

NTCA 2007 WIRELESS SURVEY REPORT

January 2008

DISCLAIMER: Data from the survey has been presented as reported.

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EXECUTIVE SUMMARY

In the fall of 2007, the National Telecommunications Cooperative Association (NTCA) surveyed its members on their activities in the area of providing wireless services to their customers. The survey was sent to each of the companies in NTCA's membership database; 99 members (20%) responded.

Seventy percent of survey respondents indicated that they hold at least one wireless license; 77% are providing wireless service to their customers.¹ Sixty-eight percent of those providing wireless service offer broadband data, 43% mobile voice, and 30% text messaging. Forty-eight percent of survey respondents not currently offering wireless service are considering doing so.

The average total (cumulative) investment in wireless facilities, excluding spectrum, is \$8.5 million; average total (cumulative) investment in spectrum totaled \$630 thousand.

Three-quarters of all survey respondents characterized the process of obtaining financing for wireless projects as "somewhat difficult" or "very difficult;" the other quarter characterized the process as "relatively easy" or "very easy."

Fifty-six percent of respondents are utilizing unlicensed spectrum to provide some wireless services, despite problems such as interference or poor coverage.

Two-thirds of all respondents indicated that competition from nationwide carriers was their greatest concern, 53% selected the ability to make necessary investments, 45% their ability to obtain spectrum at auction, and 40% negotiating roaming agreements. Ten percent noted other concerns: the ability to obtain cost effective equipment, the continued availability of USF support, rural population depletion, and changing regulations.²

Forty-five percent of those survey respondents offering wireless serve as a local presence for a national carrier, or market a national brand. Eighty-seven percent find it difficult to compete with promotions offered by the national carriers.

Ninety-seven percent of all respondents offer their customers wireless customers family plans. Ninety-three percent offer voice mail and caller ID; 90% offer 3 way calling and text messaging; and 72% offer bonus night/weekend minutes and free long distance. Sixty-five percent of survey respondents experience annual customer churn of less than 10%, while 29% reported annual churn of between 10% and 25%. These figures are well below the FCC's reported industry annual average of between 18% and 36%.

¹ Includes respondents utilizing unlicensed spectrum to provide wireless service.

² Totals exceed 100% as respondents were allowed to select more than one concern.

INTRODUCTION

In late fall of 2007, the National Telecommunications Cooperative Association (NTCA) surveyed its members on their activities in the areas of providing wireless services to their members/customers. NTCA is a national association of approximately 580 local exchange carriers in 44 states that provide service primarily in rural areas.

Approximately 300 of NTCA's member companies offer some type of wireless service—currently, 230 offer cellular service, 106 PCS, and 22 MDS or multi-channel MMDS³. All NTCA members are small carriers that are “rural telephone companies” as defined in the Communications Act of 1934, as amended (“Act”). While some offer local exchange service to as few as 44 lines and a small handful to 50,000 or more, nearly 50% of NTCA members serve between 1,000 and 5,000 lines. Population density in most member service areas is in the 1 to 5 customers per square mile range. Approximately half of NTCA's members are organized as cooperatives and the other half are commercial companies.

This latest wireless survey is a follow-up to a similar survey last conducted by NTCA in 2006, and seeks to build upon the results of that survey.⁴

OVERVIEW OF SURVEY

The 2007 NTCA Wireless Survey was conducted online. Member companies were provided with a URL through which they could access the survey. Every effort was made to minimize the reporting burden on the survey respondents.

The survey itself was organized into two sections. The first section was comprised of general questions about the respondent's current operations and future plans. The second section, which applied only to those respondents providing CMRS services to their customers, asked more specific questions about technology, customers, revenues, features offered, and capabilities.

SURVEY RESULTS

The survey URL was distributed via email and fax to all of the NTCA member companies in NTCA's database. The messages contained instructions for online access to the survey. Responses were received from 99 member companies, a 20% response

³ Individual totals exceed 300 as some members offer more than one type of wireless service.

