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COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

PUBLIC SERVICE
COMMISSION

IN THE MATTER OF THE APPLICATION)
OF GEARHEART COMMUNICATIONS, INC. dba)
COALFIELDS TELEPHONE COMPANY FOR AN)
ORDER AND CERTIFICATE OF PUBLIC)
CONVENIENCE AND NECESSITY AUTHORIZING)
APPLICANT TO BORROW \$4,000,000 TO)
REFINANCE EXISTING INDEBTEDNESS)

P.S.C. Case No. 2006-00407

APPLICATION

Applicant, Gearheart Communications, Inc., dba Coalfields Telephone Company of Harold, Floyd County, Kentucky, moves the Commission pursuant to KRS 278.300 and 807 KAR 5:001, Section 11 for an Order authorizing Coalfields Telephone Company¹ to borrow \$4,000,000 and states as follows:

1. Applicant requests authorization to borrow the sum of \$4,000,000 pursuant to the Net Debt Service Schedule which is set forth in Exhibit A-1 attached hereto, in order to refinance and discharge existing indebtedness described herein. (The \$1,000,000 revolving line of credit is for a term of one year and hence approval is not required. KRS 278.300.) Applicant is engaged as a local exchange carrier (LEC) providing telephone service in Floyd and Pike counties of Kentucky by and under applicable federal and state laws with the original cost of its property being \$21,583,383.

2. The post office address of Applicant is P.O. Box 160, 20 Laynesville Road, Harold, Kentucky 41635.

¹ Gearheart Communications, Inc., dba Coalfields Telephone Company is abbreviated as "Coalfields Telephone Company" herein; Rural Telephone Finance Cooperative is abbreviated as "RTFC" herein; Rural Telephone Bank is abbreviated as "RTB" herein.

3. Applicant is a for-profit corporation; with 100 shares of Class A voting common stock authorized, issued and outstanding; and 110,000 shares of Class B nonvoting common stock authorized, with 109,873 shares issued and outstanding. Applicant has no authorized or issued shares of preferred stock. Applicant has paid no dividends during the past 5 fiscal years. The remaining information required by 807 KAR 5:001, Sections 11 and 6 for the Financial Exhibit is set forth in this application or the exhibits hereto. Applicant was duly organized and exists under and by virtue of the provision of Chapter 271B, Kentucky Revised Statutes. Pursuant to 807 KAR 5:001, Sections 8(3) and 9(1)(a), the Articles of Incorporation and all amendments have been filed in Case No. 2001-00360 of the Kentucky Public Service Commission and are incorporated by reference herein.

4. KRS 278.300(1) provides in part as follows:

No utility shall issue any ... evidence of indebtedness ... until it has been authorized so to do by order of the Commission. [Emphasis added].

5. Applicant will enter into loan agreements with Fifth Third Bank and U.S. Bank National Association to borrow \$4,000,000 for a period of 5 years (with a 10 year amortization payment schedule). The interest rate on the loan will be fixed at 6.70% (comprised of 5.60% for the loan and 1.10% for a letter of credit issued in connection with the loan) and the loan will be secured by a mortgage on the Applicant's property. A commitment letter from Fifth Third Bank is set forth in Exhibit A-2 attached hereto. The requirement under the commitment letter for the "assignment of licenses, permits and franchises" is a standard collateral requirement used to perfect the lender's security interest in Applicant's property. It is Applicant's understanding of Kentucky law that any actual transfer of ownership and control of the licenses, permits and franchises can take place only after obtaining any necessary Commission approval pursuant to KRS 278.300.

6. The proceeds of the \$4,000,000 loan will be used to refinance and discharge the indebtedness to RTFC and RTB in the amount of \$2,970,554 and the short term line of credit advances from RTFC in the amount of \$1,000,000. The remaining \$29,446 in proceeds will be used to pay legal fees and other costs associated with the refinancing. The average interest rate on the total RTFC and RTB loans is 7.24%.

7. Details concerning the RTFC and RTB obligations to be paid and discharged by the refinancing loan proceeds are set forth in Exhibit B attached hereto.

8. A description of Applicant's property is set forth in Exhibit C attached hereto.

9. The income statement and balance sheet required by 807 KAR 5:001, Sections 11 and 6 for the Financial Exhibit are set forth in Exhibit D attached hereto.

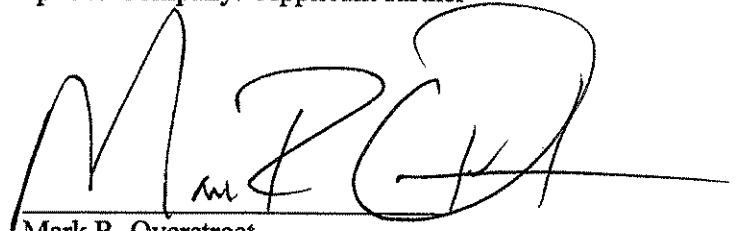
10. The amount of interest paid in the last fiscal year is set forth in Exhibit B attached hereto.

11. The existing indebtedness was incurred to construct new facilities throughout Applicant's three (3) exchanges, and the existing mortgages have been filed with the Commission in Case No. 93-261 and are incorporated by reference herein.

12. Because of the expiration date of the commitment letter and the fluid nature of interest rates, the Applicant respectfully requests expedited treatment and approval of this application.

WHEREFORE, Coalfields Telephone Company respectfully petitions and applies to this Commission for an order and certificate of public convenience and necessity authorizing Coalfields Telephone Company to borrow the sum of \$4,000,000 pursuant to the Net Debt Service Schedule set forth in Exhibit A-1 attached hereto, for the purpose of (i) payment and discharge of all the outstanding debt to RTFC and RTB and the RTFC line of credit, and (ii)

interest rate reductions and savings to Coalfields Telephone Company. Applicant further requests expedited treatment of this application.


A handwritten signature in black ink, appearing to read 'MRO', with a long horizontal line extending to the right from the end of the signature.

Mark R. Overstreet
STITES & HARBISON PLLC
421 West Main Street
P.O. Box 634
Frankfort, Kentucky 40602-0634

COUNSEL FOR COALFIELDS
TELEPHONE COMPANY

VERIFICATION


The undersigned, Paul D. Gearheart, being first duly sworn, deposes and says he is Vice President and General Manager of Gearheart Communications, Inc. dba Coalfields Telephone Company of Harold, Floyd County, Kentucky, that he has personal knowledge of the matters set forth in the foregoing Application, and the facts contained therein are true and correct to the best of his information, knowledge and belief.


Paul D. Gearheart

STATE OF KENTUCKY
COUNTY OF FLOYD

Subscribed, sworn to and acknowledged before me by Paul D. Gearheart, Vice President and General Manager of Coalfields Telephone Company, on behalf of said corporation this

8th day of September, 2006.


NOTARY PUBLIC, KENTUCKY STATE AT
LARGE
My Commission Expires: Nov. 25, 2008

Coalfields Telephone Company
Adjustable Rate Taxable Securities
Series 2006

Exhibit A-1

Net Debt Service Schedule

Date	Principal	Coupon	Interest	LOC	Total P+I	Expenses	Net New D/S
09/01/2006	-	-	-	-	-	-	-
09/01/2007	290,000.00	5.600%	224,000.02	42,001.69	556,001.71	6,555.57	562,557.28
09/01/2008	310,000.00	5.600%	207,949.74	38,386.95	556,336.69	6,271.85	562,608.54
09/01/2009	335,000.00	5.600%	190,226.15	34,604.71	559,830.86	5,947.23	565,778.09
09/01/2010	355,000.00	5.600%	171,639.98	30,596.66	557,236.64	5,607.58	562,844.22
09/01/2011	380,000.00	5.600%	151,760.01	26,378.42	558,138.43	5,247.65	563,386.08
09/01/2012	405,000.00	5.600%	130,599.12	21,733.79	557,332.91	4,868.84	562,201.75
09/01/2013	435,000.00	5.600%	107,701.57	16,822.52	559,524.09	4,451.74	563,975.83
09/01/2014	465,000.00	5.600%	83,439.96	11,572.54	560,012.50	4,010.70	564,023.20
09/01/2015	495,000.00	5.600%	57,400.02	6,000.25	558,400.27	3,539.24	561,939.51
09/01/2016	530,000.00	5.600%	29,707.11	-	559,707.11	3,038.84	562,745.95
Total	\$4,000,000.00	-	\$1,354,423.68	\$228,097.53	\$5,582,521.21	\$49,539.24	\$5,632,060.45

FIFTH THIRD BANK



September 7, 2006

Gearheart Communications, Inc dba
Coalfields Telephone Company
Harold, Kentucky

On behalf of Fifth Third Bank, Kentucky, Inc. I am pleased to submit this credit commitment. Depicted below and is an outline of the structure and terms.

- BORROWER:** Gearheart Communications, Inc dba Coalfields Telephone
- PURPOSE:** Debt restructures
- FACILITIES:** A) \$1,000,000 Revolving Line of Credit
B) Up to \$4,000,000 Direct Pay Letter of Credit for a Fifth Third Securities bond transaction.
- COLLATERAL:** All Business Assets of borrower including an assignment on licenses, permits and franchises along with a negative pledge on all real property.
- TERM:** A) One (1) year with interest only due monthly.
B) Five (5) year term with a ten (10) year amortization
And principal and interest due monthly.
- INTEREST RATE:** A) Prime rate floating
B) As determined by associated Bond Proposal.
Fixed rate option is provided by an interest rate Swap.
- CLOSING COSTS:** Borrower will be responsible for all closing costs including Bank's legal fees. Closing costs should be approximately \$60,000 to document the transaction assuming there are no significant changes or issues.
- FEES:** A) \$5,000 commitment fee.
B) \$40,000 commitment fee plus applicable interest coverage in advance due at closing. (subject to change)

Plus, a 1.10% annual fee payable on July 1 of each year.
\$750 Swap documentation fee.

GUARANTORS:

Paul R. and Elaine Gearheart
Paul D. and Linda Gearheart
John and Susan Schmoldt

REPORTING:

Annually: Audited financial statements
Personal financial statements of guarantors

Quarterly: Internally prepared statements

COVENANTS:

Dividends shall not exceed 50% of after tax net profits as measured on an annual basis.

Borrower is to maintain a Debt-Service-Coverage of 1.25 / 1 at all times.

Any inter-company debt is subordinate to Fifth Third debt.

Minimum tangible net worth of \$17,000,000 annually.

ANCILLARY:

Borrower will maintain its primary operating account and associated Lock Box processing with Fifth Third Bank as long as any credit facility is in place. In addition, borrower will allow Fifth Third to analyze the personal financial planning of all principals and the corporate 401K services within 60 days of closing.

I welcome the opportunity to serve your loan request. The submitted rates and terms are valid for 45 days from the date of this letter. Fifth Third Bank reserves the right to make any changes. Should you have any questions please contact me at 859-455-5424.

Professionally,



Tim Hamilton
Fifth Third Bank
Commercial Relationship Manager

CONFIDENTIALITY NOTICE: The terms and conditions set forth are for the

exclusive use by Coalfields Telephone Company and its related entities including the Kentucky Public Service Commission and its agents. They are not intended for communication with other lending institutions or related parties.

Coalfields Telephone Company
Schedule of Mortgages
as of July 31, 2006

	<u>Date of Issue</u>	<u>Due Date</u>	<u>Amount Outstanding</u>	<u>Interest Rate</u>	<u>Annual Interest</u>	<u>Composite Rate</u>
RTB	17-Aug-72	09-Aug-07	10,618	4.50%	478	
	17-Aug-72	09-Aug-07	17,197	4.50%	774	
	07-May-75	28-Apr-10	313,379	7.50%	23,503	
	07-May-75	28-Apr-10	65,754	7.50%	4,932	
	07-Oct-77	28-Sep-12	467,671	6.50%	30,399	
			874,619		60,085	6.87%
RTFC	06/01/1999	02/28/2010	380,243	6.50%	24,716	
	06/22/1999	05/31/2009	493,630	6.10%	30,111	
	03/29/2001	05/31/2009	280,730	6.10%	17,125	
	04/23/2003	11/30/2017	941,332	7.10%	66,835	
			2,095,935		138,786	6.62%
	<u>Line of credit</u>					
	01-Oct-05	01-Oct-06	1,000,000	8.85%	88,500	8.85%
Total			3,970,554		287,372	7.24%

Coalfields Telephone Company
Description of Property
as of June 30, 2006

<u>Support Assets</u>		
2111	Land	\$391,831
2112	Motor Vehicles	861,649
2116	Other Work Equipment	186,298
2121	Buildings	3,026,699
2122	Furniture	239,223
2123	Office Support	511,331
2124	General Purpose Computers	396,708
	Total Support Assets	<u>5,613,739</u>
 <u>Central Office - Switching</u>		
2212	Digital Electronic Switching	<u>7,942,903</u>
 <u>Central Office Transmission</u>		
2232	Circuit Equipment	<u>396,314</u>
 <u>Information Origination/Termination</u>		
2311	Station Apparatus	<u>12,737</u>
 <u>Cable & Wire Facilities Assets</u>		
2411	Poles	2,038,367
2421	Aerial cable	5,014,721
2422	Underground Cable	64,528
2423	Buried Cable	44,848
2431	Aerial Wire	454,309
	Total Cable & Wire Facilities Assets	<u>7,616,773</u>
 <u>Amortizable Assets</u>		
2690	Intangibles	<u>917</u>
	Total Tele Plant in Service-Acct 2001	<u><u>\$21,583,383</u></u>

The original cost of Coalfields Telephone Company's property and the cost to Coalfields Telephone Company are the same.

Coalfields Telephone Company
Income Statement
for the twelve months ending June 30, 2006

Operating Revenues:	
Local network service	\$1,728,280
Network access services	5,283,705
Miscellaneous	133,563
Less provision for uncollectibles	(1,410)
	<u>7,144,138</u>
Operating Expenses:	
Plant specific	1,607,948
Plant nonspecific	117,617
Depreciation	1,223,596
Customer operations	660,802
Corporate operations	1,323,926
Other operating taxes	231,030
	<u>5,164,919</u>
Income from operations	<u>1,979,219</u>
Other Income and Expenses:	
Other income, principally interest	155,078
Patronage from associated organizations	2,289,765
Profit in limited liability company	717,000
Deregulated items:	
Income	468,847
Expenses	(586,657)
	<u>3,044,033</u>
Income before interest and taxes	<u>5,023,252</u>
Interest Charges:	
Long term debt	232,633
Other interest	87,375
	<u>320,008</u>
Income taxes	<u>1,675,822</u>
Net income	<u><u>\$3,027,422</u></u>

Coalfields Telephone Company, Inc.
Balance Sheet, June 30, 2006

Assets

Current Assets:

Cash and equivalents	\$1,850,442
Accounts receivables	685,777
Due from related parties	9,246,532
Material and supplies	208,849
Prepaid insurance	(19,654)
	<u>11,971,946</u>

Investments and Other Assets:

Associated organizations	7,859,602
Non regulated investments	883,746
	<u>8,743,348</u>

Telecommunications Plant

In service	21,583,383
Under construction	96,573
	<u>21,679,956</u>
Accumulated depreciation	14,630,448
	<u>7,049,508</u>

Total \$27,764,802

Liabilities and Stockholders' Equity

Current Liabilities:

Accounts payable	\$141,037
Short term borrowings	1,000,000
Customers deposits	215,632
Current and accrued liabilities	397,750
	<u>1,754,419</u>

Long-Term Debt

2,934,202

Obligations Under Capital Lease

65,421

Deferred Income Taxes

820,000

Stockholders' Equity:

Common stock, no par value:

Class A voting; 100 shares authorized and issued	10,025
Class B nonvoting; 110,000 shares authorized; 109,873 shares issued and outstanding	30,075

Retained earnings 22,676,128

Treasury stock, at cost (525,468)

22,190,760

Total \$27,764,802