Seismic Regulatory and Financial Changes for the Rural Carrier Industry

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October 2013

Charlesmead
ADVISORS LLC

Overview

- Financial perspective
  - Based on industry-wide valuation/strategic experience
  - Transactional activity which appears to be accelerating
- Purpose
  - Summarize industry forces
  - Provide valuation-oriented strategic insights
- Outline
  - Dynamic industry changes
  - Wireless industry
  - Financial and strategic responses
  - Key takeaways

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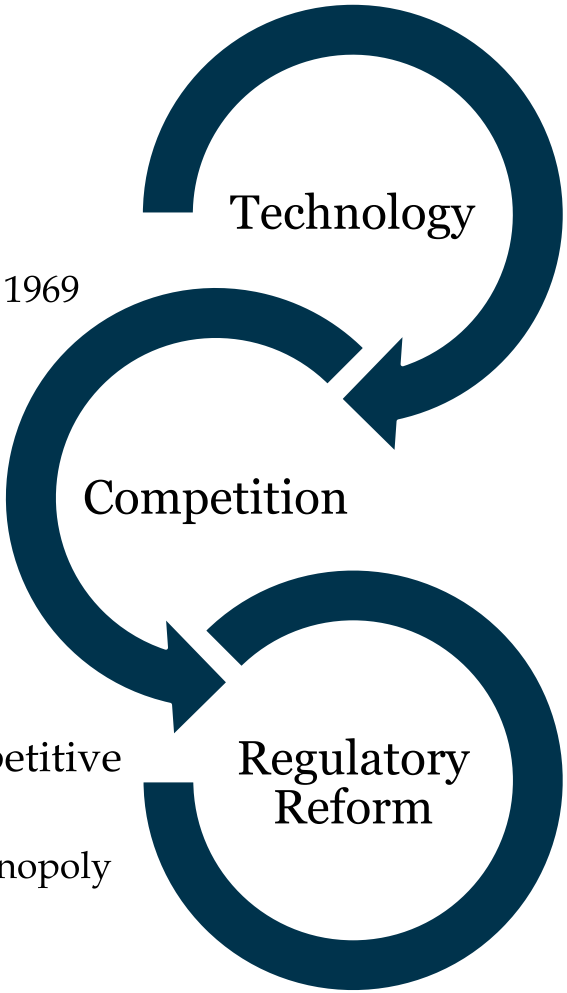
Dynamic Industry Changes

Technology and Competitive Drivers

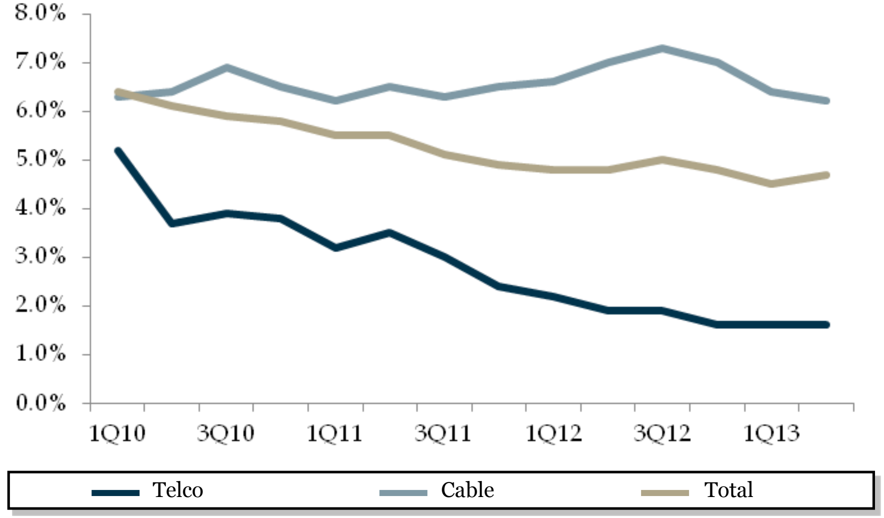
- Progression of technology changes
  - Small innovations first affect simpler services
  - Carterfone and the 1968 FCC decision allowed non-AT&T devices
  - Long-distance competition using microwave relay stations from Chicago to St. Louis made possible by Carterfone and build-out in 1969
  - Breakup of AT&T in 1983 and policy-based sponsorship of competition in long-distance markets
  - Wireless cellular service since early 1980s, A-block lottery in 1986, and spectrum auctions since 1994
  - Internet protocol—IEEE paper in 1974, standardization of TCP/IP in 1982 and regulatory endorsement in 2011 reforms
- New technologies led to new competition
- Services/technologies became increasingly efficient
- Previously impregnable regions/services have become competitive
  - LD services invaded by cheaper more efficient transport services
  - IP services threatened and replaced the TDM, circuit-switched monopoly
  - Local loop is threatened by increasingly efficient wireless services
  - Clusters, even in rural regions, can be served by competitors
- Clear pattern—technology makes competition possible which prompts regulatory reform
- Regulated industries are vulnerable to the cycle; cycles accelerating



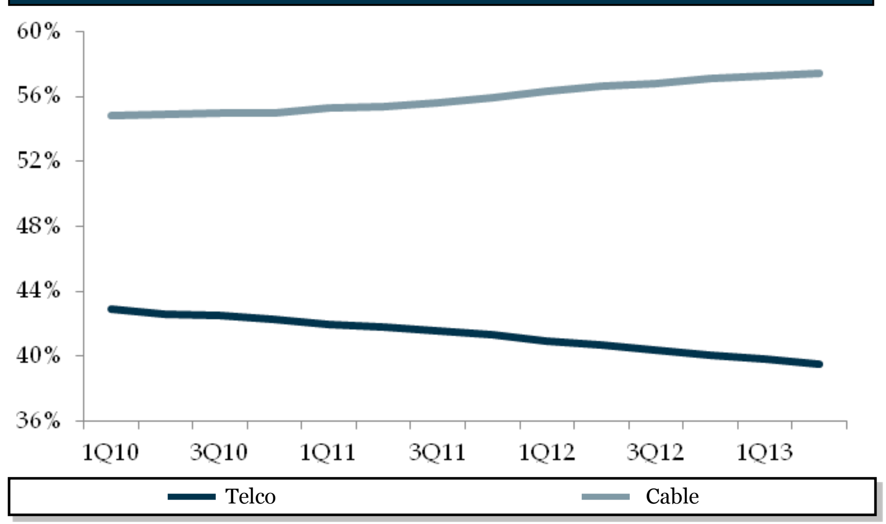
Recent Telecom Trends at a Glance

- Six large public RLECs[(1)] reported an average and median access line loss of 5.3% in 2Q13
- Median broadband subscriber growth increased slightly from 2.3% in 2Q12 to 2.5% in 2Q13
- Market share shift toward cable driven by broadband speed advantages
- Consolidated revenue change year-over-year slipped from +0.3% in 2Q12 to -2.0% in 2Q13
- Median industry EDITDA margin remained stable at 39.9% from 2Q12 to 2Q13