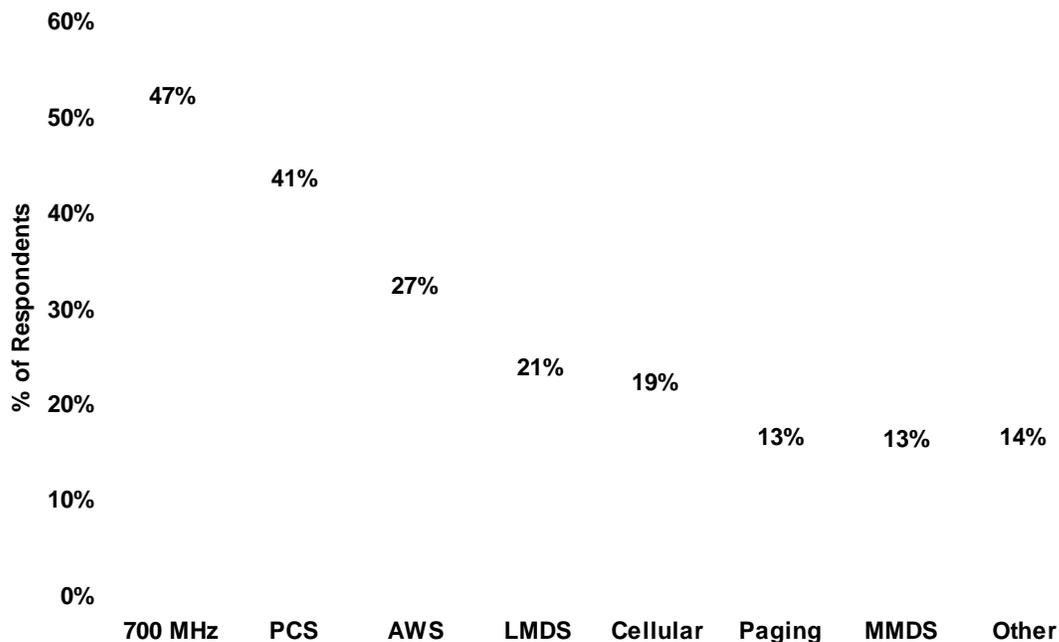
⁴ Copies of this and previous NTCA survey reports may be downloaded from the NTCA website, www.ntca.org.

rate.⁵ Twenty-two percent of those NTCA member companies providing PCS service responded to the survey.

Survey responses were received from companies in 28 states. While those respondents providing wireless services range in size from approximately 35 wireless customers to more than 150,000, the average respondent served approximately 13,000 wireless customers. This heterogeneity in size and geographic location mirrors that of NTCA’s membership as a whole.

Seventy percent of survey respondents indicated that they currently hold at least one wireless license. Forty-seven percent of those who hold a license have a 700 MHz license, 41% PCS, 27% AWS, 21% LMDS, 19% cellular, 13% paging, and 13% MMDS. (See Fig. 1.)

