

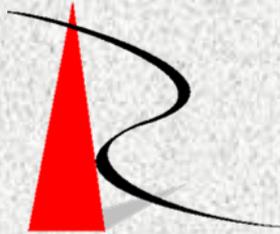


FCC Ex Parte Meeting

(Connect America Fund)

July 2011

Our Company At a Glance



**Rural Telephone Service
Company, Inc.**

Parent Company (1951)
100% Ownership of Nex-Tech



Nex-Tech, Inc.

Wholly-owned Subsidiary (1990)

Our Company At A Glance



- Rural Telephone/Nex-Tech
 - 12,199 ILEC Access Lines
 - 14,067 CLEC Access Lines
- 10,853 Video Customers
- 18,566 Internet Customers
- 28,921 Long Distance Customers

Broadband Stimulus Project

Funded by the American Recovery and Reinvestment Act



- \$101 Million
 - \$51 Million Loan / \$49 Million Grant
- 23,000 Households and Businesses
- 335 Anchor Institutions
- 21 Towns
- 26 Rural Areas
- 11 Counties
- 4,600 Square Miles
- FTTP/WiMAX



Debt Service to RUS



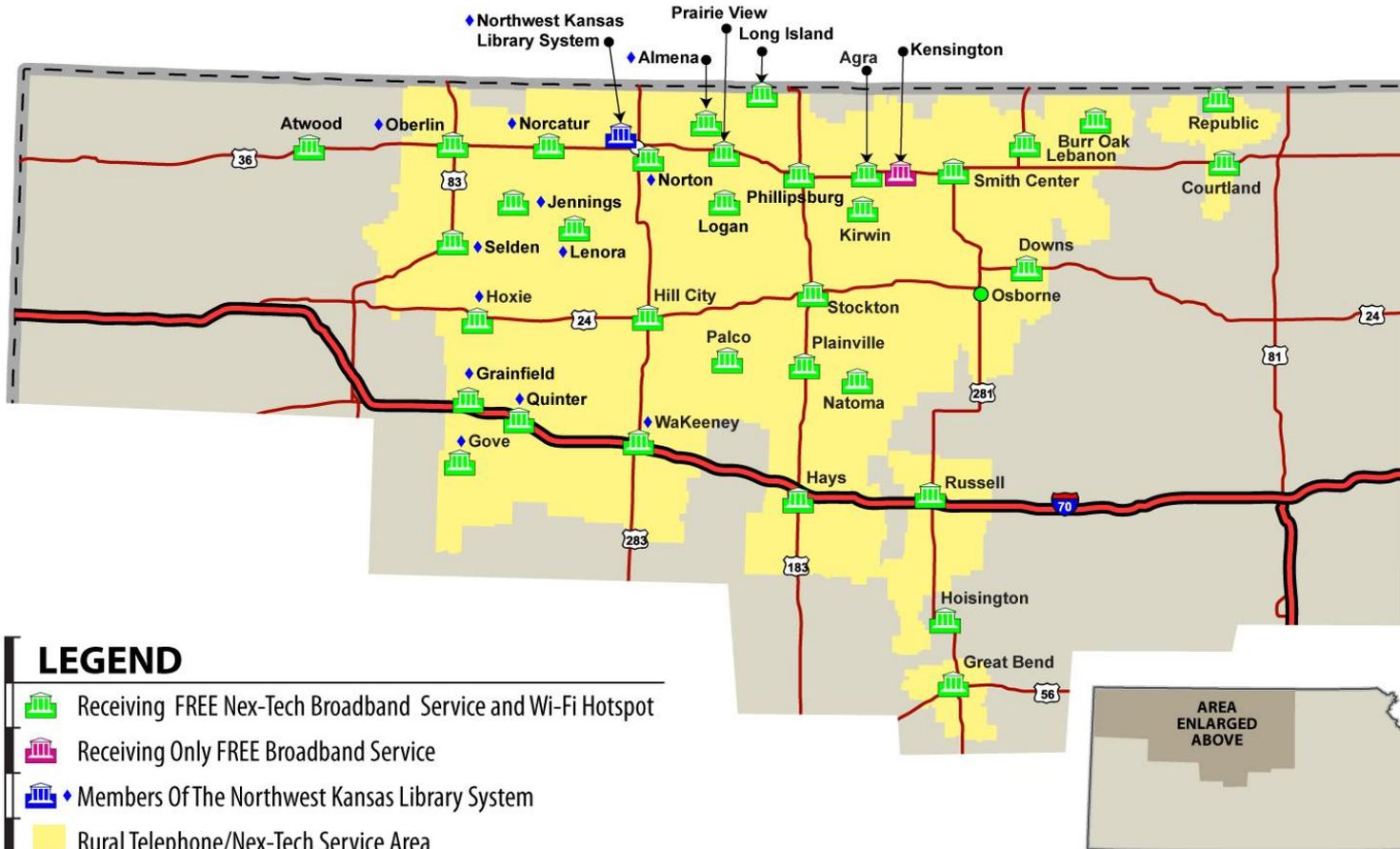
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- Outstanding RUS Loans (stimulus): \$51,612,842
 - Outstanding RUS Loans (non-stimulus): \$71,875,705
 - Annual Debt Service to RUS (2011): \$19,268,391
 - Committed Loans Expected to be Paid Off in 2027