Broadband Subscriber Growth



Broadband Market Share



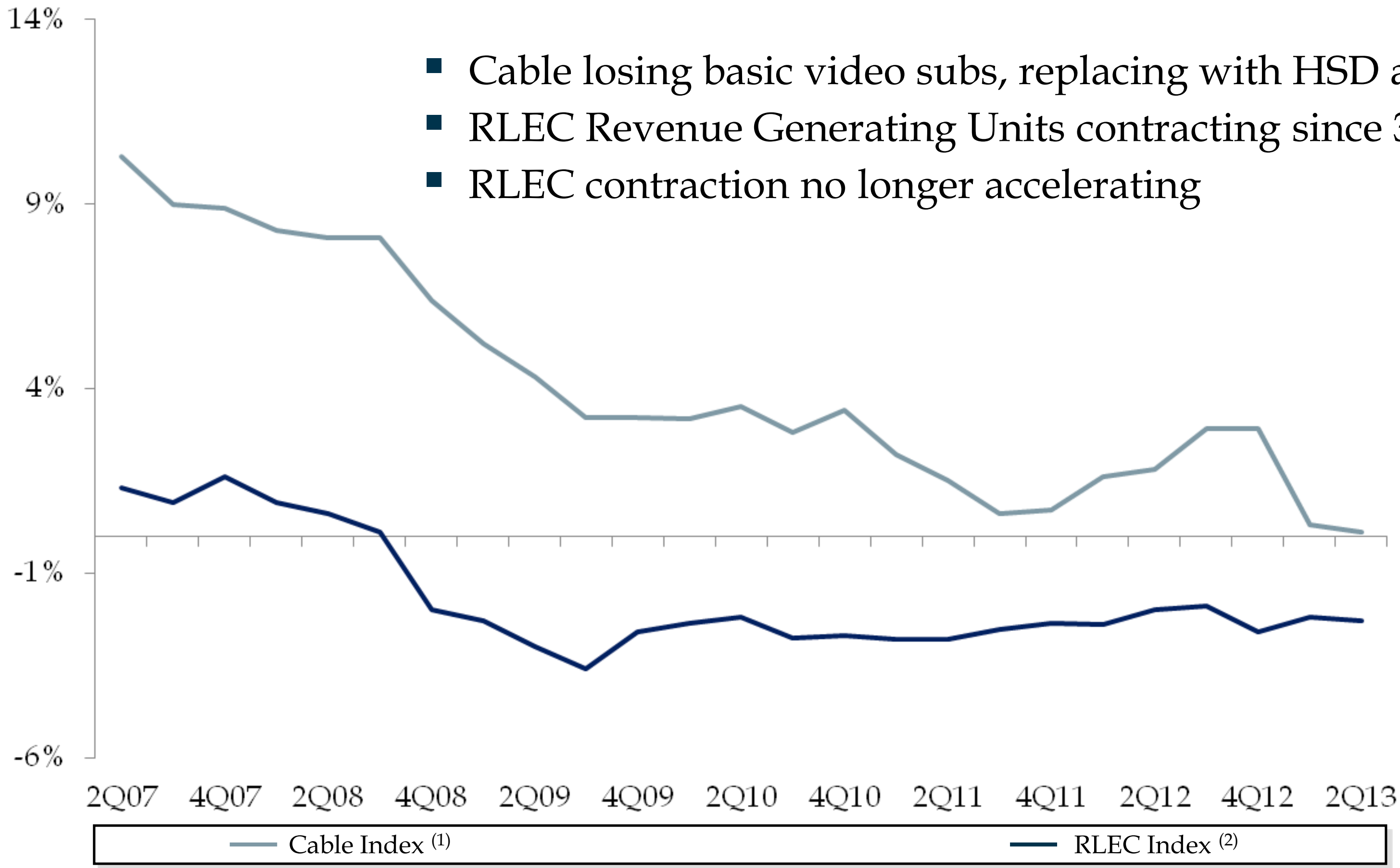
Source: Company data

(1) The six large public RLECs include ALSK, CNSL, CTL, FTR, TDS, and WIN

Revenue Generating Unit Trends

Year-over-Year Change in RGUs

- Cable losing basic video subs, replacing with HSD and voice
- RLEC Revenue Generating Units contracting since 3Q08
- RLEC contraction no longer accelerating