Fig. 1: Wireless Licenses Held

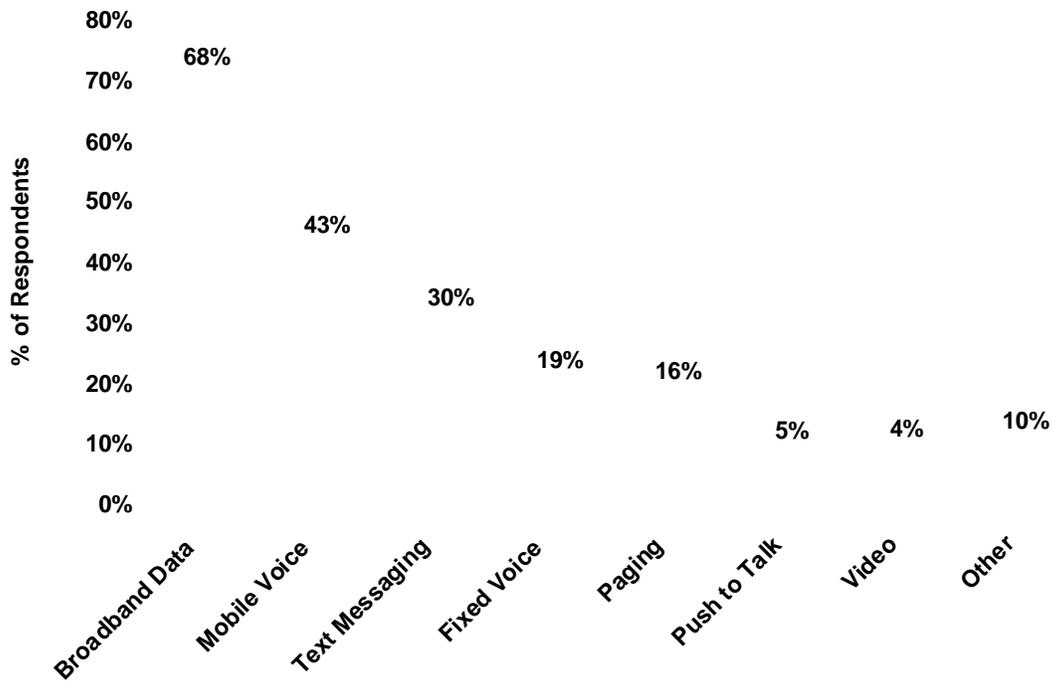


Note: Totals exceed 100% as carriers may hold more than one wireless license.

⁵ Response rate is calculated based on the number of verified email addresses in NTCA’s member database. Based on the sample size, results of this survey can be assumed to be accurate to within ± 9% at the 95% confidence level.

Seventy-seven percent of survey respondents are providing wireless services to their customers⁶. Of those providing wireless service, sixty-eight percent offer broadband data,⁷ 43% mobile voice, 30% text messaging, 19% fixed voice and 16% paging. (See Fig. 2.)

Fig. 2: Wireless Services Provided



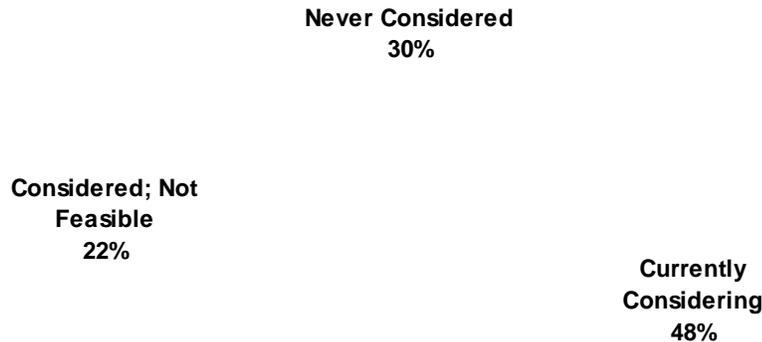
Note: Totals exceed 100% as carriers may provide more than one wireless service.

⁶ Includes respondents utilizing unlicensed spectrum to provide wireless service.

⁷ For the purposes of this survey, broadband is defined to be data transmission speeds of at least 200 kilobits per second in one direction.

Forty-eight percent of the respondents not currently offering wireless service indicated they are considering doing so. Twenty-two percent have previously considered offering wireless service and deemed it not feasible, while 30% have never considered wireless. (See Fig. 3.)

