

State of Florida



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RECEIVED-FPSC
07 APR -5 PM 3:59
COMMISSION
CLERK

DATE: April 5, 2007
TO: Ann Cole, Commission Clerk
FROM: Toni J. McCoy, Regulatory Analyst II, Division of Competitive Markets & Enforcement
RE: Docket No. 070139-TS

A handwritten signature in black ink, appearing to be "TJ" or similar initials.

Please add the attached emails, managerial and financial information to the file.

Call 413-6532, if you have any questions.

DOCUMENT NUMBER-DATE

02945 APR-5 5

FPSC-COMMISSION CLERK

Toni McCoy

From: Jonathan Spencer [Jonathan.Spencer@emp.shentel.com]
Sent: Thursday, April 05, 2007 1:12 PM
To: Toni McCoy
Subject: Shentel Converged Services, Inc.
Attachments: Management Team.doc; 2006_report.pdf

As requested, here are the management bios. For Shentel Converged Services, Inc. I am also attaching a copy of Shenandoah Telecommunications 2006 Annual Report which includes audited financials for the parent organization. While there is information on Shentel Converged Services on page 54 and on pages 44-47 of the Report, I will be sending you a balance sheet and income statement as of December 31, 2006 for Shentel Converged Services in a separate e-mail

Jonathan Spencer
Vice President, General Counsel and Secretary
Shentel
540-984-5320 (o)
540-984-8192 (f)
Jonathan.Spencer@emp.shentel.com

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Management Team



Christopher E. French
President

Chris French is President and Chief Executive Officer of Shentel, where he is responsible for the overall leadership and strategic direction of the Company. He has served as president since 1988, and has been a member and Chairman of the Board of Directors since 1996. Prior to appointment as President, Mr. French held a variety of positions with the Company, from construction crew helper upon his graduation from high school through Vice President Network Service and Executive Vice President. Mr. French holds a BS in electrical engineering and an MBA, both from the University of Virginia. He has held board and officer positions in both state and national telecommunications associations, including service as a director of the Organization for the Promotion and Advancement of Small Telecommunications Companies (OPASTCO) and was president and director of the Virginia Telecommunications Industry Association.



Earle A. MacKenzie
Executive Vice President, COO, CFO

Earle MacKenzie is Executive Vice President, Chief Operating Officer (COO) and Chief Financial Officer (CFO) of Shentel. He joined the Company in 2003. With 30 years of telecom experience, Mr. MacKenzie is responsible for Shentel's financial decisions, as well as the daily operations of its many subsidiaries. Mr. MacKenzie was the co-founder and President of Broadslate Networks and Essex Communications. He served as COO of Digital Television Services and as Vice President of Contel Cellular. Mr. MacKenzie is a graduate of The College of William and Mary and holds a BBA in accounting.



David E. Ferguson
Vice President of Customer Services

David Ferguson is Vice President of Customer Services for Shentel. He has 39 years of experience in the telecommunications industry. Mr. Ferguson has held many positions within Shentel since joining the Company in 1967. He currently oversees the business office functions for the delivery and maintenance of customer services for all of Shentel's subsidiaries. Mr. Ferguson is past president and currently a director of the Virginia Telecommunications Industry Association.



David K. MacDonald
Vice President of Operations

Dave MacDonald is Vice President of Operations at Shentel where he is the senior manager responsible for operational and maintenance activities for all Company subsidiaries. He joined Shentel in 1995 as the Project Manager responsible for a network wide HFC CATV upgrade, establishing the PCS system from Pennsylvania to Harrisonburg, and installation of the Company's fiber optic network. Mr. MacDonald became Vice President of Operations in 1998. He has a bachelor's degree in biology and a master's degree in anaerobic microbiology from Virginia Tech.



Laurence F. Paxton
Vice President of Information Systems

Larry Paxton is the Vice President of Information Technology for Shentel and is responsible for the Company's IT decisions. He joined Shentel in 1991 as the Vice President of Finance and became Vice President of IT in 2003. Mr. Paxton has a BA degree from the University of Virginia and an MBA from the University of New Mexico.



William L. Pirtle
Vice President of Sales

Willy Pirtle is Vice President of Sales for Shentel. Mr. Pirtle is also responsible for Shentel's Converged Services organization focusing on Fiber to the Home (FTTH) and Multiple Dwelling Unit (MDU) sales in the Mid-Atlantic and Southeast regions. He joined the Company in 1992 as Vice President of Network Services responsible for Shentel's technology decisions, and maintenance and operation of its networks - telephone, cable, cellular, paging and fiber optics. He helped launch Shentel's Internet business in 1994, and led its participation in its wireless PCS business beginning in 1995. He is a graduate of the University of Virginia. Mr. Pirtle is a co-founder of the Shenandoah Valley Technology Council.



