

STATE OF MISSOURI
PUBLIC SERVICE COMMISSION

IN THE MATTER OF THE INVESTIGATION INTO THE
EARNINGS OF CASS COUNTY TELEPHONE COMPANY

Case No. IR-2004-0354

ORIGINAL

ON-THE-RECORD PRESENTATION

FILED

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Public Service Commission*

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BEFORE THE PUBLIC SERVICE COMMISSION
STATE OF MISSOURI

TRANSCRIPT OF PROCEEDINGS
HEARING
April 19, 2004
Jefferson City, Missouri
Volume 1

In the Matter of the Investigation) Case No. IR-2004-0354
into the Earnings of Cass County)
Telephone Company)

MORRIS L. WOODRUFF, Presiding
SENIOR REGULATORY LAW JUDGE.

STEVE GAW, Chair
ROBERT CLAYTON, III
COMMISSIONERS.

REPORTED BY:
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1 PROCEEDINGS

2 JUDGE WOODRUFF: Okay. Let's go on the
3 record. We're here in Case No. IR-2004-0354, which is in
4 the matter of the investigation into the earnings of Cass
5 County Telephone Company.

6 And we're here today for an on-the-record
7 presentation concerning a Stipulation and Agreement that was
8 presented by the parties to resolve Staff's complaint about
9 the earnings of the company.

10 We'll begin by taking entries of appearance
11 beginning with Cass County Telephone.

12 MR. ENGLAND: Thank you, your Honor. Let the
13 record reflect the appearance of WR England and Sondra B.
14 Morgan on behalf of the Cass County Telephone Company.

15 JUDGE WOODRUFF: Thank you.

16 And for Staff?

17 MR. POSTON: Marc Poston appearing for the
18 Staff of the Missouri Public Service Commission.

19 JUDGE WOODRUFF: And for Public Counsel?

20 MR. DANDINO: Michael Dandino, Office of the
21 Public Counsel representing the Office of Public Counsel and
22 the public.

23 JUDGE WOODRUFF: Thank you.

24 As I indicated, we're here today for an
25 on-the-record presentation. And primarily the purpose is

1 for the parties to answer questions from the Commissioners,
2 but I'm going to start out by asking you to give a brief
3 statement explaining the status of this case, what the
4 Commission has ask-- has been asked to decide. And I'll
5 begin with Staff.

6 MR. POSTON: Would you like me to stand --

7 JUDGE WOODRUFF: If you would, come on up to
8 the podium.

9 MR. POSTON: Would you like me to go into a
10 little background into this case at all?

11 JUDGE WOODRUFF: If you would, please.

12 MR. POSTON: Last year the Staff conducted a
13 thorough audit of Cass County Telephone Company and
14 concluded that Cass was over-earning by roughly \$320,000.
15 Cass, OPC and Staff agreed upon specific rate reductions and
16 entered into a Stipulation and Agreement which the parties
17 filed on February 5th.

18 It was after this agreement when the Staff
19 first learned that Cass had ties to several individuals in
20 the company named as defendants in a federal indictment.
21 The Staff and OPC then met with Mr. Matzdorff with Cass
22 County and with Mr. England representing Cass County to
23 discuss this indictment.

24 And through this meeting and follow-up data
25 requests that the Staff sent to Cass County, the Staff

1 concluded that the federal indictment has no impact on the
2 Staff's audit or upon the terms of the Stipulation and
3 Agreement. And the Staff continues to believe that the rate
4 reductions agreed to in the stipulation are in the public
5 interest and since the Staff -- excuse me.

6 They are in the public interest since the
7 Staff uncovered nothing to suggest that the Staff's audit
8 results were tainted in any way. And for this reason, the
9 Staff recommends that the Commission approve the
10 Stipulation.

11 JUDGE WOODRUFF: Public Counsel wish to make a
12 statement?

13 MR. DANDINO: Yes, your Honor.

14 JUDGE WOODRUFF: All right. May it please the
15 Commission. The Office of Public Counsel represents the
16 Stipulation and Agreement in this case. As Mr. Poston
17 said -- described the situation of the negotiations, our
18 office got involved with it at that early stage at the
19 invitation of the company and the Staff.

20 At that time I believe that there was a --
21 most of the reduction was going to be given to one tier of
22 the MCA and then the access reduction. And Public Counsel
23 thought it would be more in line to divide the reduction
24 between the M-- the two tiers of the MCA in order to bring
25 them a little bit closer together and achieve a greater

1 reduction for more customers.

2 At that point, we've entered into the
3 Stipulation and Agreement. Office of Public Counsel, we do
4 not have any problem with the responses and the information
5 that we've received from the Staff. We've reviewed it and
6 it appears that the funds have been used for the benefit of
7 the ratepayers in Cass County. And with this reduction of
8 rates, we support it, we would ask the Commission to approve
9 it.

10 JUDGE WOODRUFF: Thank you. For Cass County
11 Telephone then?

12 MR. ENGLAND: Thank you, your Honor. I have
13 nothing to add to the presentations of Staff and Public
14 Counsel. Would urge the Commission to approve the
15 Stipulation and Agreement.

16 JUDGE WOODRUFF: Very good. Then we'll go to
17 questions from Chairman Gaw.

18 CHAIR GAW: Thank you, Judge.
19 Ask Staff when you determined the
20 over-earnings in this case, what test year was used?

21 MR. POSTON: 2002.

22 CHAIR GAW: 2002. Was that the only year
23 examined?

24 MR. POSTON: I believe so.

25 CHAIR GAW: Has Staff seen the books and

1 records of the company for any other year besides that year?

2 MR. POSTON: If I may -- am I on?

3 JUDGE WOODRUFF: I think you are.

4 MR. POSTON: Mr. Winter is here and he
5 actually performed the audit and would better be able to
6 answer your questions, if he may.

7 JUDGE WOODRUFF: Mr. Winter, why don't you
8 come forward and we'll swear you in.

9 (Witness sworn.)

10 JUDGE WOODRUFF: You may be seated. Tell us
11 your name.

12 THE WITNESS: My name is David Winter.

13 JUDGE WOODRUFF: I assume you're employed with
14 the Commission?

15 THE WITNESS: Yes. I'm an accountant with the
16 auditing staff of the Commission, PO Box 360, Jefferson
17 City, Missouri.

18 JUDGE WOODRUFF: Thank you.

19 Ask your questions.

20 CHAIR GAW: Thank you, Judge.

21 DAVID WINTER testified as follows:

22 QUESTIONS BY CHAIR GAW:

23 Q. Mr. Winter, I'll ask you the same question.
24 First of all, the test year, as I understand it, was the
25 year 2002. Is that calendar year?

1 A. Yes. Our test year ran through 12/31/2002.
2 We also looked -- on an analytical basis we looked at
3 previous years to determine whether those years fluctuated,
4 high, low, in between. We also looked at the other
5 financial statements of Cass County from 1988 through 2002.

6 Q. All right. 1998 through 2002?

7 A. Yes, sir.

8 Q. What did you determine when you looked through
9 those other years?

10 A. Everything was -- from our analytical review,
11 everything was pretty much in line, what we would normally
12 see.

13 Q. I guess what I'm asking is, when you used the
14 test year 2002 and found -- I assume you found these
15 over-earnings in that test year?

16 A. Yes, sir.

17 Q. Would that have been -- if you had used those
18 other years from 1998 forward, do you think you would have
19 varied very much in regard to what you would have found as
20 to over-earnings?

21 A. We started noticing over-earnings when we did
22 our analytical review. And 2002 was probably the largest we
23 saw because it was pretty much zero or positive need a rate
24 increase. Most of the increase that we're seeing came from
25 probably Universal Service Fund dollars they were getting

1 from NECA.

2 Q. Okay. When you say that's where the source of
3 it was, does that mean anything in regard to whether or not
4 they received more than what they were entitled to receive?

5 A. No.

6 Q. It just means that that amount coupled with
7 their other revenues resulted in total revenues that you
8 believe exceeded what should be the case going forward?

9 A. Yes.

10 Q. Have you looked at -- is this the first review
11 that you personally have done of this company?

12 A. Yes, it is.

13 Q. All right. Do you know when the last review
14 was done of the company previous to this one?

15 A. This company is rather new. It was really
16 established I believe in 1995, 1996. When Cass County was
17 formed they bought some exchanges from GTE. That was
18 probably a series of exchanges that were purchased. There
19 was another purchase in the southeast part of the state and
20 another piece in the southwest part of the state. And this
21 is the first time we've really looked at their rates since
22 that period of time.

23 Q. Okay. So you would say since the company has
24 come into existence, this is their first review?

25 A. Yes, sir.

1 Q. And the purchase -- was the purchase that was
2 done in 1995, was that an asset purchase or a corporate
3 stock purchase?

4 A. It was an asset purchase. They sold the
5 exchanges. It was a standard contract for X dollars at that
6 particular time.

7 Q. All right. The stipulation and the settlement
8 in regard to the amount of over-earnings and -- I guess
9 would be -- results in a revenue decrease --

10 A. Yes.

11 Q. -- correct?

12 And is there a rate of return authorized as a
13 result of this stipulation?

14 A. No, there's not. It's a dollar settlement.

15 Q. Yes. Okay. Was there an authorized rate of
16 return previous to this? How were rates determined prior to
17 this Stip since it was a new company?

