

**STATE OF ILLINOIS**

**ILLINOIS COMMERCE COMMISSION**

LEAF RIVER TELEPHONE COMPANY	}	
	}	
Application for approval of proposed corporate	}	<b>Docket No.</b> 12-0533
reorganization pursuant to Section 7-204 of the	}	
Public Utilities Act and for appropriate relief.	}	

**DIRECT TESTIMONY OF MAXINE PALMER**

**ON BEHALF OF**

**LEAF RIVER TELEPHONE COMPANY**

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

2 **A.** My name is Maxine Palmer, and my business address is 102 West 2<sup>nd</sup> Street, Leaf  
3 River, IL 61047.

4 **Q. What position do you hold with Leaf River Telephone Company?**

5 **A.** I am the Secretary and sole Director.

6 **Q. How long have you been employed by Leaf River Telephone Company?**

7 **A.** Since 1979.

8 **Q. Is Leaf River Telephone Company (“Leaf River”) an Illinois corporation with**  
9 **its principal office in Leaf River, Illinois, which provides local exchange**  
10 **telecommunications services on a non-competitive basis to fewer than 35,000**  
11 **subscriber access lines?**

12 **A.** Yes. We have approximately 342 access lines.

13 **Q. Does Leaf River Telephone Company have any wholly-owned subsidiaries?**

14 **A.** Yes, Leaf River owns all the stock in ZMP Holding Company which owns all the  
15 stock in Leaf River Merger, Inc. These companies were incorporated to accomplish  
16 the proposed reorganization. At the present time Leaf River Telephone Company  
17 also owns all the stock in LR Communications, Inc., and Leaf River Tower  
18 Company. LR Communications, Inc., provides internet, video service, and long  
19 distance service and Leaf River Tower Company holds tower space for wireless  
20 services.

21 **Q. What is Leaf River Telephone Company asking for the Commission to do in this**  
22 **proceeding?**

23 A. Leaf River Telephone Company is seeking authority for a proposed reorganization to  
24 create a holding company structure. Approval is sought in accordance with Section  
25 7-204 of the Public Utilities Act. Section 7-204 seems to require approval if there is  
26 a change in shareholders even if the change in shareholders isn't a change in the  
27 ultimate ownership and control.

28 **Q. Would you please describe the proposed reorganization and the corporate**  
29 **actions contemplated?**

30 A. At this time, Leaf River Telephone Company is functioning as both an operating  
31 company and a holding company, and we wish to change that. The structure we  
32 desire to create can best be accomplished by the following actions. Leaf River  
33 Telephone Company has incorporated ZMP Holding Company as a wholly owned  
34 subsidiary. ZMP Holding Company has created a wholly-owned Illinois subsidiary  
35 corporation called Leaf River Merger, Inc. Leaf River Telephone Company has  
36 entered into an agreement to merge with Leaf River Merger, Inc., with that  
37 agreement providing that Leaf River Telephone Company will be the surviving  
38 corporation upon the completion of the merger and will, by law, retain all assets,  
39 rights and liabilities as it held prior to the merger. The Agreement is contingent  
40 upon Illinois Commerce Commission approval. This agreement will also provide  
41 that Leaf River Telephone Company shareholders at the time of the merger would  
42 exchange their Leaf River Telephone Company shares for an equal number of shares  
43 of ZMP Holding Company. That will make ZMP Holding Company the parent of  
44 Leaf River Telephone Company.

45 What I have described is referred to as a “reverse triangular merger.” Since Leaf  
46 River Telephone Company is the surviving corporation in its merger with Leaf River  
47 Merger, Inc., there is no transfer of regulated telephone company assets. There will  
48 be no effect on the regulated assets and liabilities of Leaf River Telephone Company  
49 as a result of this reorganization. The effect of these transactions is to have the  
50 issued and outstanding shares of common stock of Leaf River Telephone Company  
51 held and owned by ZMP Holding Company and ZMP Holding Company will then be  
52 the holding company. As I previously indicated, the shareholders of Leaf River  
53 Telephone Company at the time of the merger would become shareholders of ZMP  
54 Holding Company and the contemplated transactions involve no change in the  
55 ultimate ownership and control of Leaf River Telephone Company. Leaf River  
56 Telephone Company will immediately proceed with the necessary actions to  
57 effectuate the merger upon receiving the Commission’s approval of this  
58 reorganization.