Jonathan Spencer
Vice President, General Counsel & Corporate Secretary

Jonathan R. Spencer is Vice President, General Counsel and Corporate Secretary at Shentel where he manages all legal issues related to the Company and its subsidiaries. He first joined Shentel in 2004 and returned to the Company in 2006 after a brief stint as General Counsel for Genesys SA. Mr. Spencer has 20 years of legal experience, both in private practice and as Vice President and Associate General Counsel for Cable & Wireless. He has a BS in applied mathematics and political science from Brown University and a JD from Duke University School of Law. He is a member of the District of Columbia Bar and is admitted to practice in Virginia under the rules governing corporate counsel. Mr. Spencer is a former chair of the Association of Corporate Counsel's Information Technology and E-commerce Law Committee.

Toni McCoy

From: Jonathan Spencer [Jonathan.Spencer@emp.shentel.com]
Sent: Thursday, April 05, 2007 1:17 PM
To: Toni McCoy
Subject: Shentel Converged Services
Attachments: SCS Financials 12-06.xls

As promised, here are the financials for Shentel Converged Services, Inc. The Income Statement is the first tab and the Balance Sheet is the Second Tab.

Please do not hesitate to call with any questions

Sincerely

Jonathan Spencer

Vice President, General Counsel and Secretary

Shentel

540-984-5320 (o)

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4/5/2007

FINAL

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Shentel Converged Services, Inc.
 INCOME STATEMENT
 FOR THE MONTH ENDED DECEMBER 31, 2006

	Year to Date Actual (Unaudited)	Prior Year to Date Actual (Unaudited)
<u>Operating Revenues</u>		
Voice Service	\$ 1,342,697	\$ 1,867,275
Data Service	5,239,908	4,127,365
Video Service	3,817,474	3,726,629
Equipment Sales Revenue	146,088	12,173
Other Revenue	120,914	88,551
	<hr/>	<hr/>
Total Operating Revenues	\$ 10,667,081	\$ 9,821,993
<u>Operating Expenses</u>		
Cost of Services	\$ 3,525,946	\$ 2,984,860
Network costs	2,500,955	2,666,947
Depreciation and Amortization	5,103,335	2,574,656
Maintenance and Repairs	2,216,206	1,132,403
Marketing and Sales	1,469,205	1,510,760
Customer Services	1,589,923	845,928
Bad Debt	81,359	185,266
General Administrative	1,493,771	1,761,928
Operating Taxes	131,536	73,176
	<hr/>	<hr/>
Total Operating Expenses	\$ 18,112,236	\$ 13,735,924
Net Operating Income	\$ (7,445,155)	\$ (3,913,931)
<u>Non-Operating Income (Expense)</u>		
Other income (expense)	\$ (1,050)	\$ 15,671
Interest Income	6,654	22,006
Interest (Expense)	(1,066,648)	(981,597)
	<hr/>	<hr/>
Total Non-Operating Income (Expense)	\$ (1,061,044)	\$ (943,920)
Income before income taxes, cumulative effect of a change in accounting	\$ (8,506,199)	\$ (4,857,851)
Income Tax (Expense)	\$ 2,762,349	\$ 1,556,504
	<hr/>	<hr/>
Income from continuing operations	\$ (5,743,850)	\$ (3,301,347)
Cumulative effect of a change in accounting, net of income taxes	\$ (21,466)	\$ -
	<hr/>	<hr/>
Net Income (Loss)	\$ (5,765,316)	\$ (3,301,347)

FINAL
SHENTEL CONVERGED SERVICES, INC.
BALANCE SHEET
AS OF DECEMBER 31, 2006

Current Assets

Cash and cash equivalents	\$ -
Accounts receivable, net	128,421
Income taxes receivable	3,100,036
Materials and supplies	78,402
Prepaid expenses and other	149,345
Due from affiliate	-
Deferred income taxes	1,344
Total Current Assets	\$ 3,457,548

Current Liabilities

Bank Overdraft	\$ 600,701
Accounts payable	480,775
Advance billings and customer deposits	397,843
Due to affiliate	2,879,260
Income taxes payable	-
Note payable	11,000,000
Accrued liabilities and other	289,364
Total Current Liabilities	\$ 15,647,943