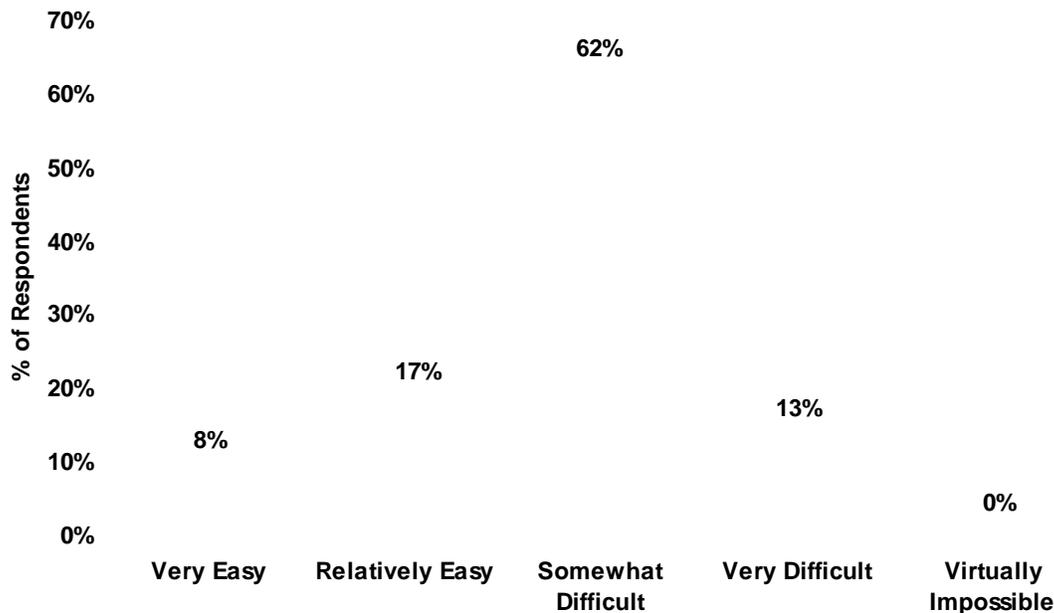
Fig. 3: Future Wireless Plans?



Survey respondents indicated that they have invested considerable resources in wireless. The average total (cumulative) investment in wireless facilities, excluding spectrum, was \$8.5 million, ranging from a high of \$150 million to a low of \$5,000. Average total (cumulative) investment in spectrum totaled \$630 thousand.

Obtaining financing for wireless projects continues to pose a challenge for some survey respondents. Of those with experience in obtaining financing, 62% characterized the experience as “somewhat difficult,” 17% as “relatively easy,” and 13% “very difficult.” (See Fig. 4.)

Fig. 4: Obtaining Financing



Twenty-three percent of survey respondents indicated that they had acquired spectrum in the preceding twelve-month period, while another 14% made arrangements for the utilization of previously acquired spectrum. Twenty-eight percent entered into negotiations for the acquisition of spectrum.

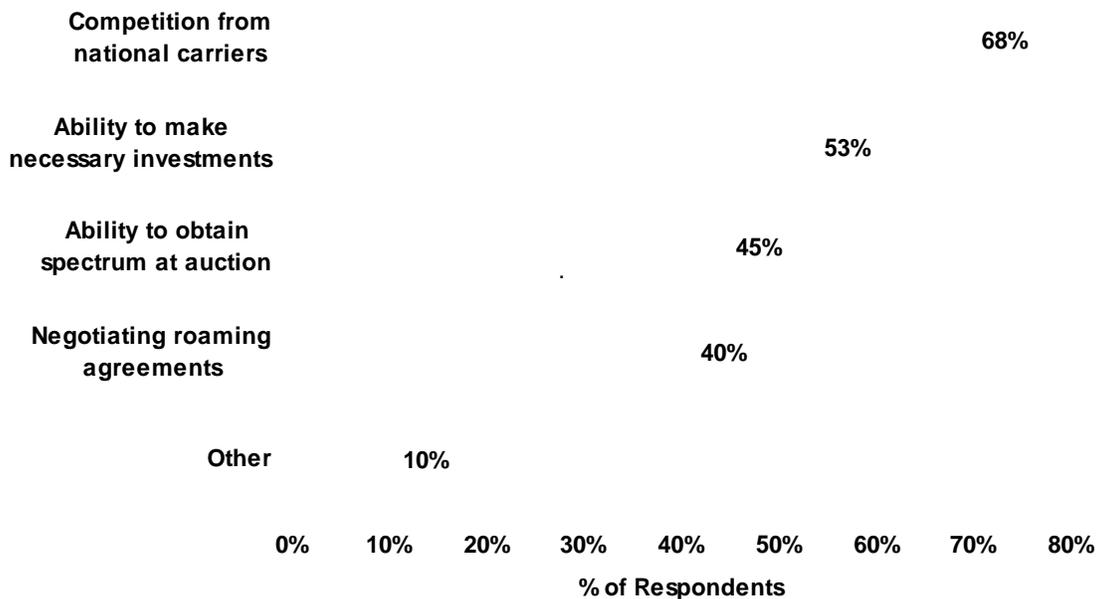
Fifty-nine percent of survey respondents are looking to provide wireless service to both their wireline service area and neighboring territories; 23% seek to serve neighboring territories only; and 19% their own wireline service territory only.