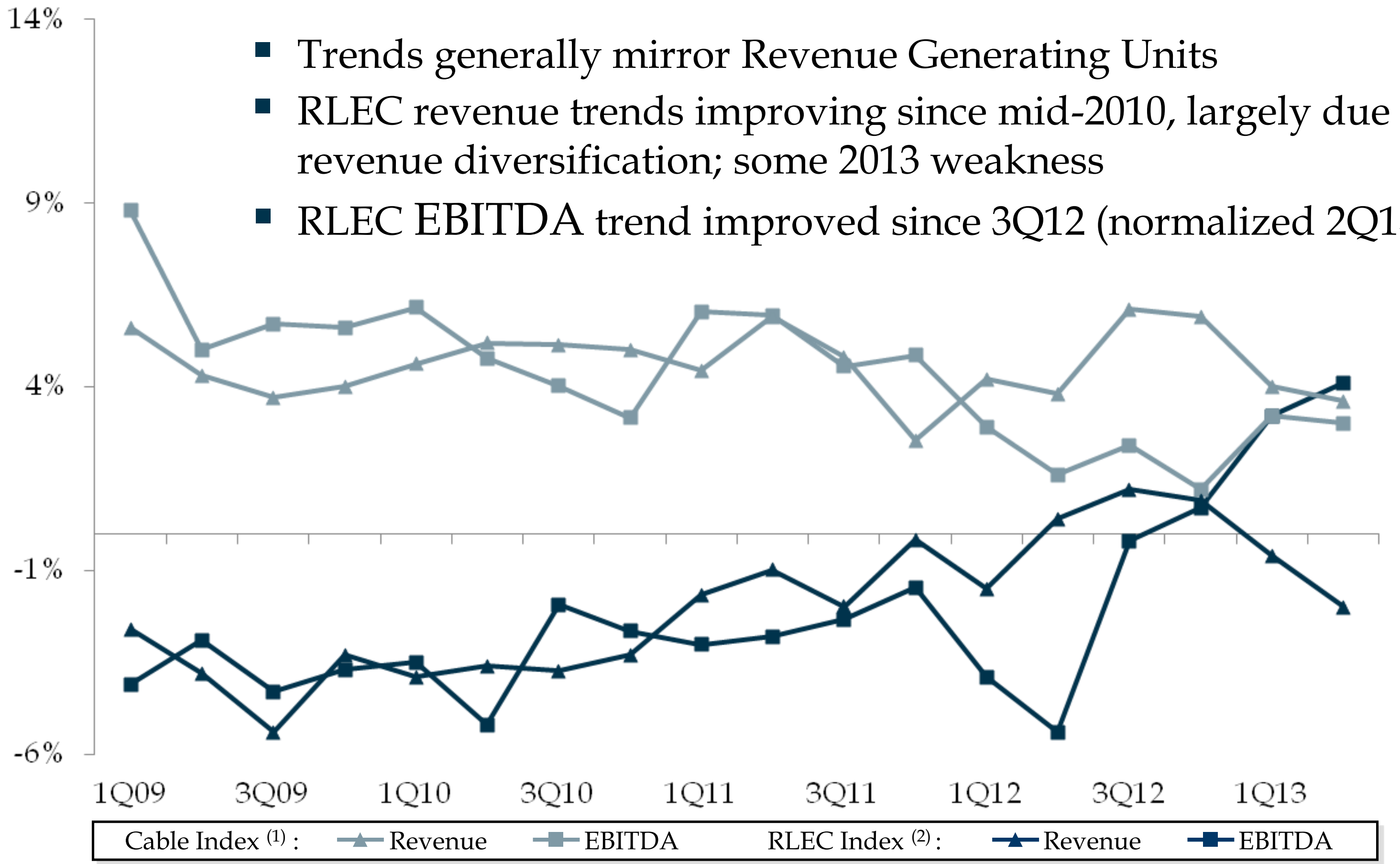


Source: Company filings and press releases
(1) Cable index is comprised of CVC, CHTR, CMCSA, and TWC.
(2) RLEC index is comprised of ALSK, CTL, CNSL, FTR, TDS, and WIN.

Revenue and EBITDA Trends

Year-over-Year Change in Revenue and EBITDA

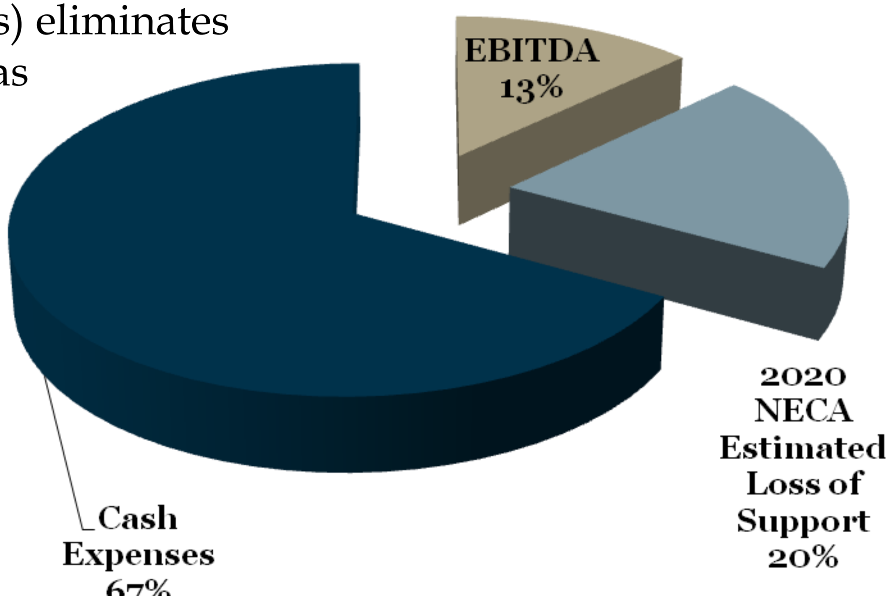
- Trends generally mirror Revenue Generating Units
- RLEC revenue trends improving since mid-2010, largely due to revenue diversification; some 2013 weakness
- RLEC EBITDA trend improved since 3Q12 (normalized 2Q13 -1.6%)



Source: Company filings and press releases
(1) Cable index is comprised of CVC, CHTR, CMCSA, and TWC.
(2) RLEC index is comprised of ALSK, CTL, CNSL, FTR, TDS, and WIN.

