

Assessment of Broadband

The Telmarc Group, LLC
September 15, 2005
Not for Public Distribution



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Overview

- ❑ Prepared detailed engineering analysis of Rindge, NH, attached
- ❑ Provide a proposed schedule of necessary tasks
- ❑ Asses market plan
- ❑ Determine possible rollout
- ❑ Determine wireless options

Expectations

□ Fiorellis Law:

Dissatisfaction = K [Expectations - Reality]

□ McGarty's Rule

"Avoid Ambiguity of Expectations"

□ McGarty's Corollary

$$Dissatisfaction = K \sum_{i=1}^N \sum_{j=1}^N (Expect_i - Expect_j)^2$$

Conditions Precedent

- Before submitting RUS Loan App we must have
 - Franchise
 - Market Survey
 - Engineering Study
 - RUS Application
 - Equity
 - Management
 - Customer Commitment

Reality

- