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IDAHO PUBLIC
UTILITIES COMMISSION

Attorneys for Petitioners/Applicants: Midvale Telephone Exchange, Incorporated and Midvale Telephone Company

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

ORIGINAL

IN THE MATTER OF MIDVALE TELEPHONE EXCHANGE, INC.'S PETITION FOR DECLARATORY RULING APPROVING TRANSFER OF ASSETS AND LIABILITIES TO A WHOLLY-OWNED SUBSIDIARY; CREATION OF AN EMPLOYEE STOCK OWNERSHIP PLAN; AND APPLICATION FOR TRANSFER OF CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY

CASE NO: MID-T-09-03
PETITION AND APPLICATION

Midvale Telephone Exchange, Incorporated, an Idaho corporation ("Midvale") and Midvale Telephone Company, an Idaho corporation ("MTC"), by and through their attorneys, Givens Pursley LLP, and pursuant to IDAPA 31.01.01.101 respectfully petition the Idaho Public Utilities Commission ("Commission") for a declaratory ruling approving: (1) the transfer of all assets and liabilities of Midvale to MTC; (2) the proposed contributions by MTC to an employee stock ownership plan ("ESOP"); and (3) the acquisition by the ESOP of authorized and unissued shares of Midvale stock.

Pursuant to IDAPA 31.01.01.112, Midvale and MTC further apply for the transfer of Midvale's certificate of public convenience and necessity to MTC.

Midvale and MTC request that the Commission use modified procedure in the consideration of this Petition/Application.

BACKGROUND

Midvale is a regulated local exchange carrier holding a Certificate of Public Convenience and Necessity issued by the Commission ("Certificate") to provide facilities-based local exchange services within the State of Idaho. A copy of Midvale's Certificate is attached hereto as Exhibit A.

Midvale is an Idaho corporation with its principal office in Midvale, Idaho. All of Midvale's issued and outstanding shares of stock currently are owned by Lane Williams (fifty percent (50%)) and fifty percent (50%) by the Estate of Shirley Archer ("Archer"). Since Shirley Archer's death, Mr. Williams has been exploring options to ensure Midvale's continuing existence and ongoing operations with the least impact on its customers, services and employees. Options considered include the sale of Mr. Williams' and Archer's stock to Midvale's employees or to a third party, the redemption of Mr. Williams' and Archer's stock by Midvale, the transfer of stock to Midvale's employees through the use of an ESOP or a sale of the assets of Midvale to a qualified third party and the discontinuance of service by Midvale. Mr. Williams and Midvale's current board of directors have determined that the transfer of Midvale ownership to its employees through an ESOP is the best way to ensure Midvale's continued existence and ongoing operations with the least impact on its customers, services and employees.

MTC is a newly-formed Idaho corporation, with its principal office in Midvale, Idaho. Upon obtaining the approvals requested herein, all of MTC's issued and outstanding shares of stock will be held by Midvale.

To transfer ownership to its employees through an ESOP, and also satisfy all requirements of Midvale's lenders and regulators, Midvale proposes the following structure: First, effective as of December 22, 2008, Midvale adopted an ESOP plan and trust. Second, effective as of August 27, 2009, Midvale incorporated Midvale Telephone Company, an Idaho corporation. Third, upon obtaining a favorable declaratory ruling as requested herein, Midvale would transfer to MTC all of Midvale's assets and liabilities (including all operating assets, all

debt, all public licenses and the Certificate) in exchange for all of the issued and outstanding MTC shares of stock. Fourth, following the transfer of all Midvale assets and liabilities to MTC, the ESOP would acquire a portion of the Midvale stock held by Mr. Williams and Archer; and fifth, Midvale would redeem the remainder of the Williams and Archer shares by deliver to Mr. Williams and Archer of a promissory note for the full value of their remaining Midvale shares (the "Redemption Notes"). The Redemption Notes would be secured only by the shares purchased thereby.

Upon obtaining a favorable declaratory ruling as requested herein, MTC would adopt the ESOP plan and trust and contribute funds to the ESOP annually as a retirement fund contribution for its employees. The amount of the contribution will depend upon various factors, including MTC's financial health and any restrictions that may be placed upon MTC by its lenders. The ESOP would use MTC's annual contributions to purchase from Midvale the balance of its authorized and unissued shares. Ultimately, the ESOP, in trust for all of the MTC employees, would own all of the issued and outstanding Midvale shares and Midvale would own all of the issued and outstanding MTC shares.

In connection with the contemplated transactions described above, Midvale and MTC respectfully request from the Commission a declaratory ruling approving: (1) the transfer of all Midvale assets and liabilities to MTC; (2) MTC's contributions to the ESOP; and (3) the acquisition by the ESOP of Midvale's unissued stock. Midvale and MTC also request Commission approval for the transfer of Midvale's Certificate to MTC.

**THE COMMISSION'S RULES ALLOW FOR PETITION/APPLICATION
BY MIDVALE AND MTC FOR THE MATTERS SET FORTH HEREIN**

This Petition/Application is filed pursuant to IDAPA 31.01.01.101 and IDAPA 31.01.01.112.

REQUEST FOR DECLARATORY RULING APPROVING THE TRANSFER OF ALL ASSETS, LIABILITIES AND THE CERTIFICATE OF MIDVALE TO MTC

The Commission has the authority to make the requested declaratory ruling pursuant to IDAPA 31.01.01.101.

The above-described transaction contemplates the transfer of all of Midvale's assets and liabilities to MTC in a tax-free Section 351 capitalization in exchange for all of the issued and outstanding shares of MTC stock. As a result of this transaction, Midvale's existing employees and subscribers will become employees and subscribers, respectively, of MTC. Upon completion of the transactions, Midvale will have no assets other than a 100% ownership interest in MTC and will have no liabilities other than obligation for payments due under the Redemption Notes. Because MTC would own and operate all of the operating assets to provide telecommunications services to Midvale's customers/subscribers and upon approval by the Commission as requested below, MTC would need to become the holder of the Certificate and be subject to Commission regulation. Thereafter, MTC also would hold all of the debt currently held by Midvale with the Rural Utilities Service and the Rural Telephone Finance Cooperative, but it would have no additional debt obligations as a result of this transaction.

REQUEST FOR DECLARATORY RULING APPROVING MTC'S CONTRIBUTIONS TO THE ESOP AND THE ESOP'S ACQUISITION OF MIDVALE STOCK

Upon obtaining a favorable declaratory ruling as requested herein, MTC would adopt the ESOP plan and trust already adopted by Midvale. MTC would contribute funds to the ESOP on an annual basis as a retirement fund contribution for its employees. Subject to the factors discussed previously, MTC's intent is to contribute approximately \$400,000 per year to the ESOP. The ESOP, in turn, will use these contributions to purchase Midvale's remaining authorized but unissued shares. The first contribution [which already has been paid by Midvale but held in trust by the ESOP pending approvals] will be used by the ESOP to purchase Midvale stock directly from Williams and Archer on a pro rata basis.

APPLICATION FOR APPROVAL OF THE TRANSFER OF MIDVALE'S CERTIFICATE TO MTC

Following completion of all the transactions contemplated herein, Midvale will no longer own any operating assets providing telecommunications services in Idaho. MTC would own these assets and would provide all telecommunications services currently provided by Midvale within the scope of Midvale's existing Certificate. Thus, it would be appropriate that Midvale transfer its Certificate to MTC, and that the Commission thereafter regulate the activities of MTC from and after the transactions contemplated herein.

IMPACT OF TRANSACTIONS UPON MIDVALE SUBSCRIBERS

The transactions set forth above are contemplated to be implemented so as to have only minimal, if any, impact upon the current Midvale subscribers. The customers will continue to receive the same services at the same prices (subject to adjustments only as or when MTC brings a rate case). There will be no interruption in services or change in billing or customer service practices. The MTC employees providing the services will be the same as prior to the transaction, and MTC management, at least for the immediate future, will be the same as that of Midvale. MTC will not immediately take on any liabilities not currently held by Midvale.

The ultimate transfer of ownership of Midvale stock to Midvale's/MTC's employees through an ESOP structure (rather than through a direct purchase of the shares of Mr. Williams and Archer by current employees or third parties or a redemption by Midvale without the ESOP) provides a much more favorable purchase and sale structure to Mr. Williams and Archer and the employee purchasers, with little to no impact to the bottom line of Midvale or MTC, as discussed below.

The ESOP structure proposed by Midvale offers substantial tax advantages over an outright purchase by Midvale's employees or an outright purchase by any unrelated third party purchasers. Following the implementation of the ESOP structure proposed by Midvale neither Midvale nor MTC will pay federal or state income taxes. This means that Midvale and/or MTC

will only have to earn \$1.00 to pay each principal dollar of the purchase price. All other structures considered would result in the purchaser needing to earn on a pre-tax basis between \$1.51 and \$1.70 to pay each dollar of the principal portion of the purchase price. The proposed structure should promote a stable rate structure for Midvale and MTC's customers. The proposed structure also should promote business stability by transferring business ownership to Midvale's current employees.

Midvale's redemption of its shares held by Mr. Williams and Archer will have minimal, if any, impact upon Midvale customers/subscribers. When the shares are redeemed, Midvale no longer will hold the operating assets or provide any services to the customers/subscribers, so the debt liability owed by Midvale to Mr. Williams and Archer will not affect the rates charged to customers/subscribers, nor affect the assets used to deliver the service to the customers/subscribers. Because the Redemption Notes would be secured only by the redeemed shares, if Midvale fails to pay its payment obligations under the Redemption Notes, Mr. Williams and Archer simply would regain ownership of the shares.

The annual contributions by MTC to the ESOP will have minimal, if any, impact on the customers/subscribers of Midvale. The proposed structure is clearly beneficial to Midvale/MTC from a financial point of view. The tax advantages of the proposed structure will minimize or eliminate the need to raise rates to generate income to pay the transaction purchase price.

The only potential disadvantage to Midvale/MTC is the admitted complexity of the ESOP structure itself. Midvale has employed professionals with ESOP experience to help it in identifying and minimizing these complexities.

REQUEST FOR MODIFIED PROCEDURE

Midvale requests that the Commission use modified procedure in the consideration of this Petition/Application. IDAPA 31.01.01.201. Modified procedure is appropriate when the Commission preliminarily finds that the public interest may not require a hearing to consider the issues presented in the proceeding. Here, Midvale is essentially seeking approval for a change

of ownership that will not affect the manner in which it provides services or the scope of its services. Midvale's customers will not be negatively impacted by the proposed transactions, nor will any other service provider.

[signature page follows]

DATED this 22nd day of September 2009.

GIVENS PURSLEY LLP

By: Cynthia A. Melillo
Cynthia A. Melillo
*Attorneys for Petitioners/Applicants, Midvale
Telephone Exchange, Incorporated and
Midvale Telephone Company*

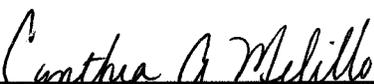
CERTIFICATE OF SERVICE

I hereby certify that on the 22nd day of September 2009, a true and correct copy of the foregoing was served upon the following individual(s) by the means indicated:

Original and Seven Copies Filed:

Jean D. Jewell, Secretary
Idaho Public Utilities Commission
472 West Washington Street
Boise, Idaho 83720-0074

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|-------------------------------------|----------------------------|
| <input type="checkbox"/> | U.S. Mail, postage prepaid |
| <input type="checkbox"/> | Express Mail |
| <input checked="" type="checkbox"/> | Hand Delivery |
| <input type="checkbox"/> | Facsimile |
| <input type="checkbox"/> | Electronic Mail |



Cynthia A. Melillo

EXHIBIT A

Certificate of Public Convenience and Necessity

[see attached]