Regulatory Review – Illustrative EBITDA Outlook

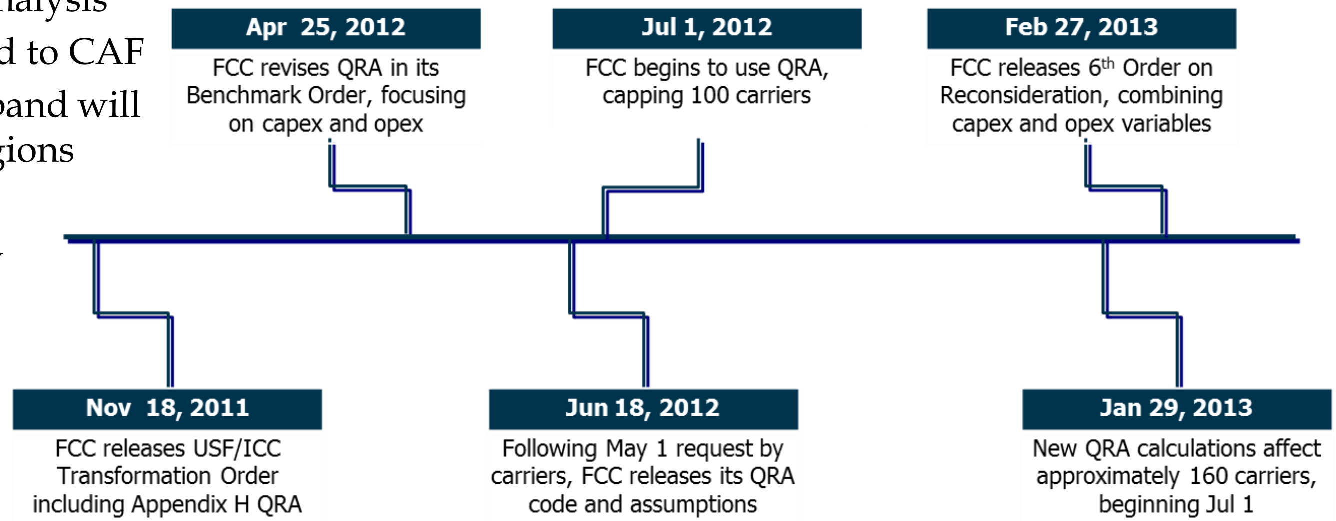
- 2011 regulatory reforms analyzed as competition persists
- Simplifying assumptions for smaller undiversified RLEC
- USF and ICC reform effect reduces EBITDA margin in this illustrative analysis; the margin slips from 33% to 12.6% by 2020
- Interest expense (4%-6% of today's revenues) eliminates much of residual cash flow by 2020; ILEC has little cash for capex or principal repayment
- CAF in interim moderates near-term effect for rate-of-return carriers
- Additional risks
  - Quantile Regression Analysis applied to ICLS
  - Represcription (11.25% ROR might be reduced to as low as 8.06%-8.72%)
  - National Average Cost per Loop (NACPL) climbing close to $600
  - New obligations related to CAF which could result in a carrier's rejection of all universal service receipts
  - Rate-of-return ICC replacement could pressure CAF "budget"



Source: Estimates by Balhoff & Williams, LLC / Charlesmead Advisors, LLC

Regulation and the Capital Markets

- FCC more aggressive in attempting to force consolidation of fragmented industry
  - Quantile Regression Analysis
  - New obligations related to CAF
  - Loss of CAF for broadband will result in no USF for regions
  - Represcription
- Impact on the industry
  - Investors, including lenders, are much more cautious as industry is weakened and confidence in predictable regulation erodes
  - Many companies are increasingly focused on preserving cash or divesting non-strategic assets
  - Carriers with strong balance sheets are more urgent about strategic activities to reduce regulated revenue exposure
  - CoBank and RTFC making no infrastructure (loop-related) loans
  - RUS has annually loaned all its available funds . . . until 2012 when RLECs were loaned 11.6% of $690 million available; only 9.4% was borrowed of the $736 million available for RUS broadband loans