18 A. As part of the agreement for this -- just not
19 for Cass County, but for all the GTE exchanges that were
20 bought in 1995, 1996, the agreement was that they would
21 adopt GTE's rates. In other words, the rates that GTE had
22 in that particular time would just flow straight over to
23 Cass County or, as I said, to the other companies, BPS and
24 Ozark and Modern Telephone which was bought by Northeast
25 Missouri Rural. It was just a straight -- they just changed

1 the tariffs, the same rates.

2 Q. Okay. The revenue stream then that came into
3 the company, were those revenues -- I guess they would have
4 been paid out in the form of expenses of the company and in
5 shareholder profits. That would be the case, wouldn't it?
6 Revenues of Cass County, Cass-- CassTel?

7 A. Revenues? The revenue streams coming into the
8 company?

9 Q. That were going out. After the revenues come
10 in, where do they go?

11 A. This particular company usually turned the
12 revenues back -- they did two things. They primarily put
13 the money back into the company, back into plant.

14 Q. Okay. What kinds of things did they do?

15 A. There in the process they upgrade their
16 switch. Basically they built a new telephone company. They
17 put a fiber ring in, they provide fiber, they provide DSL
18 services to their customers. They've spent a great deal of
19 money on plant and plant improvements since they bought the
20 company.

21 Q. Okay. And the decisions that -- the decisions
22 to do that would have been made by whom?

23 A. Mr. Matzdorff as president.

24 Q. Okay. Who are the corporate officers of this
25 company?

1 A. I can give you one name. I don't have the
2 other two names in front of me. It's Mr. Ken Matzdorff is
3 one. And I'll have to defer to -- I don't have those other
4 two names in front of me right now.

5 Q. You have them somewhere though?

6 A. Yes, I do.

7 Q. Okay. So the investments that were made back
8 in the company, did that take up all of the corporate
9 profits then?

10 A. Most of the corporate profits. They did --
11 the other piece of Cass County is that it's a sub-S
12 Corporation.

13 Q. Yes.

14 A. So some of the profits were paid to the
15 stockholders to pay their taxes.

16 Q. Who are the stockholders or are those -- is
17 this an open company or is it privately held?

18 A. It's privately held. There's a number of
19 different stockholders. I don't know if I can divulge the
20 number of stockholders, but there's a number of stockholders
21 right now.

22 Q. I believe there was reference earlier to some
23 information that came out after this initial settlement was
24 reached regarding CassTel Company and perhaps some federal
25 investigation; is that correct?

1 A. Yes.

2 Q. Can you tell me what you know about that?

3 A. There was a federal indictment that came down
4 that we first became aware of in mid-February. It involved
5 organized crime on the East Coast in relationship to a
6 couple different schemes that they had developed.

7 One scheme was to have these 1-800 numbers.
8 People would call the 1-800 numbers and then their phone
9 number would go to another company, in this case was
10 Overland Data.

11 Overland Data would use that information
12 and -- through another company called USP&G, I believe,
13 which was a third party aggregator, which you see in the
14 industry. And then they would put those charges on a
15 telephone -- on your bill, for instance, if you called that
16 number. It would show up as a -- I believe it's a voice
17 mail number.

18 Q. Was that voice mail number -- was that a voice
19 mail service that was continued thereafter on your phone
20 bill?

21 A. In most cases what I've seen through the
22 indictment, that you would -- once you got that number on
23 there, that voice extra service, it would stay on there.

24 Q. All right. So there's some sort of an
25 allegation about -- that that was a cramming --

1 A. That was --

2 Q. -- mechanism?

3 A. -- a cramming. In this particular case, what
4 came out in the argument was Mr. Matzdorff's name was on as
5 president in 19-- I believe 1998, 1999 of USP&G, which is
6 the cramming company, which is the agg--

7 Q. Was it USP&C or USP&G?

8 A. Is it P&C? USP&C probably.

9 Q. And how is that company, if at all, tied into
10 the company that's in front of us?

11 A. The only -- the only common denominator was
12 Mr. Matzdorff.

13 Q. You mentioned another company. Was it
14 Overland --

15 A. Overland.

16 Q. -- Park?

17 Overland Data Center?

18 A. Overland Data has no relationship to this
19 company or to LEC, LLC.

20 Q. All right. They don't have any relationship
21 at all?

22 A. No. Not to Staff's knowledge.

23 Q. Have you ever heard of an affidavit that may
24 have been filed that said that something to the effect that
25 LEC received -- do you know who LEC is? Let me strike that

1 first question.

2 A. There's two LECs.

3 Q. All right. Tell me who they are.

4 A. There's Local Exchange Carriers, which was an
5 investment vehicle to buy Spectra Communications. This is
6 another case that was before the Commission. And there's
7 Local Exchange Company, which is the holding company of Cass
8 County Telephone.

9 Q. Are those two LECs related to one another?

10 A. There's -- there's probably some common
11 stockholders at the time.

12 Q. Where are they based?

13 A. They're based in Kansas City.

14 Q. And where is Overland Data Center based?

15 A. I believe it's Overland Park, Kansas.

16 Q. Let me refer to -- let me ask you this. Have
17 you heard about any allegation that Local Exchange Company
18 received money and I'll say in the form of millions of
19 dollars from Overland Data Center which, in turn, received
20 millions of dollars from Local Exchange Company's
21 subsidiary, CassTel? Have you heard anything about that?

22 A. I have not. The only thing I have seen is in
23 the indictment which indicates there was \$940,000 that went
24 from Overland Data to LEC, Local Exchange Company, LLC.

25 We inquired as to -- into where that money

1 came from and why it was sent to Local Exchange Company.

2 And the answer was is they were in the process of buying

3 Spectra Communications at the time.

4 Local Exchange Carriers had not been fully set

5 up to include the bank accounts, so the down payment that

6 was being paid for the GTE properties -- at the time Spectra

7 properties -- was coming through the Local Exchange Company

8 bank accounts and then they were transferred out to pay GTE

9 for the properties. As to the hundreds of millions of

10 dollars, I have no idea.

11 Q. I don't know about hundreds of millions.

12 A. Millions of dollars, I --

13 Q. Okay. Tell me how that money went again, the
14 money transfers. Could you do that?

15 A. Do we have a -- can I use this a second?

16 Q. If somebody knows how to make it work.

17 A. Are these erasable?

18 Q. I think you go over here to this, don't you?

19 A. Is it dry eraser?

20 JUDGE WOODRUFF: I think so.

21 THE WITNESS: Now, I don't want to get in
22 trouble if it doesn't erase.

23 JUDGE WOODRUFF: There are markers there,
24 that's why I assume it's for use.

25 THE WITNESS: We're going to put this in the

1 categories of company and carrier. Company -- let's see if
2 we can do this.

3 BY CHAIR GAW:

4 Q. I think that's an electronic thing.

5 JUDGE WOODRUFF: We've got a paper board over
6 there.

7 THE WITNESS: We've got a paper board. Okay.

8 JUDGE WOODRUFF: Since I don't know how to use
9 the technology.

10 CHAIR GAW: I don't know how to use it either.
11 That's better. We'll just use that. Turn it just a little
12 bit more, Mr. Winter, so they can -- I don't know, Judge,
13 what --

14 MR. ENGLAND: I don't think he's going to find
15 a clean sheet.

16 BY CHAIR GAW:

17 Q. May have to turn it over and use the back side
18 of one of those pages. I mean like flip it -- whatever
19 works. Can you do that?

20 A. Yeah. We can do that. We're going to use the
21 cardboard, if that's okay.

22 Q. Whatever works.

23 A. Permanent record here.

24 What we've got -- we're going to talk about
25 carrier and company. Okay? Carrier equals -- and I'm going

1 to use it as the investment vehicle for Spectra. It was an
2 investment company that was set up to invest in Spectra
3 Communications. So we'll do that -- and I take no
4 responsibility for my writing. The next one was company.
5 That is the company -- Local Exchange Company that owns
6 CassTel or Cass County Telephone.

7 Q. All right.

8 A. Per the indictment, what happened was there
9 was an Overland Data that transferred money, 900 and -- I
10 believe \$940,000 to the company, Local Exchange Company.
11 They transferred money to the company because, from my
12 understanding from our investigation, the carrier -- Local
13 Exchange Carrier, the investment vehicle to buy Spectra, had
14 not set up -- been fully set up to include their banking
15 arrangements.

16 The money went into Cass County Company and
17 then it came back out here to buy the GTE exchange. In
18 other words, it was just -- it came in and went out. It was
19 not -- it was more set up because they had not set up their
20 banking arrangements. It was said -- they need to money to
21 close with GTE to buy the GTE properties at that particular
22 time so they transferred the dollars into here.

23 Now, what the indictment says is that the
24 \$940,000 was ill-gotten gain and that's why it shows up
25 Local Exchange Company, those dollars, because it went to

1 that company. Whether it went in and out, it still went
2 here and that's why it was mentioned in the indictment.

3 Q. What year did that occur?

4 A. 2000, I believe. That was -- that was a case
5 before the Commission and I believe it was TM-2000-262; is
6 that right? I have my notes. Excuse me, it's TM-2000-182,
7 the purchase of GTE properties by Century Telephone and
8 Spectra.