59 **Q. Please describe Leaf River Telephone Company Exhibit 1 and 2.**

60 **A.** Exhibit 1 is the Merger Agreement and Plan of Merger between Leaf River  
61 Telephone Company and Leaf River Merger, Inc. Exhibit 2 is the Supplemental  
62 Agreement between Leaf River Telephone Company, Leaf River Merger, Inc., and  
63 ZMP Holding Company.

64 **Q. Please describe Leaf River Telephone Company Exhibit 3 and 4.**

65 Exhibit 3 illustrates the relationship of the companies before the merger and Exhibit  
66 4 shows the company relationships after the reorganization as I have described  
67 earlier. It removes Leaf River Telephone Company from its present role of a holding

68 company and it makes ZMP Holding Company the holding company of Leaf River  
69 Telephone Company.

70 **Q. Why has Leaf River Telephone Company filed this Application with the**  
71 **Commission?**

72 **A.** The Leaf River Telephone Company Board of Directors consulted with its  
73 shareholders and sought the advice and recommendations of outside counsel and  
74 accountants. Thereafter the Board of Directors decided that a corporate  
75 reorganization is in the best interest of the companies to provide the operational  
76 flexibility necessary to pursue and participate effectively in a competitive  
77 environment. Essentially, there are 3 reasons for the reorganization.

78 First of all, under the present arrangement Leaf River operates as the telephone  
79 operating company and also as a holding company of non-regulated operations and  
80 both non-regulated and regulated actions will be publicly reported. Under the  
81 Federal Communication Commission's Transformation Order (*In the Matter of*  
82 *Connect America Fund*, WC Docket No. 10-90, GN Docket No. 09-51, WC Docket  
83 No. 07-135, WC Docket No. 05-337, CC Docket No. 01-92, CC Docket No. 96-45,  
84 (rel. Nov. 18, 2011) (*USF/ICC Transformation Order*) eligible telecommunications  
85 carriers are required to submit audits to the Federal Communications Commission.  
86 Prior to the Transformation Order, Leaf River Telephone Company did not have its  
87 business audited. Auditing standards require the auditing of Leaf River Telephone  
88 Company and all its subsidiaries under the present structure. That will unnecessarily  
89 increase the auditing costs. The proposed reorganization will limit future audits to  
90 only the telephone company operations and the non-regulated competitive operations

91 of LR Communications, Inc., and Leaf River Tower Company will not be audited or  
92 publically reported. In addition, any other future non-regulated business pursuits  
93 under would avoid the public reporting that is now required under the annual report.

94  
95 Secondly, the Board feels that in order to be flexible and competitive, its non-  
96 regulated business investments should be segregated from the telephone company.

97  
98 Lastly, is the liability aspect. By the proposed reorganization, liability for operations  
99 of different businesses may be limited to the company involved and may not  
100 necessarily subject all of the assets of all of the businesses to a possible adverse  
101 judgment. It is appropriate to segregate the operations and assets of the phone  
102 company from the liabilities and potential risks associated with the pursuit of other  
103 operations.

104 **Q. Who are the officers and directors of Leaf River Telephone Company?**

105 **A.** Aaron Palmer, President; Maxine Palmer, Secretary/Treasurer/Director.

106 **Q. Are the officers and directors of ZMP Holding Company the same as Leaf River**  
107 **Telephone Company?**

108 **A.** Yes.

109 **Q. What was the initial stock purchase of Leaf River Telephone Company in ZMP**  
110 **Holding Company?**

111 **A.** Leaf River Telephone Company has created ZMP Holding Company with an initial  
112 capital in the amount of \$1,000.

113 **Q. In connection with the requirements of Section 7-204 of the Act, let me ask you**  
114 **whether the proposed reorganization you have described will diminish Leaf**  
115 **River Telephone Company's ability to provide adequate, reliable, efficient, safe**  
116 **and least-cost telecommunications service?**

117 **A.** No, it will not. The proposed reorganization will have no effect on the regulated  
118 assets or liabilities of Leaf River Telephone Company.

