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September 29, 2008

Ms. Beth Salak, Director
Division of Regulatory Compliance
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

HAND DELIVERY

RE: Docket No. 080529-TP
Joint application for approval of indirect transfer of control of telecommunications facilities by Smart City Finance LLC and Hargray-Smart City Acquisition Co., LLC.

Dear Ms. Salak:

Enclosed for filing on behalf of Hargray-Smart City Acquisition Co., LLC ("Hargray") is Hargray's response to Staff's Data Request No. 2, dated September 19, 2008.

Please feel free to contact me if you have any questions or would like further information.

Sincerely,

Marsha E. Rule

Encl.

cc:

Andrew Maury
Dale Buys
Ray Kennedy
Kiwanis Curry

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GCL _____
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1. Provide a schedule that demonstrates how Hargray Holdings LLC's financial metrics compare with other telephone companies.

We understand this request was based on the Staff's desire to better understand the reasonableness of the financing structure associated with the proposed acquisition (the "Transaction") by Hargray-Smart City Acquisition Co. LLC ("Hargray-Smart City") of the equity interests in Smart City Telecommunications LLC ("SCT") and Smart City Solutions LLC ("SCS") (collectively, SCT and SCS are referred to herein as "Smart City").

In prior filings and presentations to Staff, we emphasized the benefits to the public from the Transaction, including the opportunity for Smart City to add vital system redundancy and back-up facilities and staff that do not exist today and the addition of an experienced management team from Hargray Holdings with an impressive record in the telecommunications industry—without the loss of the local management presence and superior customer service that have been so important to Smart City's success.

We believe these substantial benefits alone warrant a finding that the Transaction is in the public interest, and, as discussed in more detail below, a closer analysis of the proposed debt structure for the Transaction further supports that conclusion.

I. Hargray Holdings' debt is not related to the Transaction or the post-closing financial condition of Smart City or Hargray-Smart City, which will have a more conservative debt structure than Hargray Holdings.

As Staff is aware, the debt structure and financial position of Smart City after the closing will be independent of the debt and financial condition of Hargray Holdings LLC. Although Hargray-Smart City and Hargray Holdings will share a common corporate parent (see corporate organization chart in Appendix A), Hargray-Smart City is acquiring the equity interests in Smart City using an entirely separate debt facility. The separate debt facility will have a different lender composition and different financial terms than those currently in place at Hargray Holdings. Neither Hargray-Smart City nor Smart City will have any actual or contingent obligations with respect to the debt of Hargray Holdings (in fact, Hargray Holdings' debt facility prohibits it from making an acquisition of this type without explicit consent of its lenders). The Hargray Holdings debt structure therefore should not be viewed as a potential burden on the financial and operating condition of Smart City.

Moreover, as shown on the chart below, the financing utilized to acquire Hargray Holdings was at a higher leverage and lower equity contribution than the leverage and equity contribution associated with the proposed debt structure of Hargray-Smart City.

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	Hargray Holdings	Hargray-Smart City
Leverage Ratio at Closing		
Equity Percentage at Closing	%	

II. Hargray Holdings’ debt evidences the reasonableness of Hargray-Smart City’s more conservative debt structure because (A) the Hargray Holdings debt is similar to that of others in the telecommunications industry and (B) Hargray Holdings has generated impressive operating results and improved its financial position under that debt structure.

Although Hargray Holdings’ debt does not impact Hargray-Smart City’s financing, the viability of Hargray Holdings’ debt structure does provide evidence of the reasonableness of the more conservative debt structure associated with the Transaction. The viability of Hargray Holdings’ debt structure is demonstrated by industry comparisons and the strong financial and operational performance of that entity.

Hargray Holdings’ debt rating is consistent with that of others within the industry, including at least four local exchange carriers in Florida. Although Hargray Holdings’ debt is not investment grade, its debt rating is commonplace among major participants in the telecommunications industry. For example, each of the following companies has below investment grade debt ratings: Alaska Communications, Cincinnati Bell Inc., Fairpoint Communications Inc., Iowa Telecommunications Services, NuVox Communications, Paetec Holdings Corp. and Qwest Corp. Fairpoint Communications, NuVox Communications, Paetec Holdings Corp. all operate in the State of Florida.

Moreover, the success of Hargray Holdings evidences the reasonableness of its debt structure. Under that debt structure, which was put in place in June 2007, Hargray Holdings has thrived. Hargray Holdings has increased its EBITDA by over 43% since September 2007, reduced its annual interest payments by more than 12% and reduced its outstanding debt by substantially more than the amortization required by the terms of its credit facility. This performance, along with the industry comparables, demonstrates not only that Hargray Holdings debt structure is viable and within the norm, but also that the more conservative debt structure of Hargray-Smart City is reasonable and does not jeopardize the public interest.