9 Q. Okay. Now, the purchase of the -- okay. Help
10 me out here. The money transfer went from Overland Data --

11 A. To CassTel.

12 Q. -- to CassTel?

13 A. Well, to the company, the holding company of
14 CassTel.

15 Q. The holding company, which is --

16 A. The company --

17 Q. -- LEC --

18 A. -- LEC.

19 Q. -- LLC?

20 A. Yes.

21 Q. And then it went from there to where?

22 A. GTE.

23 Q. Okay. And then what did they get for that?

24 A. They bought -- what they got for that was they
25 bought the GTE Midwest -- a portion of the GTE Midwest

1 properties in the state of Missouri.

2 Q. All right.

3 A. There was three sales in the state of Missouri
4 of GTE properties. The first sale is what we previously
5 talked about, the Modern Telephone, which was exchanges up
6 in the northeast part of the state. The other piece was
7 Ozark Telephone, which is in the far southwest of the state.
8 BPS, which is on the other side, and then Cass County, which
9 is connected to Kansas City.

10 Q. Now, all of those carriers that you just
11 mentioned --

12 A. That was the first GTE sale.

13 Q. That was the first sale. Are those carriers
14 related to one another that you just mentioned?

15 A. No. No. They're all independent.

16 The second sale, GTE came out and said we're
17 selling properties. So the second sale involves this
18 \$940,000. That was the CenturyTel piece that bought the
19 second sale of GTE properties in the state of Missouri. And
20 that was in TM-2000-182.

21 Q. Okay. Now, where you have -- you have this
22 top line up here you have carrier equals -- you have
23 Spector?

24 A. Spectra. That was the investment vehicle that
25 was set up for investors to buy into -- to get some equity

1 dollars to buy in-- to buy the GTE properties so they --
2 they set up another company called Spectra.

3 Q. Is it Spectra or Spector? That's what --

4 A. S-p-e-c-t-r-a.

5 Q. So what you have up there is actually --
6 should be t-r-a- instead of t-o-r. Correct?

7 A. All right.

8 Q. Just making sure there wasn't another
9 company --

10 A. Yeah.

11 Q. -- that had a similar name.

12 A. Yeah. It's called Spectra Communications.

13 Q. Okay.

14 A. And I -- yeah, I spelled it right there.

15 Q. Now, how is Overland Data related to Local
16 Exchange Company?

17 A. As far as I know, there is no connection
18 between the two companies whatsoever other than there is
19 off -- some people that were investors in Overland Data in
20 the indictment owned pieces of Overland Data.

21 Q. So why would they give money, \$940,000 from
22 Overland Data to --

23 A. I can't --

24 Q. -- Local Exchange Company?

25 A. That's -- my understanding, that's how they

1 were taking care of their equity piece to buy --

2 Q. Whose equity piece?

3 A. The other stockholders that were buying into
4 Spectra.

5 Q. Who were they? You're saying the other
6 stockholders.

7 A. I do not have a list of those. There's
8 probably somebody from the company that could probably tell
9 you that.

10 Q. Do those stockholders have interest in any of
11 these other companies that you've got listed up there?

12 A. My understanding, they have an interest in
13 Local Exchange Company. And I am not quite sure -- I have
14 no idea who the stockholders are of Local Exchange Carrier,
15 I have no idea.

16 Q. Is there any common -- any common connector in
17 between -- that's obvious to you between CassTel and Local
18 Exchange Company other than the ownership?

19 A. Not to my knowledge.

20 Q. An employee, perhaps?

21 A. No.

22 Q. Let me ask you, how did you find out about
23 this \$940,000 transfer?

24 A. It's stated in the -- first of all, it's one
25 of the Staff questions that I had when I read the

1 indictment. It was listed for the \$940,000 that went from
2 the Overland Data to LEC, LLC. From there, we inquired to
3 the company what happened here.

4 Q. All right. And the other thing that happened
5 there was -- I assume is that assets were transferred from
6 GTE to CassTel?

7 A. No. CassTel was not involved in that
8 arrangement.

9 Q. Where did the assets go?

10 A. The assets went to Spectra.

11 Q. To Spectra.

12 A. Spectra and to CenturyTel.

13 Q. To CenturyTel?

14 A. There was -- remember we can go back out when
15 the second series of sales was to Spectra CenturyTel. And
16 that's who GTE sold the property to.

17 Q. How are Spectra and CenturyTel connected?

18 A. Spectra -- my understanding is CenturyTel was
19 recruited to buy more equity to buy the GTE properties and
20 connected as into a business relationship. I do not know
21 if -- at that time what the business relationship was. I'm
22 sure there's somebody here that could tell you -- give you
23 more information.

24 Q. Who might that be, do you know?

25 A. I believe Mr. Matzdorff is here.

1 Q. Okay. Go ahead.

2 A. Previously you had asked whether Cass County
3 had -- the officers of Cass County. I believe there's
4 three. We don't have the right information. I'll get that
5 information to you.

6 Q. Now, who owns CassTel?

7 A. CassTel is owned by Local Exchange Company.

8 Q. 100 percent?

9 A. It's -- yes, 100 percent is owned by Local
10 Exchange Company.

11 Q. And when --

12 JUDGE WOODRUFF: If I can interrupt,
13 Mr. Winter, I've had a request that you speak into the
14 microphone. If you'd come over to the podium.

15 THE WITNESS: Oh, okay.

16 Local Exchange Company owns CassTel Telephone.
17 Within Local Exchange Company, they have a large number of
18 equity investors.

19 BY CHAIR GAW:

20 Q. In Local Exchange Company?

21 A. Yes. Local Exchange Company, there's a large
22 number of equity investors.

23 Q. And were you given any of those -- lists of
24 any owners?

25 A. Yes. We have a complete list of all the

1 owners of Local Exchange Company, yes, we do.

2 Q. All right. In 1995, that would have been when
3 CassTel was formed. How does that relate in time to the
4 Spectra GTE transfer?

5 A. This is about five years afterwards.

6 Q. Which -- five years after what?

7 A. 1995. This was about 1999, 2000 time period.

8 Q. For purposes of the record --

9 A. Excuse me.

10 Q. -- when you're pointing, I'm just trying to
11 get you to describe it.

12 A. Cass County was established in 1995, 1996.
13 Spectra Communications was 1999, 2000 time period. GTE at
14 the time nationwide was examining a number of their rural
15 exchanges, a number of states of where to stay in business,
16 where to leave.

17 For instance, they sold the state of Arkansas,
18 they've sold the state of Alabama, Missouri -- they're no
19 longer in the state of Missouri. There's other states also.
20 They've sold some of the rural exchanges they've had. And
21 this is -- the Spectra piece, the 2000 piece was the second
22 phase of that divestiture of those exchanges.

23 Q. Okay. The purchase though of the -- and the
24 formation of CassTel, how did that come about? How did
25 the -- where did the money come from to purchase the assets?

1 A. The money at that particular time came from --
2 I believe it's a CoBank loan. And I do not have that amount
3 in front of me. And then there was a series of investors
4 that put equity money into -- for the difference from the
5 CoBank piece to purchase the GTE exchanges.

6 Q. What do you mean by a CoBank loan?

7 A. CoBank is a -- it is a part of I believe
8 agricultural -- they provide credit to telephone companies,
9 rural telephone companies, water companies. And they're
10 kind of a step before you go to RUS for money. And CoBank
11 provided, I believe, the bulk of the dollars to purchase
12 Cass County Telephone through a loan they gave.

13 JUDGE WOODRUFF: Mr. Winter, if you'd move the
14 microphone in front of your mouth more, they're having a
15 hard time hearing you over the Internet.

16 BY CHAIR GAW:

17 Q. Where did you say USP&C was based, if you did?

18 A. I did not say, but I do believe it's in
19 Overland Park, Kansas also.

20 Q. And do you know who owns USP&C?

21 A. No, I do not. The indictment does provide
22 some information as to that, but I do not have that
23 information right now.

24 Q. Have you been in touch with anyone that's
25 conducting the investigation on the indictments that you

1 mentioned?

2 A. No, I have not.

3 Q. Has anyone with Staff been in touch with
4 anyone to that -- conducting that investigation, to your
5 knowledge?

6 A. Not to my knowledge.

7 JUDGE WOODRUFF: Commissioner Clayton?

8 CHAIR GAW: I'm going to temporarily halt
9 inquiry.

10 QUESTIONS BY COMMISSIONER CLAYTON:

11 Q. In my notes I'm a little confused, so I want
12 to go back to your chart here. And I apologize to the
13 people listening that we can't get that displayed.

14 You made reference to several stages of the
15 sale of the GTE rural exchanges --

16 A. Yes.

17 Q. -- in the state of Missouri; is that correct?

18 A. Yes.

19 Q. How many total stages were there?

20 A. There were three stages.

21 Q. And the first stage occurred in approximately
22 what year?

23 A. 1995, 1996. And that was the individual
24 exchanges that were sold. And that came the genesis of Cass
25 County Telephone.

1 Q. Okay. So that first sale they became what
2 Casstel is today?

3 A. Yes.

4 Q. Okay. The second stage -- and actually let me
5 go back. Just briefly, you listed a number of properties
6 that were included in that. You mentioned Ozark?

7 A. Ozark Telephone is in the southwest part of
8 the state. It's in McDonald County.

9 Q. And you also mentioned Modern?

10 A. Modern is owned by Northeast Missouri Rural.
11 It is -- I can't give you a physical description, but it's
12 northeast of Kirksville.

13 Q. Northeast of Kirks-- can't get too much
14 further northeast of Kirksville. Right?

15 A. No. Northeast -- northeast, east of
16 Kirksville is where it is.

17 Q. And those properties are currently part of
18 Casstel?

19 A. No. Those were part of the properties that
20 were sold to different companies, but those were divested by
21 GTE.

22 Q. Okay. I understand. Stage one involved a
23 number of purchasers, not just Casstel?

24 A. Yes.

25 Q. Okay. I was confused. Thank you.

1 Now, the second stage included some additional
2 GTE properties --

3 A. Yes.

4 Q. -- correct?

5 A. It did.

6 Q. And generally what were those properties
7 again?

8 A. Those properties were spread throughout the
9 state of Missouri. It's very difficult to give you a
10 description of exactly where they're at, but they were
11 mostly -- again, in the rural areas of the state of
12 Missouri.

13 Q. Okay. And were there multiple purchasers or
14 was there one purchaser?

15 A. The way GTE did it, they only wanted to sell
16 to one person those exchanges. They did not want to divide
17 them up into three or four different sales. So when they
18 put a state out to bid, it was one purchaser for their
19 properties in the state.

20 Q. Okay. Now, that's different than what
21 happened in stage one. Correct?

22 A. Yes.

23 Q. So stage two there was one purchaser for the
24 whole lot?

25 A. Yes.

1 Q. And that was Spectra?

2 A. That -- that was Spectra, yes, sir.

3 Q. Okay. And Spectra is owned entirely by Local
4 Exchange Carrier?

5 A. That was -- Local Exchange Carrier was a
6 investment vehicle. And I believe they owned the stock of
7 Spectra, but I'm -- I'm fuzzy on that piece.

8 Q. Okay. Do you know the purchase price for the
9 total package of second stage GTE properties?

10 A. I do not have that information with me.

11 Q. Was it --

12 A. It's public knowledge.

13 Q. Was it 940,000 or was it more than 940,000?

14 A. It was several million dollars. It was -- I
15 don't have that information. I believe there are people
16 here that could give you that information, but it was
17 considerably more than \$940,000.

18 Q. Okay. Well, several million if we say
19 \$3 million, then a third of the purchase price came from
20 Overland Data?

21 A. Yes. I believe you're talking well over
22 \$100 million.

23 Q. Oh, 100 million?

24 A. Yes.

25 Q. That's significantly different than several

1 million.

2 A. I believe. If I -- I'm just going from my
3 remembrances of the deal.

4 Q. Well, maybe we can find that out from
5 somebody, just generally what that price is. We can narrow
6 it down somewhere closer between several million and several
7 hundred million. There's some zeroes that we're missing
8 somewhere.

9 A. Yeah.

10 Q. Now, when Overland Data transferred in the 2--
11 excuse me, the \$940,000 into CassTel, CassTel immediately or
12 soon thereafter sent a check for the same amount to GTE to
13 effectuate that purchase of the second stage properties?

14 A. The dollars were not transferred to CassTel.
15 They were -- they were -- move this over here. They were
16 transferred to Local Exchange Company.

17 Q. Okay. So they went to Local Exchange Company
18 and then LE -- LE Company sent it to GTE?

19 A. Yes. Yes.

20 Q. Okay.

21 A. Again, Cass-- the company owns CassTel.

22 Q. I understand.

23 A. And the dollars went from Overland Data to
24 Local Exchange Company and then from Local Exchange Company
25 it bounced over here for the purchase of the second phase of

1 the GTE exchanges.

2 Q. And when that money was transferred and GTE
3 transferred title, at that point the properties were titled
4 as Spectra?

5 A. I believe they were titled Spectra CenturyTel.
6 Remember when we went back, there was two -- there was two
7 equity investors in the second sale. There was -- and I
8 mentioned that sales case. There was Spectra
9 Communications, which was an investment vehicle of a number
10 of different stockholders and there was also Century
11 Telephone. So both of those two entities were the
12 purchasers of the second phase of those GTE properties.

13 Q. Now, at any point did Local Exchange Company
14 ever own an interest in Spectra?

15 A. Not to my knowledge.

16 Q. How soon after the creation of Spectra was
17 Local Exchange Carrier created?

18 A. I can't answer that question.

19 Q. And we do not -- we're not aware of who the
20 shareholders or directors of Overland Data Company are?

21 A. Not to my knowledge.

22 Q. Okay. And I think you've already answered
23 this. CassTel is owned 100 percent by Local Exchange
24 Company?

25 A. Yes.

1 Q. And did you state how many owners, how many --
2 and if you can't give me the exact number, that's fine --
3 how many multiple of owners is -- are there of Local
4 Exchange Company?

5 A. We have that information, by it's been
6 classified as confidential. We can probably provide you
7 that information.

8 Q. Okay. And then are we aware of who the
9 shareholders are of Local Exchange Carrier?

10 A. No.

11 Q. We are not. Okay.

12 A. I was going to say, the reason why -- again,
13 why we put that on there, because the indictment is
14 rather -- it mentions LEC three times. One as a definition
15 of a local operating company or Local Exchange Company and
16 then it gets in -- as a telephone acronym name, and then it
17 gets into Local Exchange Carrier and Local Exchange Company.

18 Q. Well, the indictment, when it references LEC,
19 does it mean the carrier or the company?

20 A. They're both mentioned.

21 Q. Both of them are mentioned. Are either Local
22 Exchange Carrier -- and I'm using proper names. Local
23 Exchange Carrier or Local Exchange Company, are either of
24 them indicted?

25 A. No.

1 Q. Neither are subject defendants?

2 A. No.

3 Q. Is Overland Data a named Defendant?

4 A. I believe the shareholders of Overland Data
5 are defendants in --

6 Q. In their entirety or just a few shareholders
7 of Overland Data?

8 A. I do not know all the shareholders, but I
9 believe some of the shareholders are indicted as part of the
10 indictment. Just like Local Exchange Company, some of the
11 stockholders have been indicted.

12 Q. Okay. Regarding USP&C -- excuse me.

13 Before I go to that, Local Exchange Carrier,
14 Local Exchange Company, are either of them utilities under
15 Missouri law?

16 A. No.

17 Q. Okay. And Overland Data certainly would not
18 be.

19 A. No.

20 Q. It's out of Kansas.

21 USP&C, is it a utility under Missouri?

22 A. No.

23 Q. Are you aware of any relationship between
24 USP&C and Local Exchange Company or Local Exchange Carrier?

25 A. The only thing I'm aware of is that they might

1 have similar stockholders. And that's the only thing I'm
2 aware of.

3 Q. Okay. At any point in your investigation
4 subsequent to learning about the indictment, has the subject
5 company, CassTel or Local Exchange Company, provided all the
6 information that you have requested?

7 A. They've been very open with any information.
8 Any request that we've -- we've asked for, they've given to
9 us a very quickly.

10 Q. Is there any other information that you
11 believe would be helpful in determining whether or not a
12 regulated utility has been involved in any alleged
13 wrongdoing at all?

14 A. Once we found out, we went through there and
15 had a meeting with the company and followed up with data
16 requests. And we believe we're satisfied that Local
17 Exchange Company in our earnings investigation has not been
18 tainted by this indictment.

19 Q. In your assessment in the rate case, is it
20 your opinion that the books, accounting records appear to be
21 in order and that there is no overt appearance of
22 impropriety?

23 A. The books, as far as we can see from our audit
24 tests and from the audit financial statements we have seen,
25 are in order. We don't see anything out of line that we

1 would -- that would call into question the earnings of the
2 company.

3 JUDGE WOODRUFF: If I could interrupt again,
4 apparently the podium mike is not functioning. Why don't
5 you come back over to the witness seat. We have a lot of
6 viewers out there and they keep us sending me e-mails. All
7 right.

8 COMMISSIONER CLAYTON: Do you want me to start
9 over, Judge?

10 JUDGE WOODRUFF: No. That's not necessary.

11 BY COMMISSIONER CLAYTON:

12 Q. Did Staff, when looking at CassTel, determine
13 whether there were any types of inappropriate telephone or
14 Internet billing charges that were not authorized by the
15 customer?

16 A. What we did, we did a two-prong attack on that
17 particular area. First, we got our consumer area --
18 consumer complaint area involved in that and they looked --
19 went back and looked at the complaints by -- about CassTel.
20 We found very, low non-existent complaints about CassTel and
21 their charges on the bill.

22 And the second piece, we went back and looked
23 if there was any contracts between any of the indicted
24 parties and CassTel in relationship of the cramming
25 allegations. There are no contracts at the present time

1 that -- the information we provided that were a cramming --
2 cramming contracts or third-party contracts with Casstel.

3 Q. This type of activity is called cramming?

4 A. Yes.

5 Q. And exactly what is the definition of
6 cramming?

7 A. Cramming is putting unauthorized charges on a
8 legitimate telephone bill. In other words, we have this --
9 charges, for instance, from Overland Data. We'll take
10 Overland Data as an example.

11 They provided the telephone numbers that were
12 called into their 1-800 number. They gave those telephone
13 numbers to the third-party aggregators, which is US&C, I
14 believe. US&C has contracts probably with a number of
15 companies. In fact, one of the companies mentioned in the
16 indictment was Southwestern Bell. And what they would do,
17 they --

18 Q. How named Southwestern Bell?

19 A. It was just that they were doing the same
20 scheme through Southwestern Bell.

21 Q. Oh, doing it through, but they weren't doing
22 the scheme?

23 A. They weren't doing. They were just using -- a
24 legitimate third-party biller was putting these things on
25 the bill, they were being billed as voice mail charges. And

1 that's what you're cramming, an unauthorized charge onto
2 your bill -- onto a customer's bill.