119 **Q. Will the proposed reorganization result in any unjustified subsidization of non-**  
120 **utility activities by Leaf River Telephone Company or its customers?**

121 **A.** No.

122 **Q. Will there be any service changes to the customers?**

123 **A.** No. Operationally and from a customer standpoint, there will not be any difference.  
124 Leaf River Telephone Company will provide the same services that it has in the past.

125 **Q. Will the costs and facilities continue to be fairly and reasonably allocated**  
126 **between utility and non-utility activities in accordance with 83 Ill.Adm.Code**  
127 **712, and in such a manner that the Commission may identify the costs and**  
128 **facilities which are properly included by Leaf River Telephone Company for**  
129 **ratemaking purposes?**

130 **A.** Yes. We will continue to do so after the merger.

131 **Q. I show you a document which has been marked as Leaf River Telephone**  
132 **Company Exhibit 5 and ask if you can identify the document.**

133 **A.** Yes. Applicant's Ex. 5 is a copy of Leaf River Telephone Company's pro forma  
134 financial statements for the year ended December 31, 2011. This statement reflects  
135 what the regulated phone company assets and liabilities would be like after the

136 merger if it had occurred on that date. We believe that this reasonably approximates  
137 what the financial condition of the phone company will look like if the merger can be  
138 completed.

139 **Q. How does Exhibit 5 compare to the present structure of Leaf River Telephone**  
140 **Company?**

141 **A.** Basically, the only thing that is changing is that the subsidiary companies are not  
142 going to be showing up in the below the line-type items on the income statement, and  
143 the assets of the present subsidiaries are not going to show up on the telephone  
144 company's books because those subsidiaries will be owned by the holding company,  
145 ZMP Holding Company. Therefore, Exhibit 5 illustrates Leaf River Telephone  
146 Company's financial condition had the reorganization been completed as of  
147 December 31, 2011.

148 **Q. Will the proposed reorganization significantly impair Leaf River Telephone**  
149 **Company's ability to raise necessary capital on reasonable terms and to**  
150 **maintain a reasonable capital structure?**

151 **A.** No. The reorganization accomplished by this merger will not impair Leaf River  
152 Telephone Company's ability to raise necessary capital on reasonable terms or  
153 continue to maintain a reasonable capital structure for its local exchange service.

154 **Q. Does Leaf River Telephone Company raise capital today?**

155 **A.** Leaf River Telephone Company is not in debt today and it can borrow from its  
156 affiliates or from local banks if it needs to, although it has not borrowed money for  
157 several years.

158 **Q. After the reorganization, will Leaf River Telephone Company have access to the**  
159 **same capital as it did before the merger?**

160 **A.** Yes.

161 **Q. Will Leaf River Telephone Company, as a subsidiary of ZMP Holding**  
162 **Company, remain subject to all applicable laws, regulations, rules, decisions and**  
163 **policies governing the regulation of Illinois telecommunications carriers?**

164 **A.** Yes. Leaf River Telephone Company acknowledges that the Company will remain  
165 subject to all applicable laws, regulations, rules, decisions and policies governing our  
166 regulation by this Commission.

167 **Q. Will the proposed reorganization have any significant adverse impact on**  
168 **competition in those markets over which the Commission has jurisdiction?**

169 **A.** No. The reorganization of Leaf River Telephone Company will not have any adverse  
170 impact at all on competition of local exchange service.

171 **Q. Will the proposed reorganization likely result in any adverse rate impact on**  
172 **end-user customers?**

173 **A.** The reorganization itself will not result in any local exchange rate increase on our  
174 customers.

175 **Q. Does Leaf River Merger, Inc. have any employees?**

176 **A.** No. It was incorporated to facilitate this reorganization and it doesn't conduct any  
177 business.

178 **Q. Do you anticipate any savings resulting from the proposed merger?**

179 **A.** No. The merger is "in house" and not with an outside company. Actually, this  
180 reorganization simply places the phone company in a subsidiary type of arrangement,

181 and there will not be any cost savings or actual change in ownership, management or  
182 control.

183 **Q. Are you requesting the Commission to approve the proposed reorganization?**

184 **A.** Yes.

185 **Q. Does this conclude your testimony?**

186 **A.** Yes.

187 End of Testimony