Plant, Property & Equipment

Plant in service	\$ 18,267,102
Plant under construction	2,061,747
	<u>\$ 20,328,849</u>
Less accumulated amortization and depreciation	(5,656,746)
Net property, plant and equipment	\$ 14,672,103

Other Liabilities

Deferred Income Taxes	\$ 618,844
Pension and Other	-
Deferred Lease Payable	-
Total Other Liabilities	\$ 618,844

Other Assets

Intangibles assets, net	\$ 2,699,414
Cost in Excess of Net Bus Acq	6,539,193
Deferred Charges and Other	961,118
Net Other Assets	\$ 10,199,725

Shareholders' Equity

Common Stock	\$ 21,245,659
Retained Earnings	(3,417,755)
Current Net Income (Loss)	(5,765,315)
Total Shareholders' Equity	\$ 12,062,589

Total Assets \$ 28,329,376

Total Liabilities & Shareholders' Equity \$ 28,329,376

The Company's total rent expense was \$5.9 million in the year ended December 31, 2006, \$5.3 million in the year ended December 31, 2005, and \$4.8 million in the year ended December 31, 2004.

As lessor, the Company has leased buildings, tower space and telecommunications equipment to other entities under various non-cancelable agreements, which require various minimum annual payments. The total minimum rental receipts at December 31, 2006 are as set forth in the adjacent table:

<i>Year Ending</i>	<i>Amount</i> (in thousands)
2007	\$ 3,462
2008	2,941
2009	2,536
2010	2,122
2011	672
2012 and beyond	460
	\$ 12,193

The Company's total rent income was \$9.3 million in the year ended December 31, 2006, \$8.5 million in the year ended December 31, 2005, and \$8.0 million in the year ended December 31, 2004.

Note 14. Acquisitions

Broadband Metro Communications

In September 2005, the Company purchased the assets of Broadband Metro Communications, which marketed wireless broadband services, for \$0.6 million in cash (see Note 1). The results of Broadband Metro Communication's operations (operating under the name Shentel Wireless) have been included in the consolidated financial statements since that date. During 2006, the Company terminated all but one of the contracts acquired in this acquisition, transferred that contract and its related assets to NTC, and terminated operations at Shentel Wireless. The Company took impairment charges of approximately \$430,000 in connection with the terminated contracts and termination of operations, including the write-off of \$251,000 of goodwill recorded in the acquisition.

NTC

On November 30, 2004, the Company purchased the 83.9% of NTC that it did not currently own for \$10 million, of which \$1 million was held in escrow for payment of specified potential liabilities, and the assumption of NTC's existing debt and other liabilities. For 2005, goodwill was reduced by approximately \$0.5 million as a result of settling the escrow funds dispute (Note 1). The results of NTC's operations have been included in the consolidated financial statements since that date. NTC provides local and long distance voice, video, Internet and data services on an, at times, exclusive basis to multi-dwelling unit communities primarily located near colleges and universities.

The Company recorded the purchase of NTC as a step acquisition, and as a result, the step-up in basis of the net assets was limited to 83.9% of the fair market value. The adjacent table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of the acquisition (in thousands):

	<i>At November 30, 2004</i>
Current Assets	\$ 1,532
Property and Equipment	14,736
Intangible Assets	3,436
Goodwill	5,550
Total assets acquired	25,254
Current liabilities	(3,103)
Long-term debt	(11,838)
Total liabilities assumed	(14,941)
Pre-acquisition ownership	(718)
Net assets acquired	\$ 9,595

The \$3.4 million of acquired intangible assets has a weighted-average useful life of approximately 11 years. The intangible assets that make up that amount include business contracts of \$2.4 million (useful life of 13.7 years), trade name of \$168 thousand (useful life of 5.0 years) and a non-compete agreement of \$835 thousand (useful life of 4.0 years). The \$5.6 million of goodwill at December 31, 2004, was assigned to the Shentel Converged Services segment. The goodwill recorded in the acquisition is deductible for income tax purposes.

Pursuant to the NTC Interest Purchase Agreement, \$1.0 million of the purchase price was placed in escrow to satisfy any post-closing adjustments to the purchase price and any indemnification obligations of the Interest holders for a period of six months after the November 30, 2004 closing date. On January 23, 2006, the Company received \$0.9 million of the escrow.

The adjacent table reflects the unaudited pro forma results of the Company and NTC for the year ended December 31, 2004, as if the acquisition had taken place at the beginning of the calendar year:

	<i>2004</i>
Operating revenue	\$ 129,884
Income from operations	9,165
Net income	\$ 9,165
Diluted net income per share	\$ 1.20

The pro forma adjustments include amortization of the acquired intangible assets, depreciation of the incremental fair value of the acquired fixed assets, interest expense and income taxes.