3 Q. And the customer services department was not
4 able to find any amount of cramming in this instance that
5 would be greater than I guess the averages --

6 A. No.

7 Q. -- with any other company?

8 A. No. They've had rather good quality of
9 service reports and customer service reports about CasTel.
10 Q. Okay. Does Staff believe there are any other
11 safeguards that the Commission should consider with regard
12 to the allegations surrounding the parties in this case?

13 A. I believe we've pretty well covered -- we're
14 continuing to monitor the situation. We're monitoring
15 the -- there's a sale process going on with some of the
16 shareholders. We're monitoring that to ensure that nothing
17 like this happens with one of our companies in the state of
18 Missouri.

19 Q. Is Local Exchange Company a Missouri
20 corporation or is it a Missouri LLC? I think you said it
21 was an LLC.

22 A. I believe it's either a Delaware or Maryland
23 company. I'm not quite sure.

24 Q. And it owns properties in multiple states --

25 A. I --

1 Q. -- or are you aware?

2 A. I do not know.

3 Q. You're not aware of that.

4 Okay. Does Staff believe it has the tools
5 necessary to monitor the transfers that you referenced
6 before --

7 A. Yes.

8 Q. -- and the ongoing activity of the company?

9 A. The company has been very forthright with us
10 and been very willing to work with the Staff regarding
11 investigation and monitoring the current situation with the
12 company. So I think we have enough tools right now to take
13 care of it.

14 COMMISSIONER CLAYTON: Okay. Thank you.

15 JUDGE WOODRUFF: Chair Gaw?

16 CHAIR GAW: Yeah. Thank you, Judge.

17 FURTHER QUESTIONS BY CHAIR GAW:

18 Q. You may have said this, I'm not sure. Did you
19 say that Local Exchange Company is a certificated
20 telecommunications company?

21 A. They're not certificate, no. They're not
22 certificate. They're a holding company. The certificate
23 company is Casstel or Cass Telephone Company.

24 Q. Do they own any other certificated companies?

25 A. Not to my knowledge in the state of Missouri.

1 Q. Do they own anything else other than Casstel?

2 A. I believe they might, but I'm not sure at the
3 present time what they own.

4 Q. And the money for the purchase of the Casstel
5 assets came from where?

6 A. From stockholders and from CoBank.

7 Q. Okay. And the stockholders, are they the same
8 stockholders that own stock in Local Exchange Company today
9 as owned them when the purchase was made?

10 A. I can't give you a definitive answer on that.
11 I believe -- I can't give you a definitive answer. I do not
12 think there's been much movement in the stockholders of LEC,
13 LLC since the purchase of Cass County Telephone.

14 Q. Were the stockholders of Local Exchange
15 Company, LLC individuals or corporations or other entities?

16 A. You saw a combination of three things. It's
17 one company, there's individuals and then there's trust
18 funds.

19 Q. Is it true that Mr. Matzdorff at one time was
20 a high-ranking executive officer of USP&C?

21 A. The only thing I know is what I read in the
22 newspaper that he was president of USP&C.

23 Q. Do you know when that was?

24 A. I believe until when he sold his interest
25 in -- it may be up to 19-- the late 90's. I can't give you

1 a specific date.

2 Q. At one time Mr. Matzdorff had an interest in
3 USP&C. Is that what you're saying?

4 A. It's my understanding, yes.

5 Q. As the president?

6 A. It's my understanding, yes.

7 Q. And he sold his interest; is that correct?

8 A. That's what was relayed to us, he had sold his
9 interest in it.

10 Q. Was he 100 percent owner at the time?

11 A. It was relayed to the Staff that he was -- had
12 a very, very small piece of the company.

13 Q. And do you know who the purchasers of his
14 interest were?

15 A. No, I do not.

16 Q. Did you have occasion to read an article in
17 the Village -- from The Village Voice that I think may be
18 written by a Tom Robbins dealing with Cass County?

19 A. No.

20 Q. So you haven't seen that article?

21 A. No, I have not.

22 Q. So you wouldn't have had an occasion to check
23 to see whether or not some of the statements made in that
24 article were accurate?

25 A. No. I've not seen the article.

1 CHAIR GAW: That's all I have right now for
2 Mr. Winter.

3 JUDGE WOODRUFF: Mr. Winter, you can go ahead
4 and step down.

5 Do you have any other questions, Chair Gaw?

6 CHAIR GAW: I'll ask Staff, Staff's counsel,
7 if they have any more information about the questions that
8 were asked of the witness, Mr. Winter?

9 MR. POSTON: If I have any more responses to
10 his questions?

11 CHAIR GAW: Yes.

12 MR. POSTON: No, I don't. I believe the 940
13 was actually 970, but that's all.

14 CHAIR GAW: 970-- when you're saying the
15 940,000, it was actually 970,000?

16 MR. POSTON: Yeah. Other than that, I have
17 nothing else.

18 CHAIR GAW: Public Counsel, have you had any
19 occasion to look into any of these questions that we've been
20 asking?

21 MR. DANDINO: Basically, we rely upon the
22 Staff's audit. And when we reviewed it, we were satisfied
23 that it was -- with the results of it. Other than taking an
24 independent investigation, no, we did not.

25 CHAIR GAW: Would Public Counsel have any

1 concern about some of these -- let me ask you this. Have
2 you seen any of these stories regarding this company that
3 have come out in the last few months in The Kansas City Star
4 or The Village Voice?

5 MR. DANDINO: I saw them in The Kansas City
6 Star. I didn't see them in The Village Voice.

7 CHAIR GAW: Did Public Counsel have any
8 concern about some of the statements that have been made in
9 those stories?

10 MR. DANDINO: Well, at first we did. Just
11 looking at it, we said, what's going on here? And I think
12 after looking at the -- after meeting with the company and
13 then looking at the data requests and discussing with the
14 Staff, you know, we were satisfied.

15 And also we were looking at what -- and the
16 two things that really -- that really made it I think for us
17 is that we were looking at if over-earning -- in an
18 over-earnings case and the history of the company has shown
19 that the revenues derived from it have gone into the
20 plant -- into the company to be used, you know, for the
21 benefit of the ratepayers improving the system and that when
22 this over-earnings occurred, that we were able to -- the
23 company was willing to agree to a reduction in the
24 earnings -- in the revenues in order to eliminate this
25 over-earnings in revenue. We saw it as benefiting the local

1 ratepayers and also the access ratepayers, plus the 911 --
2 the contract for the 911.

3 And basically we were looking at it in terms
4 of what does this mean for our -- you know, for our clients
5 and we felt comfortable with that.

6 We would say if this was a question of
7 under-earnings and it was -- there was a rate increase, we
8 probably would have taken a much harder look at it. But I
9 think, you know, looking back on it and the confidence we
10 had in Mr. Winter and the Staff, the people that examined it
11 and I think we were very -- we were comfortable with it.

12 CHAIR GAW: Mr. England, are you taking lead
13 on this?

14 MR. ENGLAND: Yes, your Honor.

15 CHAIR GAW: There's been some suggestion by
16 Staff that if the Commission desired to look any further
17 into some of these statements and allegations that have been
18 made in some of these news stories, that we could do that
19 and close this case out and move forward if we wanted to do
20 that.

21 I guess what I'm interested in knowing from
22 you is whether or not you believe that there's -- that if
23 you want to -- first of all, do you want to respond to any
24 of those statements or does anyone from the company wish to
25 respond to those -- some of those stories?

1 And, second of all, do you have an argument
2 about why the Commission shouldn't look further into some of
3 those allegations?

4 MR. ENGLAND: Those are a lot of questions,
5 your Honor.

6 CHAIR GAW: I know. And if it weren't you, I
7 would have done them one at a time, but I know you can
8 handle it, Mr. England.

9 MR. ENGLAND: I do have responses. I think
10 Staff did a very good job of explaining the situation and
11 responding to your questions. There would be a few nits and
12 picks, but I think the large substance is correct.

13 The thing that I'd like for the Commission to
14 recognize is the fact that Mr. Matzdorff has been involved
15 in the telephone industry all his life. I believe he worked
16 part-time in summers when he put himself through college at
17 Iowa State, went to work immediately for Contel, at that
18 time, Telephone Company.

19 I got to know him in the early 80's when he
20 was working for Contel headquartered in Wentzville,
21 Missouri. Then he went -- I mean, he progressed through the
22 ranks there, had increasing areas of responsibility, was
23 with Contel until they were acquired by GTE.

24 He came back to Missouri, he had been
25 stationed in Dullus -- around Dullus Airport in the eastern

1 region at that time. Came back to Missouri, went to work
2 for Fidelity Telephone Company where he worked for several
3 years, then had an opportunity to go out and acquire an
4 ownership interest in his own telephone company, and that
5 was the Cass County Telephone Company.

6 His whole life has been involved in the
7 telephone business and nothing else. He look this
8 company -- acquired it on April 1st, 1996. Our office was
9 fortunate enough to be able to represent them there.

10 They had -- approximately 40 percent of their
11 lines were multi-party service at that time. These folks in
12 Peculiar, in Drexler, Garden City were being served by
13 analog service that had been put in service in the 1960's.