Fifty-six percent of survey respondents are utilizing unlicensed spectrum to provide wireless services to their customers. Among the services identified are broadband data, Wi-Fi, and backhaul. Sixty percent of those respondents using unlicensed wireless spectrum indicated that they had experienced difficulties with interference.

Respondents intend to offer their customers a wide variety of new services over the next 12 to 18 month period: fixed and mobile data, VoIP, WiFi and WiMax, and video were

all noted. A number of concerns, however, threaten survey respondents' future plans. Sixty-eight percent indicated that they were concerned about competition from national carriers, 53% cited their ability to make the investments necessary to continue to provide the latest services, 45% their ability to obtain spectrum at auction, and 40% negotiating roaming agreements. Ten percent noted other concerns, such as the ability to obtain the latest handsets, continued USF availability, and building out in extremely rural areas. (See Fig. 5.)

Fig. 5: Concerns



Note: Totals exceed 100% as respondents were allowed to select more than one concern.

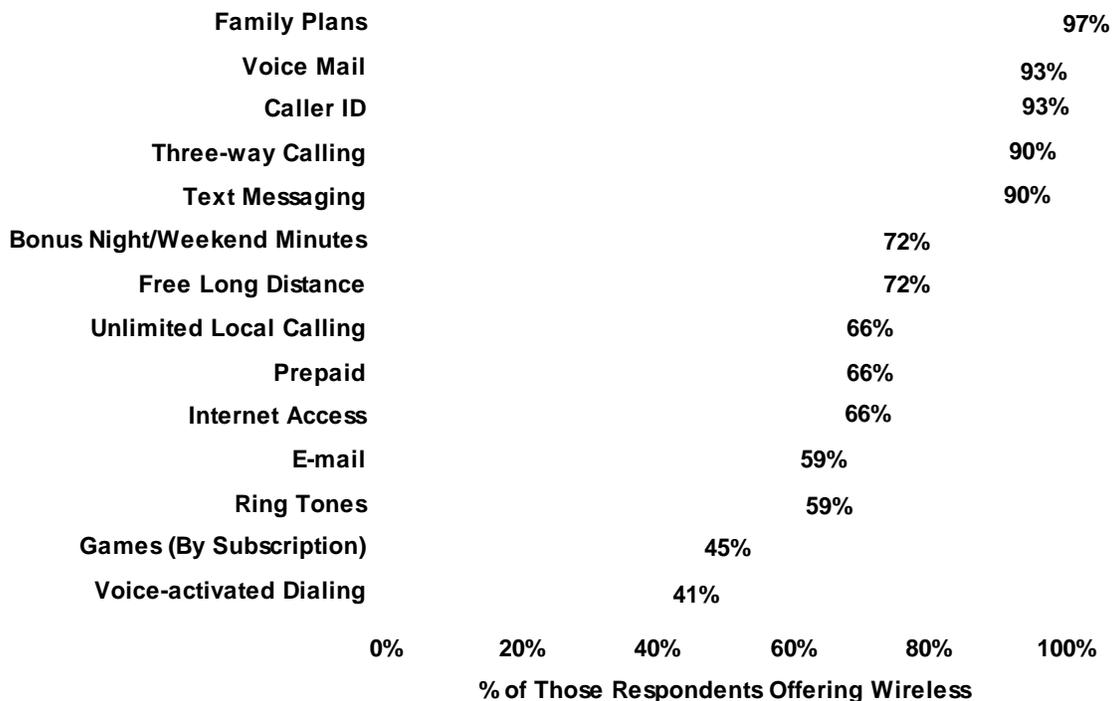
Survey respondents are facing competition from other carriers—the average respondent indicated that their company competes with between two and five other carriers. However, many of these competitors serve only a small portion of the respondent's service area.