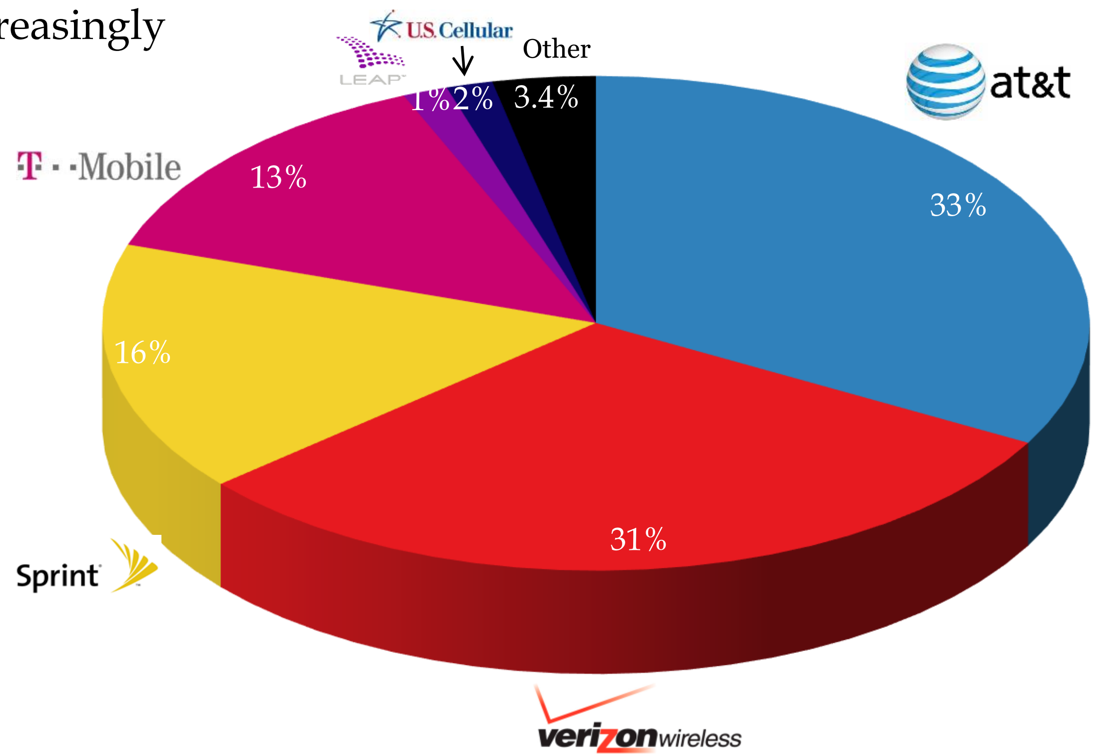


Wireless Industry

Wireless Subscriber Composition

Domestic Subscribers: 339 million

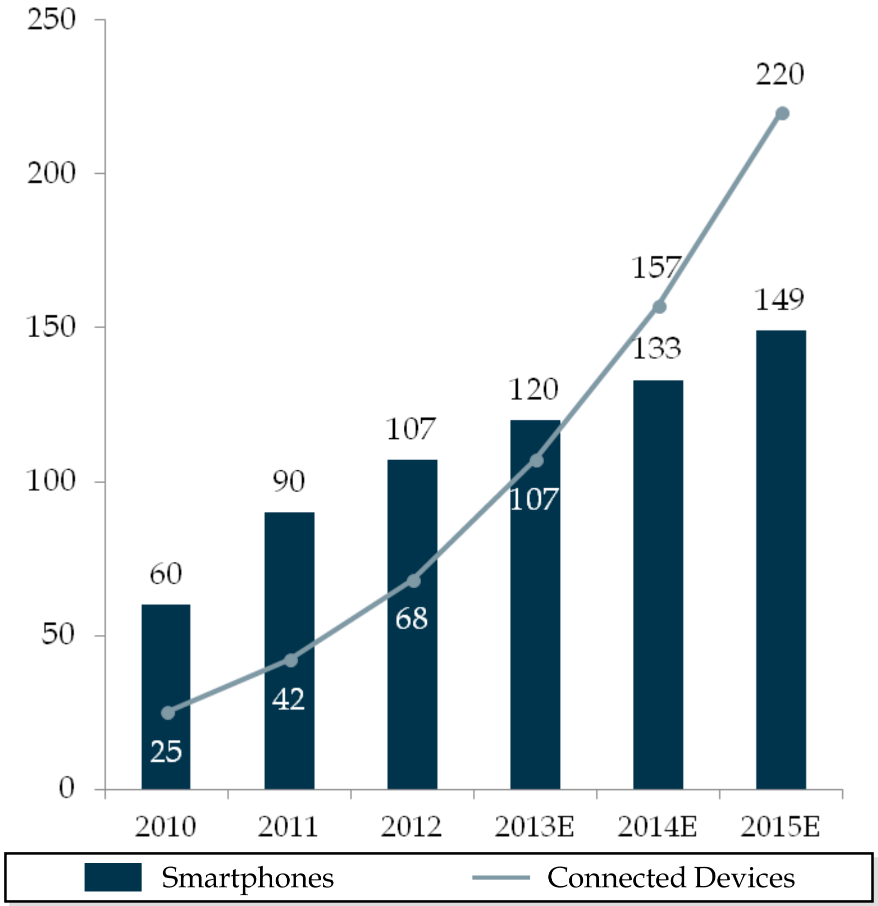
- National wireless industry is increasingly dominated by two players
- Defined by connections instead of subscribers – 106% penetration
- Margins expanding for largest two carriers which control approximately 90% of industry cash flow
- Increasingly differentiated by data speeds and growth
- Verizon LTE covers 95% of POPs while AT&T covers 71%
- Smartphones account for 73% of AT&T's postpaid subs; 64% of Verizon's postpaid subs
- RLEC wireless opportunity appears to have shifted toward fiber-to-the-tower backhaul



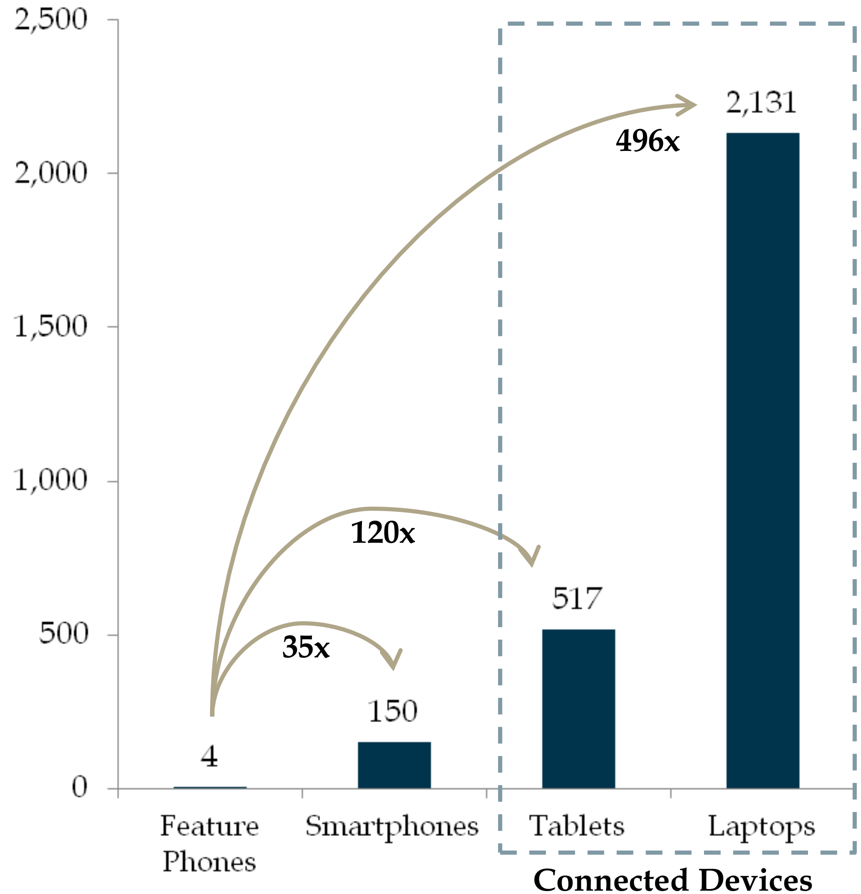
Source: Company financials and Bank of America Merrill Lynch Research. Data is as of June 30, 2013.

Wireless Data Usage Growth

US Smartphones and Connected Devices



Data Usage by Device Type (MBs per Month)



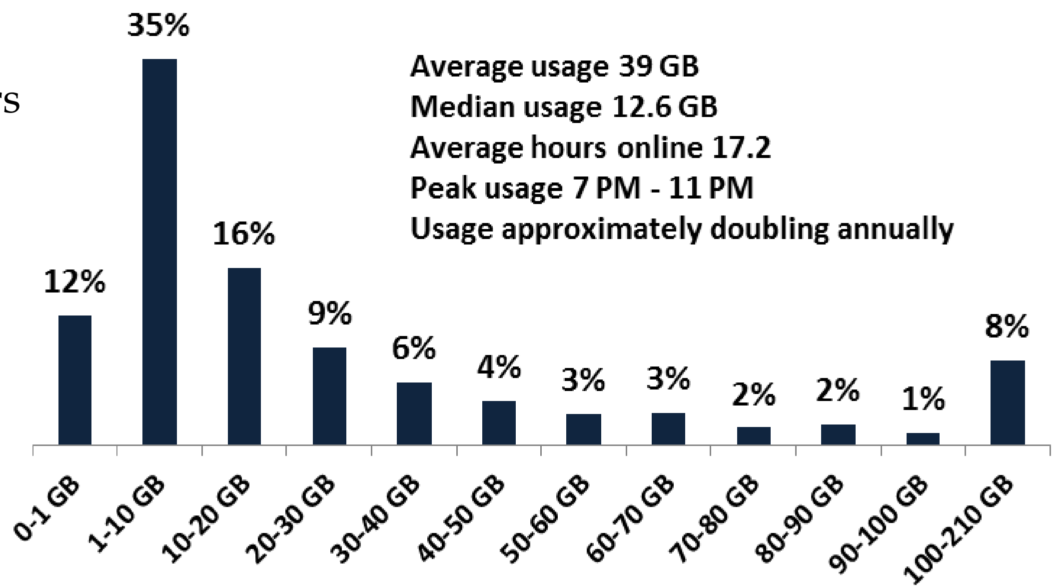
Source: American Tower, Altman Vilandrie & Company, Cisco VNI Mobile 2012, and SNL Kagan