14 Since 1996 they have eliminated all party line
15 service. They have implemented digital switches in all of
16 their exchanges. They have rolled out a DSL service to all
17 of their customers. They've increased the customer count
18 from approximately 5,700 access line count -- from about
19 5,700 to about 8,500 access lines today.

20 They have done that without a rate increase
21 from this Commission. They essentially inherited the rates
22 from GTE, agreed to provide or charge those, which they did
23 until this point in time when there's been a situation where
24 the earnings are finally sufficient that they're excessive,
25 if you will, and were able to return those to some of the

1 local subscribers as well as to the access customer.

2 One other thing you may not know is that
3 during Mr. Matzdorff's tenure with the company, they took
4 the I believe Drexler exchange, which at that time was
5 outside the MCA, and collapsed it into the Garden City
6 exchange, thereby making it part of the MCA, so providing
7 MCA service to a group of customers that had previously not
8 had that.

9 I guess it's a long-winded way of saying that
10 Mr. Matzdorff and this company have been committed to
11 providing good quality telephone service and have, in fact,
12 done so.

13 As part of Staff's audit, they got the general
14 ledger, as they do of any company -- particularly every
15 small company and that shows every what I call put and take.
16 That has every receipt and dispersement for at least a
17 12-month period of time, if not longer. Staff traditionally
18 looks at that, looks hard at that as well as all the other
19 financial information.

20 I don't believe there's been any indication of
21 wrongdoing, any indication of misspent monies. And as
22 Mr. Dandino indicated, what monies they have made in large
23 measure have been returned to the company and the people
24 that they serve.

25 Now, having said all of that, if you feel like

1 you need further assurances and further information, we're
2 more than willing to provide that. As Mr. Winter indicated,
3 we've done that with Staff and Public Counsel up to this
4 point in time.

5 Our only reservation would be some of that
6 information I anticipate may be confidential and we, of
7 course, would want to provide it under a protective order.

8 CHAIR GAW: Mr. England, I did give you at
9 least an opportunity, if you wish, to respond to any of
10 the -- to those articles that have been in the paper. And
11 particularly in regard to whether or not we would do
12 anything further with this case.

13 I recognize it as not necessarily being tied
14 to -- from what I've heard so far, to the issue of whether
15 or not this Stipulation should be approved or not, whether
16 or not there should be further inquiry at least in regard to
17 some of the alleged connections here that seem to be woven
18 in some of these articles together. Now, I don't know
19 whether you want to do that or not, but --

20 MR. ENGLAND: I don't know that it's -- one, I
21 do not represent Mr. Matzdorff personally. I don't
22 represent LEC, LLC. I have not been involved at all in any
23 of the federal proceedings that have been going on, so I
24 don't think it would be my place to respond. And, frankly,
25 even if it were, probably under the circumstances it would

1 be best not to.

2 I think as far as the regulated activities of
3 this company are concerned, they're pretty much an open
4 book. And I think they've been examined and, as I said, I
5 think everything is above board.

6 If there's something you feel -- extra that
7 you feel you need in order to give you a comfort level to
8 approve this Stipulation and Agreement, within reason, we're
9 willing to provide it. I mean, that's all I can offer or
10 say at this time.

11 CHAIR GAW: Would it be accurate to say
12 that Mr. Matzdorff would rather not testify today?

13 MR. ENGLAND: Well, as with everything, it
14 depends on what you'd ask. I think, frankly, he'd love to
15 testify because he could say a lot better and with a heck of
16 a lot more emotion what I said about how committed he is to
17 providing telephone service to his customers.

18 CHAIR GAW: I understand.

19 MR. ENGLAND: So, I mean, I think again
20 with -- if you're talking about the regulated telephone
21 company, its operations, monies in and out, Mr. Matzdorff is
22 perfectly capable of testifying and telling you about that.

23 CHAIR GAW: My real question is in regard to
24 how that may impact the issue of whether or not we do
25 anything further with inquiring about some of these alleged

1 connections with some of these companies that appear to be
2 in a number of transactions woven in together. And I'm just
3 giving you the opportunity, if you want to -- since this is
4 obviously a hearing on the Stipulation, that I don't think
5 it's appropriate for us to require it today.

6 MR. ENGLAND: Well, and let me suggest that
7 the Stipulation really only addresses the earnings of the
8 company. It's going to continue to be subject to your
9 jurisdiction and your regulation on an ongoing basis. So if
10 there's anything that comes to light in the future that you
11 all want to inquire about, I don't think by approving this
12 Stipulation and Agreement that's going to preclude you from
13 doing so.

14 CHAIR GAW: I agree with you. I'm just trying
15 to determine whether or not Mr. Matzdorff wants to say
16 anything to us today.

17 MR. ENGLAND: Well, I'll ask him and see if
18 there's anything I haven't said that he'd like to address.

19 MR. DANDINO: Mr. Chairman?

20 JUDGE WOODRUFF: Yes, Mr. Dandino.

21 MR. DANDINO: If I can make just a brief
22 comment. Talking about when you were discussing the
23 interrelationship of the companies and the earnings
24 investigation is that Public Counsel and I believe the Staff
25 did too is that the -- it calls for a three-year rate

1 moratorium on filing a complaint. Of course, a moratorium
2 does not bind the Commission.

3 And as far as -- and Public Counsel and I
4 believe the Staff also reserve the right to conduct the rate
5 investigation, file a complaint, notwithstanding that, that
6 should the US attorney file an indictment against Cass
7 County or any officer employee of Cass County.

8 It was to that effect that even though we
9 couldn't see anything here, if something would subsequently
10 come up, that we would -- it would still not bind our hands
11 to get involved with this. Thank you.

12 MR. ENGLAND: I'm advised by Mr. Matzdorff,
13 surprisingly enough, that he thinks I did an adequate job
14 explaining everything so we'll leave it at that.

15 CHAIR GAW: I take it he doesn't want to add
16 to that?

17 MR. ENGLAND: Not right now. As I said, if
18 there are additional questions, inquiries about this that
19 you all have, we're willing to respond to them and answer.

20 CHAIR GAW: Take just five minutes, Judge.

21 JUDGE WOODRUFF: Let's take about a 10-minute
22 break. We'll come back at 3:30.

23 (A recess was taken.)

24 JUDGE WOODRUFF: We're back on the Internet
25 again.

1 Chairman Gaw, did you have anything further?

2 CHAIR GAW: Mr. England, before we close this
3 out, I have got -- I feel that we have a responsibility to
4 get a response on a couple of paragraphs in The Kansas City
5 Star article of February the 14th because it directly
6 mentions CassTel in regard to what they refer to as
7 something that probably was used to launder money from an
8 individual. And I feel like we need a response --

9 MR. ENGLAND: Sure.

10 CHAIR GAW: -- on that and I'd like to ask
11 Mr. Matzdorff his response to it.

12 MR. ENGLAND: Okay. Do you want to have him
13 take the stand?

14 JUDGE WOODRUFF: Good afternoon.

15 (Witness sworn.)

16 JUDGE WOODRUFF: Can you tell us your name,
17 please?

18 THE WITNESS: My name is Kenneth Matzdorff.

19 JUDGE WOODRUFF: And what is your position?

20 THE WITNESS: I am president of Cass County
21 Telephone.

22 THE COURT REPORTER: Could you spell your last
23 name?

24 THE WITNESS: It's spelled M-a-t-z-d-o-r-f-f.

25 KENNETH MATZDORFF testified as follows:

1 QUESTIONS BY CHAIR GAW:

2 Q. Good afternoon, Mr. Matzdorff.

3 A. Good afternoon.

4 Q. I will ask you first, have you seen the
5 article in The Kansas City Star that was dated 2/14 of '04
6 that's entitled Belton Exec Linked to Phone Scam?

7 A. Yes, I have.

8 Q. All right. In that article there are three
9 paragraphs. And if you wouldn't mind -- and bear with me,
10 please. I will read them to you and then I'd like to get
11 your response, in particular, to one of the allegations --
12 or the suggestions may be a more fitting way of stating
13 it -- that relates to CassTel.

14 It says, In September, authorities searched a
15 company called Telecom Online, Inc. in New York which
16 allegedly ran the deceptive websites. The affidavits
17 supported the warrant charged -- supporting the warrant
18 charged that alleged Gambino family members Richard Martino
19 and Salvator LaCassio (ph.) -- do you know if I pronounced
20 that correctly?

21 A. I don't know.

22 Q. -- infiltrated a series of related telephone
23 companies based in Missouri in furtherance of the schemes.

24 Next paragraph, The affidavit referred to
25 Local Exchange Company, LLC, or LEC, which was created in

1 1996 to purchase CassTel, and Local Exchange Carriers which
2 was set up in 2000 to buy interest in Spectra Communications
3 Group.

4 Matzdorff is the president of LEC and chief
5 executive of CassTel. According to bank records, in 2002
6 Matzdorff owned 7.4 percent of LEC and 5.6 percent of
7 Spectra.

8 And then the third paragraph, The affidavit
9 said that LEC received millions of dollars from an Overland
10 Park business called Overland Data Center, which in turn,
11 received millions of dollars from LEC's subsidiary CassTel.
12 The affidavit stated that Overland Data Center probably was
13 used to launder money for Martino.