More importantly, although Hargray-Smart City’s acquisition of Smart City will be independent of the financial structure of Hargray Holdings, Smart City will be the direct beneficiary of redundant network facilities and staff and a management services agreement that gives it access to Hargray Holdings’ experienced and proven management team. In essence, Smart City will get all of the benefits of Hargray Holdings but with a more conservative debt structure.

¹ Based on the Pro Forma EBITDA used to secure financing.

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III. The debt structure contemplated in the Transaction is consistent with the debt structure approved by the Commission in the 2001 sale of Vista-Untied to Smart City and under which Smart City has flourished.

The debt structure associated with the Transaction is also similar to, and in fact more conservative than, that presented to and approved by the Florida Public Service Commission in 2001 when the current Smart City owners purchased Vista-United. In 2001, Smart City purchased the assets of Vista-United using a credit facility from CoBank, which will also be the primary lender to Hargray-Smart City. That 2001 financing had a leverage ratio at closing of 4.72; above the [REDACTED] contemplated by the Transaction, and an equity participation of 22%, well below the [REDACTED]% associated with Hargray-Smart City's proposed capital structure. Smart City has flourished under this 2001 debt structure, and the strength of Smart City's operational and financial performance over the last seven years demonstrates the viability of the 2001 financing and the more conservative structure proposed for Hargray-Smart City.

IV. An analysis of the debt structure associated with the Transaction shows Hargray-Smart City will have substantial free cash flow to invest in the business or accelerate pay-down of debt. Moreover, the debt structure is consistent with other, successful telecommunications companies including some that operate in the State of Florida.

An analysis of the likely impact of the debt structure on Hargray-Smart City's free cash flow further demonstrates the reasonableness of the proposed debt structure. That analysis, depicted below, estimates that after paying the principal and interest obligations associated with the debt structure, investing an industry standard level of capital expenditures, and paying taxes, Hargray-Smart City will still retain substantial capacity—19% of its EBITDA—to further invest in the business or accelerate its debt payments.

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Hargray-City Debt Structure Impact on Free Cash Flow

Payment Category	% of EBITDA ²
<i>Interest Payments</i>	33%
<i>Principal Payments (scheduled)</i>	5%
<i>Capital Expenditures</i>	30%
<i>Taxes</i>	<u>13%</u>
Subtotal	81%
<i>Amount Remaining for Further Investment or Acceleration of Debt Payments</i>	19%

Moreover, as further shown in the chart below, this free cash flow is consistent or superior to that of other telecommunications companies.

Industry Comparables to Debt Structure Impact on Free Cash Flow

Company	% of EBITDA					Free Cash Flow
	EBITDA	Interest	Cap Ex	Tax	Other ³	
Embarq	100.0%	15.8%	27.6%	18.6%	16.1%	22.0%
Qwest	100.0%	23.1%	41.0%	0.1%	12.3%	23.5%
Cincinnati Bell	100.0%	30.8%	51.8%	1.5%	0.0%	15.9%
Windstream	100.0%	26.0%	19.3%	13.5%	27.1%	14.1%
Frontier Communications	100.0%	29.9%	26.5%	8.4%	26.2%	8.9%
Alltel Communications	100.0%	59.3%	32.3%	0.0%	0.0%	8.4%
Paetec	100.0%	31.1%	136.1%	0.0%	0.0%	-67.2%
Fairpoint	100.0%	29.7%	32.1%	0.0%	383.6%	-345.4%
Average of mid-tier	100.0%	36.5%	32.5%	5.9%	13.3%	11.9%
Hargray-Smart City	100.0%	33.3%	29.8%	13.4%	4.5%	19%

Source: Bank of America (9/18/08), Goldman Sachs (9/19/08) and Wachovia (9/15/08) research and company SEC filings.

² Assumes leverage is. ■ x EBITDA at Closing and interest rate is ■%.

³ Other primarily consists of dividends. In the case of Hargray-Smart City, "Other" refers to scheduled principal payments.

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V. **Conclusion**

As demonstrated above, the proposed transfer of indirect control of Smart City is in the public interest. Not only does the transaction provide Smart City with access to back-up facilities and system redundancy that, in Smart City's geography, is vital to ensuring continuity of service in the face of a severe weather or other force majeure event, but also it offers Smart City the managerial and technical capabilities of Hargray Holdings. Moreover, the Transaction will be accomplished utilizing a credit facility that is appropriate and reasonable for the Transaction, as evidenced by a comparison to Hargray Holdings debt structure, the facility in the 2001 Vista-United acquisition and industry peers. For the above reasons, we urge the Commission to approve the Transaction on an expedited basis.

2. Provide a copy of the due diligence letter from The Walt Disney Company conveying its approval of the transfer of control of telecommunications facilities from Smart City Finance, LLC to Hargray-Smart City Acquisition Co., LLC.

Hargray and Smart City are in the process of obtaining The Walt Disney Company's written approval of the transfer and will provide the requested letter as soon as possible.

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APPENDIX A
Post-Transaction Organizational Chart