(1) "Connected Devices" include both wholesale consumer electronics with embedded cellular radios such as laptops, tablets, USB modems, e-readers, portable gaming devices, picture frames, portable navigation devices, MP3 players and digital cameras, as well as commercial devices with built in cellular radios such as manufacturing equipment sensors, shipment monitoring devices, utility monitoring equipment, etc.

Wireless Data v. Wireline Data

- Charlesmead believes that broadband is the core telecommunications service
- Charlesmead also believes that robust *wireline* broadband providers can have a sustainable advantage
- Average wireline broadband usage is 39 GB monthly, and median usage is 13 GB
- If the user were to substitute wireless data services on AT&T's network, the median usage would result in a monthly charge of $165 (Home Fusion from Verizon would be $90)
- The FCC estimates that industry-wide usage growth is 30%-35% annually
- The competitive outlook appears to turn on which wireline provider offers the best network/price, as wireless as the primary broadband connection for the home likely is uneconomic

Percentage of one RLEC's Monthly Customer Broadband Usage



Source: Confidential data of a rural carrier, June 2012

Financial and Strategy Responses

Telecommunications Industry Strategic Assessment

Opportunities

- Broadband and video opportunities
- Organic CLEC & business-focus
- Wholesale fiber transport
- Hosted and managed services
- Divestitures of non-strategic assets
- Acquisitions to generate cash flow
  - CLEC
  - Fiber
  - Hosted and managed services
  - ILEC

Challenges

- Regulatory reforms
- Continued cable competition
- Wireless voice substitution
- Increasing costs of capital
- Decreasing capital availability
- Wireless data threat

ILEC Strategic Approaches

Organic Growth	Acquisitions
▪ Pursue in-region and local organic growth opportunities ▪ Edge-out CLEC ▪ Fiber-to-the-tower ▪ Business services ▪ Video	▪ Increase scope and scale of ILEC operations through M&A ▪ Rationalize cost structures over a larger revenue base ▪ Grow cash flow and capital base to increase future optionality
Diversification	**Hybrid**
▪ Reduce regulatory exposure ▪ Geographic diversification ▪ Expand network assets and business lines-CLEC & fiber ▪ Enter business services-data centers, managed services, cloud services	▪ Grow ILEC scope and scale ▪ Simultaneously pursue business diversification

- Historical approach has evolved from primary focus on organic LEC-based growth
- Synergistic acquisitions create significantly improved cash flows
- Increasing efforts to diversify away from regulated services
- Most of recent acquisitions have included hybrid benefits
- Pure-play ILEC valuations have declined and show no signs of improving

Illustrative Strategic Carriers

verizon

- Focus on nationwide sustainable wireless advantage
- Divestiture of high-cost rural properties
- Sustainable wireline network—FTTP in dense markets
- Elimination of regulatory constraints
- Premium valuation based on sustainable growth

CenturyLink™

- Scope and scale to generate incremental cash flows
- Size that supports/allows for strategic options
- Increased focus on enterprise, including data centers
- Diversification away from regulatory concentration
- Sound valuation based on strategic initiatives

EATEL

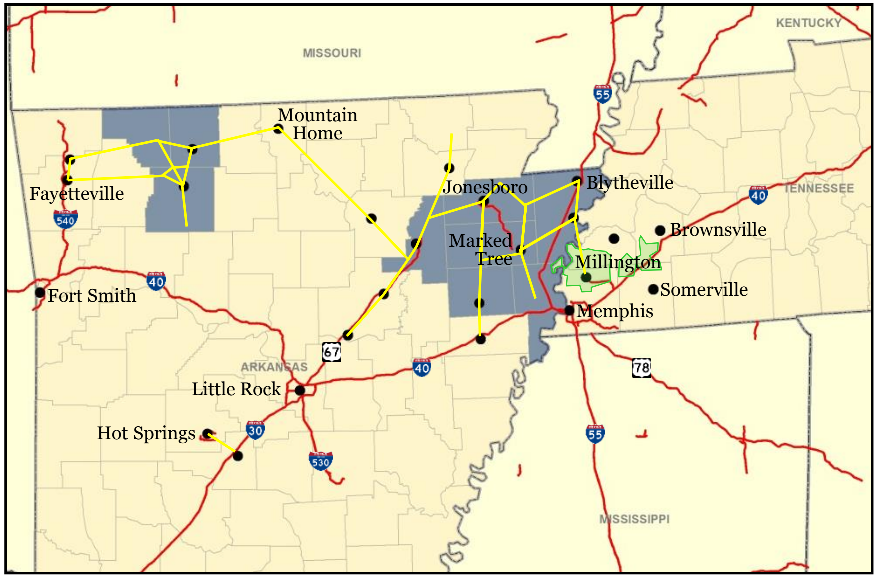
- Scope and scale to generate incremental cash flows
- Concentration of capital investments in FTTP
- Acquisition of enterprise-focused data center
- Diversification away from regulatory concentration
- Poised for valuation growth based on mix change

Ritter Communications Acquires Millington Telephone Co.