Note 15. Segment Reporting

SFAS Statement No. 131, "Disclosures about Segments of an Enterprise and Related Information," establishes standards for reporting information about operating segments. Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision makers. The Company has six reportable segments, which the Company operates and manages as strategic business units organized geographically and by lines of business: (1) PCS, (2) Telephone, (3) Converged Services (NTC), (4) Mobile, (5) Holding and (6) Other.

The PCS segment, as a Sprint PCS Affiliate, provides digital wireless service to a portion of a four-state area covering the region from Harrisburg, York and Altoona, Pennsylvania, to Harrisonburg, Virginia.

The Telephone segment provides both regulated and unregulated telephone services and leases fiber optic facilities primarily throughout the Northern Shenandoah Valley.

The Converged Services segment provides local and long distance voice, video, and internet services on an exclusive and non-exclusive basis to MDU communities (primarily off-campus college student housing) throughout the southeastern United States including Virginia, North Carolina, Maryland, South Carolina, Georgia, Florida, Tennessee and Mississippi. Converged Services includes NTC, purchased by the Company on November 30, 2004.

The Mobile segment provides tower rental space to affiliates and non-affiliates in the Company's PCS markets and paging services throughout the northern Shenandoah Valley.

The Holding segment invests in both affiliated and non-affiliated companies.

Other includes ShenTel Service Company, Shenandoah Cable Television, Shenandoah Network Company, Shenandoah Long Distance Company, ShenTel Communications Company, Shentel Wireless Company and Converged Services of West Virginia. During the third quarter of 2005, Shenandoah Valley Leasing Company changed its name to Shentel Wireless Company; during the fourth quarter of 2006, Shentel Wireless Company terminated most of its contracts, transferred its last remaining contract and associated assets to Converged Services, and ceased operations.

	(in thousands)	Holding	Telephone	Consolidated Totals
Income (loss) recognized from equity method nonaffiliated investees by segment	2006	\$ (65)	\$ 164	\$ 99
is as set forth in the adjacent table:	2005	(283)	57	(226)
	2004	(179)	148	(31)



Selected financial data for each segment is as follows:

Year Ended December 31, 2006 (In thousands)	PCS	Telephone	Converged Services (NTC)	Mobile	Holding	Other	Eliminations	Consoli- dated Totals
External Revenues								
Service revenues	\$ 75,509	\$ 6,440	\$ 9,976	\$ -	\$ -	\$ 11,220	\$ -	\$ 103,145
Access charges	-	11,319	-	-	-	-	-	11,319
Travel/roaming revenue	34,048	-	-	-	-	-	-	34,048
Facilities and tower lease	-	3,791	2	3,412	-	1,899	-	9,104
Equipment	4,210	28	146	-	-	582	-	4,966
Other	1,688	3,099	543	183	-	1,100	-	6,613
Total external revenues	115,455	24,677	10,667	3,595	-	14,801	-	168,195
Internal Revenues	-	5,793	-	1,656	-	2,589	(10,038)	-
Total operating revenues	115,455	30,470	10,667	5,251	-	17,390	(10,038)	168,195
Operating expenses								
Costs of goods and services, exclusive of depreciation and amortization shown separately below	52,511	6,868	8,243	1,595	9	11,151	(8,721)	71,656
Selling, general and administrative, exclusive of depreciation and amortization shown separately below	32,958	4,491	4,766	686	2,660	4,831	(1,317)	49,075
Depreciation and amortization	14,326	4,755	5,103	878	64	2,164	-	27,290
Total operating expenses	99,795	16,114	18,112	3,159	2,733	18,146	(10,038)	148,021
Operating income (loss)	15,660	14,356	(7,445)	2,092	(2,733)	(756)	-	21,174
Non-operating income (expense)	262	11,144	6	11	3,611	32	(3,509)	11,557
Interest (expense)	(1,250)	(180)	(1,067)	(392)	(2,363)	(619)	3,509	(2,362)
Income taxes	(5,908)	(10,005)	2,762	(662)	1,059	384	-	(12,370)
Cumulative effect of a change in accounting, net of tax	(11)	(27)	(21)	(1)	(2)	(15)	-	(77)
Net income (loss)	\$ 3,753	\$ 15,298	\$ (5,765)	\$ 1,048	\$ (428)	\$ (974)	\$ -	\$ 17,922
Total assets	\$ 78,637	\$ 62,619	\$ 25,226	\$ 15,758	\$ 147,020	\$ 21,213	\$ (142,753)	\$ 207,720