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION)
OF THE MIDVALE TELEPHONE EXCHANGE,)
INC., FOR A CERTIFICATE OF PUBLIC)
CONVENIENCE AND NECESSITY.)
_____)

CASE NO. U-1018-7

CERTIFICATE NO. 254

IT IS HEREBY CERTIFIED that the present and future public convenience and necessity requires and will require the Midvale Telephone Exchange, Inc., a corporation, its successors and assigns, to own, hold, construct, or otherwise acquire and to maintain and operate facilities for the transmission to or for the public use of telephone messages and for the transmission of intelligence by electricity, to the inhabitants of the area as set forth and described below; to exercise all rights and privileges which have been granted to said Midvale Telephone Exchange, Inc., its successors and assigns, by any franchise or permit conferred or hereafter conferred upon said Midvale Telephone Exchange, Inc., its successors and assigns, by any city or village, or by any county, or by the State of Idaho, or by any political subdivision thereof in the area hereinafter set forth:

All of T11N, R1E, Sections 5, 6, 7, 8, 17, 18, 19, 20, 29, 30, 31 and 32, and that portion of Sections 4, 9, 16, 21, 28, 33 lying within Washington County.

All of T11N, R1W.

All of T11N, R2W.

All of T11N, R3W, Sections 1, 2, 11, 12, 13, 14, 23, 24, 25, 26, 35 and 36.

All of T12N, R1E, Sections 4, 5, 6, 7, 8, 9, 17, 18, 19, 20, 29, 30, 31, 32 and that portion of Sections 3, 10, 15, 16, 21, 28 and 33 lying within Washington County.

All of T12N, R1W.

All of T12N, R2W.

All of T12N, R3W, Sections 1 through 6, 7 through 12, 13 through 16, 21 through 24, 25 through 28, and 33 through 36.

All of T12N, R4W, Sections 1, 2, 11 and 12.

All of T13N, R1E, Sections 27 through 30, 31 through 33, and that portion of Sections 19, 20, 21, 22, 23, 26, 34 and 35 lying within Washington County.

All of T13N, R1W, Sections 17, 18, 19 through 22, 25 through 30, 31 through 36, and that portion of Sections 6, 7, 8, 9, 15, 16, 23 and 24 lying within Washington County.

All of T13N, R2W, Sections 2 through 6, 7 through 12, 13 through 18, 19 through 24, 25 through 30, 31 through 36, and that portion of Section 1 lying within Washington County.

All of T13N, R3W.

All of T13N, R4W, Sections 1 through 6, 7 through 12, 13 through 18, 19 through 24, 25, 26, 35 and 36.

All of T13N, R5W, Sections 1 through 6, 7 through 12.

All of T13N, R6W, Sections 1 through 6, 7 through 12.

All of T13N, R7W, Sections 1 through 4, 9 through 12, and that portion of Sections 5, 7 and 8 lying within the State of Idaho in Washington County.

All of T14N, R2W, The southerly one-half of Sections 31 through 34.

All of T14N, R3W, Sections 19 through 21, 27 through 30, 31 through 36, and that portion of Section 22 lying west of the Weiser River, and the westerly one-half of Section 26.

All of T14N, R4W, Sections 6, 7 and 18, 19 through 24, 25 through 30, 31 through 36.

All of T14N, R5W.

All of T14N, R6W.

All of T14N, R7W, Sections 13, 24, 25, 34, 35, 36 and that portion of Sections 1, 11, 12, 14, 23, 26, 27, 28 and 33 lying within the State of Idaho in Washington County.

THIS CERTIFICATE is predicated upon and issued pursuant to the Findings and Order of the Commission, the same being Order No. 9082, in the above entitled matter made and entered on the 7th day of August, 1968, to which said Order reference is hereby made.

DONE by Order of the Idaho Public Utilities Commission at
Boise, Idaho, this 7th day of August, 1968.

s/ Ralph H. Wickberg
President

s/ Harry L. Nock
Commissioner

s/ J. Burns Beal
Commissioner

((SEAL))

ATTEST:

s/ Marilyn Bourner
Secretary

jr