- **Announced:** September 25, 2012
- **Closed:** December 11, 2012
- **Target:** Millington Telephone Company, Inc. and Millington CATV, Inc.
- **Buyer:** Ritter Communications Holdings, Inc.
- **Comments:** Ritter serves 25,000 residential and business customers in more than 45 communities in Arkansas with high-speed Internet, phone services and cable TV

  Millington serves approximately 20,000 customers in portions of four counties in west Tennessee, including Tipton County, which is one of the fastest growing areas in the state
- **Charlesmead Advisors, LLC** served as exclusive financial advisor to Ritter Communications in this transaction

Service Territory Map



Legend

- Ritter Counties Served
- Ritter Fiber Network
- Millington Service Territory
- Interstate Highways

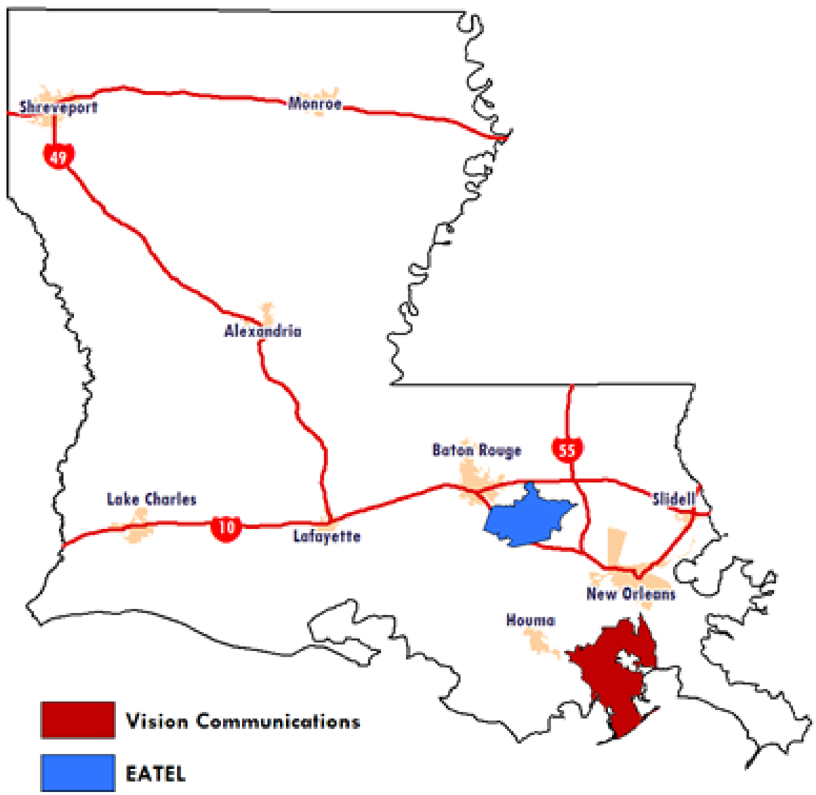
Source: Ritter Communications press release

EATEL Acquires Vision Communications

- **Announced:** September 20, 2011
- **Closed:** January 5, 2012
- **Target:** Vision Communications
- **Buyer:** EATELCORP, LLC
- **Comments:** In late 2007, BV Investment Partners acquired Vision and expanded services to include Ethernet Transport services, cell tower fiber backhaul, fiber connectivity to schools, libraries, and other governmental agencies as well as alarm monitoring and security.

  Vision served approximately 9,850 access lines at announcement
- **Charlesmead Advisors, LLC** served as exclusive financial advisor to EATEL in this transaction

Service Territory Map



Source: EATEL press release and JSI

ILEC – Data Centers

Large LEC	Data Center	Small LEC	Data Center
CenturyLink	SAVVIS	COMPORIUM Making Life Easier	Immedion
verizon	terremark	North State Communications	Data Chambers A North State Communications Company
windstream communications	HostedSolutions DELIVERING CONFIDENCE.	TDS	VISI
Cincinnati Bell	CyrusOne	WHIDBEY TELECOM	FiberCloud
		EATEL	VENYU

North State Communications Acquires DataChambers

- **Announced:** December 15, 2011
- **Closed:** December 28, 2011
- **Target:** DataChambers, LLC
- **Buyer:** North State Communications
- **Comments:** DataChambers provides information technology services, including electronic data storage, managed information technology solutions and secure co-location services for mission-critical infrastructure through two data centers (including disaster recovery) in its 120,000 square foot facility located in Winston-Salem, NC
- **Charlesmead Advisors, LLC** served as exclusive financial advisor to North State Communications in this transaction

DataChambers Data Center Facility

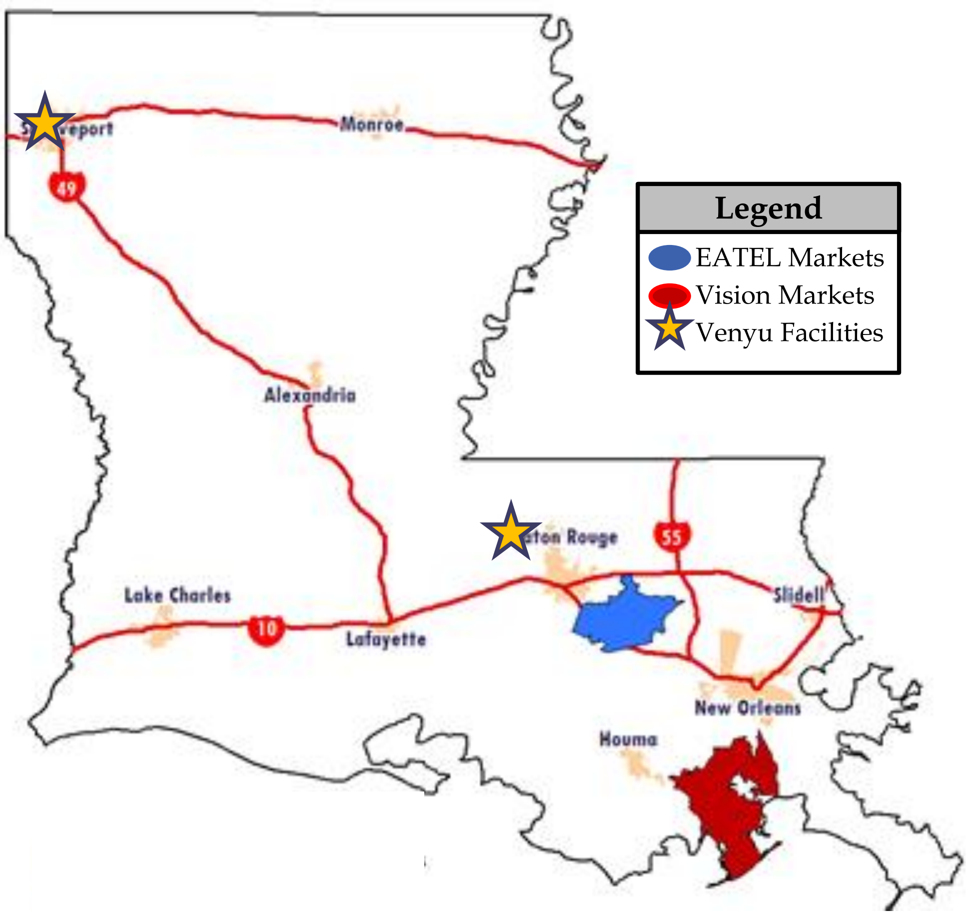
Source: North State Communications press release and DataChambers website