14 First of all, can you tell me your response to
15 the allegation in regard to the millions of dollars from
16 LEC's subsidiary CassTel that was allegedly turned over I
17 guess to Overland Data Center?

18 A. Can you repeat -- I want to make sure I'm
19 clear on what you're saying.

20 Q. Well, and I guess if you could answer the
21 question, if you would, as to whether or not the statement
22 that LEC received millions of dollars from an Overland Park
23 business called Overland Data Center which, in turn,
24 received millions of dollars from LEC's subsidiary CassTel
25 is true?

1 A. I can only assume that the dollars in question
2 relate to the \$970,000 that we received. If you look at the
3 indictment -- and I'm going pretty much from the same
4 documents you've seen, Commissioner Gaw -- is there's a
5 \$970,000 reference on December 15th of 2000. And the best I
6 can tell from the records, that's the reference that they're
7 making.

8 And I think that Mr. Winter indicated in his
9 data request to the company, trying to track that back, the
10 best we can tell, that matches up with payments -- I think I
11 can clarify a little bit Spectra Communications was formed
12 as a partnership between -- or an LLC, I should say to be
13 correct, between CenturyTel, a publicly traded company, and
14 a company that was formed, Local Exchange Carriers,
15 specifically to buy exchanges, it's 107 exchanges in the
16 state of Missouri representing approximately 130,000 access
17 lines.

18 I was heavily engaged in that and served as
19 the president of that company and was the one indeed that
20 brought CenturyTel in as a potential partner for many
21 reasons, one which was their capital power because the
22 acquisition was in -- it was close to \$300 million for the
23 acquisition, so that kind of puts it in perspective.

24 The partnership between those companies led to
25 the development of that company at which time later

1 CenturyTel -- in a third time, as Mr. Winter indicated,
2 purchased CenturyTel Missouri which is another 350,000 lines
3 in which I became president of those operations and oversee
4 pretty much 60 percent of the land-line based operations for
5 the state of Missouri.

6 Q. And for which company is that again?

7 A. Not only for Spectra, which continues to
8 exist, but also CenturyTel Missouri. And those two
9 properties -- those two properties we run contiguously. And
10 this fall CenturyTel purchased the ownership interest from
11 Local Exchange Carrier, so Local Exchange Carrier no longer
12 has interest in that property but I continue on in my
13 capacity with CenturyTel.

14 Q. So you have a position with CenturyTel?

15 A. Yes, I do.

16 Q. Which is what again?

17 A. I am the executive vice president.

18 Q. All right. You also have a position with
19 CassTel?

20 A. That's correct. I serve as president.

21 Q. All right. And you have a position with Local
22 Exchange Company --

23 A. That's correct.

24 Q. -- LLC?

25 A. I'm the president of that company, which

1 serves as the holding company for Cass County Telephone.

2 Q. Yes. And all of Cass County Telephone is
3 owned by LEC?

4 A. Actually, 99 percent. It's a limited
5 partnership -- a Maryland limited partnership. And there
6 are two small interests owned in order to create that
7 limited partnership.

8 Q. I don't know whether it would be appropriate
9 to disclose that in public session or not.

10 A. I think those are part of the annual reports
11 that we file each year with the company.

12 Q. Would you tell me who they are?

13 A. I believe one is -- one of the officers is a
14 gentleman by the name of Elia Fiata. And the other one is a
15 company and I --

16 MR. WINTER: Lexicom.

17 THE WITNESS: It's Lexicom is the name of the
18 company, it's an Illinois-based company.

19 BY CHAIR GAW:

20 Q. Is that a publicly held company?

21 A. No, it's not.

22 Q. So, to the best of your knowledge, the only
23 thing that you're aware of that could be referred to in the
24 article -- that could be referring to in the article in
25 regard to transfers of money from CassTel to Overland Data

1 Center is this \$970,000?

2 A. I don't know how to answer that, Commissioner,
3 simply because my sources of information are much the same
4 as yourself. I've seen the newspaper article and I've seen
5 the indictment that referenced that. And I -- that's really
6 the only thing I know how to answer on that without, you
7 know, specifics and I don't know his sources beyond that.

8 Q. Well, would there be any other transfers of
9 money that you're aware of from CassTel to Overland Park --
10 Overland Data Center?

11 A. Overland Data Center provided services to Cass
12 County. They provided data functions for the company. And
13 that was listed --

14 Q. I see.

15 A. -- that was listed in our -- our responses.

16 Q. What kind of data functions were performed?

17 A. Oh, as an example, the Public Service
18 Commission requires that we attempt to contact two
19 customers -- or customers twice before we would ever attempt
20 to disconnect them for non-payment.

21 We utilize voice recognition units that they
22 have. Our underlying network support technical expertise as
23 it relates -- we chose not to hire that personnel and felt
24 we could do it more effectively. We live in a very rural
25 area and don't have that expertise nor is it easy to attract

1 it, so we contract those services out.

2 Q. So there would have been additional monies
3 paid from CassTel to Overland Data Center in the last
4 several years?

5 A. That's correct.

6 Q. And you're saying that except for the
7 \$970,000, to your knowledge, the only monies that were
8 transferred were for services?

9 A. Okay. To my knowledge, CassTel is only paid
10 out for services rendered to the company.

11 Q. And what period of time were those services
12 rendered, if you know?

13 A. They -- the company started on April 1st, 1996
14 and they continued until June, at which time I became aware
15 of alleged improprieties and I terminated the functions.

16 Q. In June of what year?

17 A. 2003.

18 Q. 2003. Do you know anything about the
19 ownership of Overland Data Center?

20 A. No, I do not.

21 Q. Do you know if it's a corporation or something
22 else?

23 A. I really don't.

24 Q. And you're not familiar with any -- you don't
25 know any of the owners?

1 A. I only -- I only know of the services and the
2 personnel that's responsible for providing the services to
3 me really. That's -- beyond the ownership, I really don't
4 know.

5 Q. When did -- did you know -- were you familiar
6 with that company prior to 1996?

7 A. I became aware of them when I initiated the
8 formation of Cass County Telephone and started looking at
9 vendors that would be required in order to provide the phone
10 services. We essentially bought the assets and, as we
11 described, needed to build the infrastructure in order to
12 support those services. So I became aware of them in
13 probably 1995.

14 Q. And do you know if they have any relation to
15 USP&C?

16 A. To my knowledge, there's no relationship
17 there.

18 Q. You used to have one, is that correct, with
19 USP&C?

20 A. Used to have?

21 Q. A relationship with that company.

22 A. Yes, I did.

23 Q. What was that?

24 A. I -- I was a stockholder in the company and
25 helped to form that company. And then in 1998, sold my

1 interest.

2 Q. To whom did you sell your interest?

3 A. I sold my interest to a Mr. Mike Laurel.

4 Q. And I'm sorry. You probably said this. What
5 was the period of time that you had that relationship with
6 USP&C?

7 A. USP&C was formed in late 1996. I believe it
8 was 1998 I sold my interest.

9 Q. Okay. And you're aware that -- are you aware
10 whether or not the indictments draw any connection between
11 Overland Data Center and USP&C?

12 A. Only what I've read in the indictment itself,
13 which -- which is not clear what the relationship is.

14 Q. How much -- if you know, how much were the
15 amounts that were being paid from CassTel to Overland Data
16 Center on an annual basis for services?

17 A. I really can't give you a correct indication.
18 I know that the services varied by the functions. They were
19 larger amounts until some of our systems were built, as an
20 example, trouble reporting systems and interface systems for
21 accounting functions like that. So it really varied by
22 year, but I know the -- I know I responded to that in a
23 highly confidential -- in the response to the Commission
24 Staff.

25 CHAIR GAW: Let me ask Staff very quickly, do

1 you have that information?

2 MR. POSTON: Yeah. I can give you that data
3 request, if you give me a minute.

4 BY CHAIR GAW:

5 Q. Mr. Matzdorff, did that amount very much from
6 year to year?

7 A. There was a peak period where we did a lot of
8 systems work and there was a peak year. It was centered
9 around when we initially were looking to buy local exchange
10 carriers and form Spectra before we brought CenturyTel on.

11 That was one of the key reasons bringing
12 CenturyTel on was we were supporting a lot of systems and
13 the concern I had was being able to handle an acquisition
14 that large. We initially were putting a lot of dollars into
15 supporting and beefing up the system. We were initially
16 with a vendor that, in my opinion, couldn't -- couldn't
17 provide the adequate service for the people in Missouri.

18 Q. Now that you have made that statement, I'm not
19 sure if I want to ask you who that was, but -- I'm not --

20 A. Well --

21 Q. -- I'm not so -- if you feel like you can tell
22 me, I'll be glad to hear it, but -- who did you work with
23 before?

24 A. MidAmerica Computer out of Blair, Nebraska.

25 Q. All right. And when you changed to Overland

1 Data Center, why did you choose that company as opposed to
2 some other company?

3 A. Well, let me clarify. We used both systems,
4 but one system was really designed for companies of 1,000
5 lines or less that support companies throughout the United
6 States. I was looking for something that was more attuned
7 to the needs of the state of Missouri and something that
8 potentially would have 150,000 access lines.

9 Q. And go ahead and finish your sentence. What
10 does that lead you to what conclusion?

11 A. I think I stated it.

12 Q. I think you did too, but would you go ahead
13 and restate it for me? That caused you to choose Overland
14 Data Center?

