PUBLIC
DIRECT TESTIMONY

OF

PHIL HARDAS

Finance Department

Financial Analysis Division

Illinois Commerce Commission

ABB HOLDCO, INC.
AMERICAN BROADBAND ACQUISTION CORP.
MAIL HOLDINGS, INC.
GRIDLEY ENTERPRISES, INC.
GRIDLEY TELEPHONE COMPANY

Joint Application for Approval of the Recapitalization
Pursuant to Sections 7-203 and 7-204 and for other relief

Docket No. 05-0436

September 22, 2005

Q. Please state your name and business address.

A. My name is Phil Hardas. My business address is 527 East Capitol Avenue, Springfield, Illinois 62701.

Q. What is your current position with the Illinois Commerce Commission (“Commission”)?

A. I am currently employed as a Senior Financial Analyst in the Finance Department of the Financial Analysis Division.

Q. Please describe your qualifications and background.

A. In December of 1998, I received a Bachelor of Science degree in Finance from Southern Illinois University at Carbondale. I received a Master of Business Administration degree from the University of Illinois at Springfield in August of 2001. I have been employed by the Commission in my present position since May of 1999.

Q. What is the purpose of your testimony in this proceeding?

A. The purpose of my testimony is to present my evaluation of the financial implications of the proposed reorganization of ABB Holdco, Inc. (“ABBH”), American Broadband Acquisition Corp. (“ABAC”), Mail Holdings, Inc. (“MH”), Gridley Enterprises, Inc. (“GEI”), and Gridley Telephone Company (“GTC”) with respect to Section 7-204 (b)(4) of the Public Utilities Act (“Act”).

Q. Why is it necessary to evaluate the financial implications of the proposed reorganization?

A. Under Section 7-204 (b)(4) of the Act, the Commission must find that "the proposed reorganization will not significantly impair the utility's ability to raise necessary capital on reasonable terms or to maintain a reasonable capital structure."

Q. Please describe the proposed reorganization.

A. ABBH is a recently formed corporation under the laws of Delaware. ABBH is a holding company that owns 100% of ABAC a North Carolina corporation, which in turn, owns 100% of MH a corporation organized under the laws of Delaware (collectively, "the Joint Applicants"). GEI is a privately owned corporation under the laws of Illinois. GEI is presently a holding company that owns 100% of the outstanding shares of capital stock of GTC. GTC is an Illinois corporation and an incumbent local exchange carrier providing local exchange telecommunications services within the state of Illinois. After the completion of the proposed reorganization, MH will own 77.5% and ABAC will own 22.5% interests of GEI. The total purchase price is $ of which, $ shall be paid by MH in cash and $ shall be in the form of a promissory note from ABAC.

Q. Please summarize your findings.

A. Based on my analysis, GTC currently generates adequate cash flow to cover capital expenditures and carries zero long-term debt. However, after reorganization, GTC would obtain external capital from ABAC, whose capital structure is projected to become highly levered with debt. During adverse business conditions, I am concerned that ABAC might find it necessary to reduce expenditures at GTC that are needed to maintain service quality to increase the cash available to ABAC to service its debt.

Q. What is your recommendation?

A. Due to the high degree of financial leverage ABAC is forecasted to maintain following the reorganization, I recommend that the Commission impose a condition that restricts affiliates' access to cash that GTC generates to ensure that GTC retains sufficient cash to provide reasonable and adequate service at reasonable cost. In this condition, GTC would be prohibited from paying dividends to its affiliates or from otherwise transferring cash to its affiliates through loans, advances, investments or other means that would divert GTC's moneys, property or other resources to any business or enterprise that is not essential to or is not directly connected with the provision of noncompetitive telecommunications service if GTC fails to meet or exceed the standards set forth in Staff witness McClerren's testimony.

Q. Please address the effect of the proposed transaction GTC's ability to raise necessary capital on reasonable terms.

A. GTC's annual report to the Commission indicates that GTC has generated more cash than it needed for capital expenditures. [1,2] The Joint Applicants estimate that GTC will have annual capital expenditure requirements of approximately $ with an additional one-time need for $ to upgrade outside plant.[3] Therefore, GTC should not need to raise capital so long as it retains sufficient internally generated cash for its own operations.

Q. Please address the effect of the proposed transaction on GTC's ability to maintain a reasonable capital structure.

A. A reasonable capital structure would permit a utility to raise capital under most market conditions and would result in a reasonable overall cost of capital. GTC maintains a $0 long-term debt balance. It is 100% common equity financed. Since the interest on debt is tax-deductible, it has a cost advantage over common equity. Therefore, capital structures without any debt are not optimal from a cost standpoint. However, when setting rates for a subsidiary such as GTC that relies on a parent company to supply external capital, the Commission typically uses that parent company's capital structure. In that case, consideration of the effect of the proposed reorganization on the parent company's ability to maintain a reasonable capital structure is appropriate. Joint Applicants forecast that the proportion of debt in ABAC's capital structure will reach approximately

[1] Form 23A Annual Report of Gridley Telephone Co. for the year ended December 31, 2004.
[2] Responses to Staff Data Requests PH-1.01 and PH-1.02
[3] Responses to Staff Data Request PH-1.05

% in 2005, which is relatively high.[4] Nevertheless, GTC generates more cash than it needs for capital expenditures and should not need to raise capital so long as it retains sufficient internally generated cash for its own operations.

Q. Do ABBH, ABAC, MH, GEI, or GTC have ratings from Standard & Poor's Moody's Investors or Fitch Ratings, Inc?

A. No. In addition, no affiliates of ABBH, ABAC, MH, GEI, or GTC have ratings from any of these credit rating agencies.[5]

Q. What is your conclusion?

A. Although GTC internally generates sufficient funds to support its operations, without a Commission-imposed condition, there are no guarantees that GTC's affiliates will not withdraw GTC's internally generated funds to GTC's detriment. Given ABAC's potential need for cash, this is not an improbable scenario. Hence, I recommend that the Commission impose a condition that would prohibit GTC from transferring cash to the other Joint Applicants in the event service quality degrades, as described in Staff witness McClerren's testimony. It is my opinion that the proposed reorganization, subject to that condition, meets the requirements of 7-204(b)(4).

Q. Does this conclude your direct testimony?

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[4] Responses to Staff Data Requests PH-1.03 and PH-1.04

[5] Responses to Staff Date Request PH-1.06.

A. Yes, it does.