EATEL Acquires Venyu

- **Announced:** September 4, 2013
- **Closed:** August 30, 2013
- **Target:** Venyu Solutions Inc.
- **Buyer:** EATELCORP, LLC
- **Comments:** EATEL has LEC operations in southeastern Louisiana including Vision Communications properties along Bayou Lafourche to the coast

  Founded in 1989, Venyu is a national provider of data center, managed hosting cloud, virtualization, and data protection solutions., Venyu has ≈75 employees and operates three data center facilities
- **Charlesmead Advisors, LLC** served as exclusive financial advisor to EATEL in this transaction

EATEL Pro Forma Service Territory



Source: Company press releases and websites

Takeaways for the Future

- Witnessing a fundamental passing from one world to the next
  - Technology-competition-regulation; cycle accelerating with regulation struggling to keep pace
  - The previous pure-play ILEC system is unsustainable
- Successful companies
  - Focusing on risks and opportunities
  - Seeking diversification
  - Strengthening cash flows and identifying growth opportunities
  - Executing consistently and courageously
- Survivors will . . .
  - Understand that sitting-pat will likely result in value destruction; most risky strategic path
  - Immediately identify strategic forces
  - Assume that proactive strategic steps will be beneficial regardless of regulatory outcomes
  - Commit to diversified strategic growth if possible; may require increased scale as initial step
  - If strategic growth is not possible, assess options in an industry where valuations are pressured
- Elizabeth Kubler-Ross captures life stages—grief or dying that leads to rebirth
  - Denial
  - Anger
  - Bargaining
  - Depression
  - Acceptance-rebirth

Representative Transactions

etex wireless Has Agreed to Sell Spectrum to at&t Advisor to Seller *Pending*	EATEL Has Acquired VENYU Advisor to Buyer *August 2013*	North State Communications Has Sold Its Wireless Operations to at&t Advisor to Seller *July 2013*	Blackfoot Telecommunications Group Has Sold Spectrum to at&t Advisor to Seller *June 2013*	etex wireless Has Sold Certain Wireless Assets to verizon wireless Advisor to Seller *April 2013*	$30,000,000 FairPoint communications Has Sold Fremont Telcom Company and Fretel Communications, LLC to Blackfoot Telecommunications Group Advisor to Seller *January 2013*	Peoples Has Sold its Wireless Tower Portfolio to InSite Towers, LLC Advisor to Seller *December 2012*	Ritter Communications Has Acquired Millington Telephone Since 1928 Advisor to Buyer *December 2012*	Peoples Has Sold Spectrum to at&t Advisor to Seller *July 2012*	CellularOne Has Acquired Spectrum from LICT Corporation Advisor to Buyer *February 2012*
EATEL Has Acquired Vision Advisor to Buyer *January 2012*	North State Communications Has Acquired DataChambers Advisor to Buyer *December 2011*	TDS Has Acquired VISI Advisor to Buyer *March 2010*	$82,000,000 Iowa Telecom Has Acquired Sherburne Tele Systems, Inc. Advisor to Buyer *July 2009*	GC Communications Has Sold Certain Assets to Commnet Wireless *a subsidiary of* Atlantic Tele-Network Advisor to Seller *December 2008*	Lincolnville Telephone Company Has Been Acquired by Shephard Hill Financial Advisor *August 2008*	$43,900,000 Lakedale Communications Has Been Acquired by Iowa Telecom Advisor to Seller *July 2008*	SureWest Wireless Has Sold its Wireless Operations to verizon wireless Fairness Opinion *January 2008*	$78,000,000 Hutchinson Telephone Company Has Been Acquired by NU-Telecom Advisor to Seller *January 2008*	$312,500,000 Northern PCS Services Has Been Acquired by Sprint Advisor to Seller *August 2007*
$600,000,000 clearwire wireless broadband Common Stock Co-Manager *March 2007*	WVT Communications Financial Advisor *November 2006*	$10,200,000 Germantown Independent Telephone Company Has Been Acquired by FairPoint communications Advisor to Seller *November 2006*	$135,100,000 Hector Communications Corporation Has Been Acquired by Hector Acquisition Corp. Advisor to Seller *November 2006*	$72,960,000 ATN Atlantic Tele-Network Common Stock Co-Manager *July 2006*	$98,000,000 enterprise Has Been Acquired by Sprint Advisor to Seller *January 2006*	$287,500,000 GCW Gulf Coast Wireless, L.P. Has Been Acquired by Sprint Advisor to Seller *October 2005*	NSight Teleservices Financial Advisor *August 2005*	Blackfoot Telephone Cooperative, Inc. Has Sold Certain Assets to Alta Communications Advisor to Seller *August 2005*	CMS Has Been Acquired by verizon wireless Advisor to Seller *March 2005*
$506,718,750 Valor Telecom Common Stock Co-Manager *February 2005*	$84,125,010 ACS Alaska Communications Systems Common Stock Co-Manager *January 2005*	Horizon Chillicothe Telephone Fairness Opinion *December 2004*	$417,580,005 Iowa Telecom 21,977,985 Shares Common Stock Co-Manager *November 2004*	MobileTel Has Been Acquired by Alltel Advisor to Seller *October 2004*	Comporium Group Has Acquired PBT Financial Advisor *April 2004*	$374,220,000 Nextel Partners Inc Common Stock Co-Manager *November 2003*	$500,000,000 Nextel 6.875% Senior Notes Co-Manager *October 2003*	Devon Mobile Communications, L.P. Has Sold Certain Assets in Pennsylvania to verizon wireless Advisor to Seller *September 2003*	Devon Mobile Communications, L.P. Has Sold Certain Assets in New England to U.S. Cellular Advisor to Seller *September 2003*