Free Broadband & Wi-Fi Connection to Every Library in Our Footprint



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- Broadband access is vital to leveling the playing field for small, rural communities to compete in today's fast-paced, technology-driven society.
 - Providing free public-access Wi-Fi connections is critical in order to ensure that every individual—regardless of income—has access to these essential services.

Libraries Map



Why USF is Critical



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- Maintenance of Our Network
 - Square Miles to Maintain: 9,307
 - Miles of Fiber and Copper: 6,989
 - National Security and Emergency Communications

Why USF is Critical



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- Ongoing Upgrades to Our Network
 - Projected to outgrow our 10 gig network ring by 2012.
 - During the past 12 months, our number of broadband customers for 6 Mbps or higher services tripled.
 - Additionally, Cisco predicts the average fixed broadband speed to quadruple—from 7 Mbps to 28 Mbps—by 2015. The average broadband speed has already doubled within the past year from 3.5 Mbps to 7 Mbps.
 - During the past 12 months, wireless backhaul circuits have increased by 85% as wireless carriers prepare for 4G. This growth is expected to continue as many additional circuits are currently being quoted for multiple carriers.
 - Third-party video and gaming services now account for more than 20% of our Internet traffic.

FCC's NPRM – March 2010



Impact to Rural Telephone/Nex-Tech's Footprint as Prepared by Fort Hays State University's Docking Institute of Public Affairs

- 2010 Economic Impact Created by Rural Telephone/Nex-Tech
 - The overall positive economic impact was estimated at \$123,698,928 in economic activity*, including 639 jobs resulting in \$34,936,379 in total employee compensation.
- Economic Impact Reduction if NPRM is Adopted
 - Over a five-year period (2011-2015), there will be a loss of \$39,846,793 in economic activity, including 206 jobs resulting in a loss of \$11,253,959 in employee compensation. In percentage terms, these losses represent a reduction of 31.3% compared to the projected pre-NPRM levels of economic output.

*Actions undertaken by employees and agents of Rural Telephone/Nex-Tech to provide all the communication services produced, distributed, and sold to customers of the company.

Parent Trap Rule Should Be Abolished



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- Rural Telephone acquired ten exchanges from a non-rural carrier in 2006. 99% of the households and businesses did not have access to broadband.
 - By December 2010, after significant investment, broadband is available to 100% of the exchanges. 70% of households and businesses have subscribed to broadband service, but Rural Telephone has not recovered its costs because of the 50% Safety Valve.
 - The NPRM proposes to remove the Parent Trap rule where the buyer has not achieved 30% broadband service which would reward failure to invest.
 - The Parent Trap Rule should instead be removed and full cost recovery should be allowed for acquiring carriers that have demonstrated a commitment to broadband deployment.

Conclusions



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- Growing demand for high capacity applications requires fixed facilities in rural areas to deliver “reasonably comparable” service.
 - For rates to be “reasonably comparable,” capital and operating costs of fixed and mobile facilities in rural areas require USF support.
 - USF support should be based on cost of individual ILEC or CETC, not “identical support.”
 - Eliminating support for existing broadband would harm subscribers and the rural economy.