Forty-five percent of those survey respondents offering wireless serve as a local presence for a national carrier, or market a national brand. Twenty-three percent have at one time been prevented from offering wireless service due to the actions of a national wireless carrier. More than three-quarters - 77% - have at one time entered into a joint venture with another wireless carrier.

The average customer's monthly wireless bill is between \$40 and \$45, and the typical customer uses nearly 600 minutes monthly. Eighty-seven percent find it difficult to compete with promotions—such as buckets of long-distance minutes—being offered by the national carriers.

Survey respondents offer myriad features to their wireless customers. Ninety-seven percent of survey respondents offer their wireless customers family plans, 93% voice mail and caller ID, 90% three-way calling and text messaging, 72% bonus night/weekend minutes and free long distance, and 66% unlimited local calling, prepaid, and Internet access. (See Fig. 6.)

Fig. 6: Features Offered to Wireless Customers



Note: Totals exceed 100% as respondents may provide more than one wireless feature.

Respondents indicated considerable customer loyalty. Sixty-five percent of survey respondents experience annual customer churn of less than 10%, while 29% reported annual churn of between 10% and 25%. This compares favorably to the FCC's estimate

of industry-wide churn rate monthly averages of 1.5% to 3.0%, or from 18% to 36% annually.⁸

CONCLUSIONS

Rural carriers continue to bring a wide variety of wireless services to rural America.

Despite the numerous hardships entailed in serving rural and remote areas, survey respondents are doing an excellent job of bringing wireless to their customers. Wireless customers in much of rural America have access to the same wide variety of services as do their non-rural counterparts, thanks to the considerable efforts of these small companies.

The ability to compete with large, nationwide carriers remains the top concern for rural companies.

Again, as in the 2006 survey, respondents selected the ability to compete with nationwide carriers as their top concern on a going forward basis. These large providers have many distinct advantages, not limited to economies of scope and scale, deep pockets, global operations, and easier access to spectrum at auction. Yet these providers often choose to serve only a small portion of the rural provider's service area, leaving the small company to serve the most remote and highest cost customers.

Obtaining funding for wireless projects is perceived as considerably more difficult than a year ago. In the 2006 survey, 52% of respondents classified the process of obtaining financing for wireless projects as "relatively easy" or "very easy." This year, 75% classified the process as "somewhat difficult" to "very difficult." This is very likely a consequence of current economic conditions and a general dearth of readily available capital in the economy as a whole. These conditions will likely persist—or even worsen—in 2008.

Many rural companies want to get into wireless. Nearly half of those respondents not currently offering wireless—48%—are currently considering entering the wireless marketplace. Future regulatory actions—including greater accessibility of wireless spectrum to small companies—will go a long way toward determining whether these companies will be successful and, in turn, whether more rural Americans are able to reap the associated benefits from wireless service that so many non-rural citizens currently enjoy.

⁸ Federal Communications Commission, *Eleventh Report on Competitive Market Conditions in the CMRS Industry*, FCC 06-142, WT Docket No. 06-17 (Terminated), September 2006, at 65.