15 A. Yeah. They -- it was not a relational
16 database, which means that you had several flat files --
17 what are called flat files. And flat files, by such, if
18 you're out of -- out of sync, then it affects all of your
19 other systems, so they don't force reconciliation.

20 That's fine for a company that has a hand
21 calculation with less than 1,000 lines, but you can imagine
22 with hundreds of employees and trying to have relationships
23 between databases for billing, customer service, service
24 provisioning, those type of things, that's what leads, quite
25 frankly, to the large companies having difficulties is when

1 they don't have relationship files that stay in sync with
2 each other. And I'm sure you've had that discussion with
3 various billing entities as they have impacted your
4 services.

5 Q. Okay. And you chose that company as opposed
6 to some other company because?

7 A. I chose the company because their location.
8 Many of the employees had experience in Sprint billing
9 system, so I had a comfort level that they had worked in
10 large database applications and they'd supported us prior to
11 that and -- and were the most familiar with our databases
12 and what they were going to convert.

13 Q. You were involved with Local Exchange Company,
14 LLC at its beginning. Correct?

15 A. That's correct.

16 Q. And you were not the only one involved with
17 it?

18 A. I was the founder and was the one responsible
19 for putting together the partnership arrangement with
20 CenturyTel.

21 Q. Okay. With Local Exchange Company; is that
22 correct?

23 A. With Local Exchange Carriers, I believe you
24 said, Commissioner.

25 Q. I'm --

1 A. If you didn't, I apologize.

2 Q. That's okay. I'll ask you this question then.

3 Were you involved with Local Exchange Company, LLC?

4 A. Yes, I was.

5 Q. Okay. And did it have any other purpose when
6 it was formed other than to be the holding company for
7 CassTel?

8 A. No. That was the purpose for which it was
9 formed.

10 Q. And were you the only individual involved in
11 its formation?

12 A. I was the -- I was the founder and the one
13 responsible for putting together the transaction.
14 Continental Illinois Bank had originally contacted me about
15 possibility of some sales that were being announced by GTE.
16 And I -- when they lost interest in the transaction, I asked
17 that I take it on and -- and form Cass County Telephone from
18 them.

19 Q. All right. And did anyone else go into that
20 investment with you?

21 A. Yes. I had a list of investors that joined
22 with me on that venture.

23 Q. All right. Was that a long list, short list?

24 A. It's a fairly substantive list. I'd say
25 approximately 46 members.

1 CHAIR GAW: Okay. And I'll ask Staff, is that
2 information that we have?

3 MR. POSTON: I think so.

4 THE WITNESS: Yes, it is.

5 CHAIR GAW: It's been provided? Am I correct
6 to say up to this point that's highly confidential?

7 MR. ENGLAND: If not, it's certainly
8 proprietary. I think we marked it as highly confidential.

9 CHAIR GAW: All right. And is that a part --
10 Staff has that in its possession, I take it; is that
11 correct?

12 MR. POSTON: We're looking. I believe we do.

13 MR. ENGLAND: It's Data Request No. 13.

14 CHAIR GAW: Thank you, Mr. England.

15 For the record, Judge, so it's on the record,
16 Staff has handed me that Data Request No. 13.

17 BY CHAIR GAW:

18 Q. Mr. Matzdorff, how were these investors found?

19 A. Some were acquaintances, others were referred
20 to me by -- by individuals that I found to be very
21 trustworthy and of high integrity and, quite frankly, very
22 surprising relationship. I'm hesitant to name names, but
23 people that I felt I knew and trusted.

24 Q. Yes, sir.

25 CHAIR GAW: I don't think I can go further

1 with this question-- with this questioning where we are
2 today, but I'm going to pass for the moment back to
3 Commissioner Clayton and if he has any questions.

4 COMMISSIONER CLAYTON: I just have a few.

5 CHAIR GAW: Thank you, sir.

6 QUESTIONS BY COMMISSIONER GAW:

7 Q. Mr. Matzdorff, the questioning by Commissioner
8 Gaw has answered a lot of my questions. Generally speaking,
9 I was interested in the relationship among the various
10 companies that have been discussed here today. Does the
11 company Spectra still exist?

12 A. Yes, it does.

13 Q. Is it simply a fictional entity owned by
14 CenturyTel or does it remain to be a partnership between
15 various entities? What is Spectra right now?

16 A. Spectra Communications was a stand-alone
17 company that the primary support services were performed by
18 CenturyTel. And CenturyTel is the majority owner of that
19 company. They purchased the interest of Local Exchange
20 Carriers in November of 2003.

21 There are two -- two individuals from Monroe,
22 Louisiana that have an affiliate relationship with
23 CenturyTel that are also shareholders, but for all practical
24 purposes, CenturyTel has 99.X percent of the ownership.

25 Q. So Spectra is now almost entirely owned by

1 CenturyTel?

2 A. That's correct. And I believe that's the
3 intent.

4 Q. You stated that you sold out your interest in
5 USP&C in 1998; is that correct?

6 A. That's correct.

7 Q. What was the year of the activities listed in
8 the indictment? Were you affiliated with the company during
9 that time?

10 A. The indictment, as I understand it, implies
11 that the activity began from the time of its inception
12 until -- until I assume the indictment was passed down,
13 which included 1996, '97. The company had no functions
14 during '96 and really didn't get started in its operations.

15 My role in getting involved and why my name, I
16 believe, was in the paper was tied to the fact that when it
17 was founded, I was the one that put together the paperwork.
18 In order to get registered, you have to have an officer. We
19 had no employees at the time so I placed myself as the
20 president, but I've never held an active function with that
21 company nor as an officer of that company.

22 Q. You were simply a stockholder, you were never
23 an officer?

24 A. That's correct.

25 Q. Okay. And Overland Data Center, you have

1 never in the past nor currently acted as either a
2 shareholder or an officer --

3 A. No.

4 Q. -- or an employee of Overland Data Center?

5 A. No.

6 Q. It was your testimony earlier that you were a
7 founder and organizer of both Local Exchange Company, LLC,
8 which is the holding company of CassTel. Correct?

9 A. That's correct.

10 Q. And also a founder and organizer of Local
11 Exchange Carrier?

12 A. That's correct.

13 Q. And Local Exchange Carrier does not exist
14 anymore?

15 A. Local Exchange Carrier exists only until we
16 get the tax returns so I can can it, close it down.

17 Q. Okay. Has CassTel or Local Exchange Company
18 ever had any type of relationship with USP&C --

19 A. No.

20 Q. -- as a vendor or otherwise?

21 A. No.

22 Q. So no dollars have gone back and forth in
23 either direction between those two entities?

24 A. No, there have not.

25 COMMISSIONER CLAYTON: I don't believe I have

1 any further questions. Thank you.

2 THE WITNESS: Thank you, Commissioner.

3 JUDGE WOODRUFF: Chair Gaw, anything further?

4 CHAIR GAW: No, thank you.

5 JUDGE WOODRUFF: You can step down. Thank
6 you.

7 THE WITNESS: Thank you.

8 JUDGE WOODRUFF: Any other questions for any
9 other witnesses?

10 I'll give the parties an opportunity to make a
11 closing statement if they wish. Staff?

12 MR. POSTON: I have nothing to close other
13 than we continue to support the Stipulation and Agreement.

14 JUDGE WOODRUFF: Public Counsel?

15 MR. DANDINO: I have nothing further, your
16 Honor.

17 JUDGE WOODRUFF: Cass County Telephone?

18 MR. ENGLAND: Nothing further, your Honor.

19 JUDGE WOODRUFF: With that, then we are
20 adjourned.

21 CHAIR GAW: One question. The data request is
22 not a part of the record unless you admit it, I assume?

23 JUDGE WOODRUFF: That would be correct.

24 CHAIR GAW: Would it be possible to have that
25 admitted as an HC document?

1 JUDGE WOODRUFF: We can mark it as HC
2 exhibits.

3 CHAIR GAW: I think there were two of them.
4 And I don't know -- just because I asked for it doesn't mean
5 it has to be -- I would like for it to be if it's -- if we
6 could have it in the record, Judge. Thank you.

7 MR. ENGLAND: I have no objection, your Honor.

8 I'd point out that it's my understanding that
9 no protective order has actually been issued in this case.
10 It's fairly young, if you will. So I would request that a
11 protective order be issued and then if you want to make that
12 part of the record as a highly confidential exhibit, that's
13 fine.

14 JUDGE WOODRUFF: All right. A protective
15 order will be issued. I'll go ahead and issue one -- well,
16 I can do it from the Bench at this point and the formal
17 protective order will also be issued through EFIS tomorrow.

18 MR. ENGLAND: That would be fine.

19 JUDGE WOODRUFF: We've got the two data
20 requests, Data Request No. 9, which concerns the amount of
21 fees that were paid by Cass County Telephone to Overland
22 Data Center. We'll mark that as Exhibit 1-HC. And the
23 other is the list of investors in LEC, LLC and we'll mark
24 that as Exhibit No. 2-HC.

25 All right. Anything else while we're on the

1 record? With that then, we are adjourned.

2 (Exhibit Nos. 1 and 2 were marked for
3 identification.)

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I do hereby certify the same to be a true copy therefrom and the whole thereof.

WITNESS my hand and seal of the Public Service Commission, at Jefferson City,

Missouri, this 25th day of August 2005 .



Colleen M. Dale
Secretary