to enter into and perform in accordance with the terms of the Stock Purchase Agreement.
3. Leonard May, Garrin Bott, Kip Wilson, Jeremy Smith, Scott Hendrickson and Elizabeth Dunn are authorized to purchase or acquire, take or hold all of the total issued and outstanding capital stock of Tiger Telephone, Inc.
4. New Florence Telephone Company, Tiger Telephone, Inc. and Direct Communications Rockland, Inc. are authorized to execute and deliver a Deed of Trust, Security Agreement and Financing Statement.

5. New Florence Telephone Company, Tiger Telephone, Inc. and Direct Communications Rockland, Inc. are authorized to enter into and perform and accordance with the terms of the Secured Guaranty.

6. New Florence Telephone Company, Tiger Telephone, Inc. and Direct Communications Rockland, Inc. are authorized to execute and deliver a mortgage, security agreement and financing statement for the purpose of placing a lien on New Florence's assets and securing the loan to Tiger Telephone, Inc.

7. New Florence Telephone Company, Tiger Telephone, Inc. and Direct Communications Rockland, Inc. are authorized to do any and all other things as may be reasonable necessary in furtherance of all acts specifically authorized.

8. Nothing in this order shall be considered a finding by the Commission of the value of these transactions for ratemaking purposes, and that the Commission reserves the right to consider the ratemaking treatment to be afforded these financing transactions and their results in cost of capital, in any later proceeding.

9. The depreciation rates for New Florence continue to be authorized.

10. Leonard May, Garrin Bott, Kip Wilson, Jeremy Smith, Scott Hendrickson and Elizabeth Dunn shall provide to the Staff of the Commission, within 60 days of the final closing, all closing journal entries.

11. Leonard May, Garrin Bott, Kip Wilson, Jeremy Smith, Scott Hendrickson and Elizabeth Dunn shall provide to the Staff of the Commission, within 60 days of final closing, a copy of the management contract with Direct Communications Rockland, Inc.

12. In any rate proceeding, New Florence's cost of capital shall be based upon its business risk and a reasonable amount of financial risk; New Florence's cost of capital shall

not be increased due to unnecessary increased risk because of Tiger Telephone, Inc.'s or New Florence's policies.

13. New Florence Telephone Company, Tiger Telephone, Inc. and Direct Communications Rockland, Inc. shall comply with the Staff of the Commission's suggested condition, with regard Tiger Telephone Company's Debt/EBITDA ratio, described in the body of this order.

14. This order shall become effective on March 31, 2007.

BY THE COMMISSION

A handwritten signature in black ink, appearing to read 'Colleen M. Dale', is written over a horizontal line.

Colleen M. Dale
Secretary

(S E A L)

Davis, Chm., Murray, Gaw, Clayton,
and Appling, CC., concur.

Jones, Senior Regulatory Law Judge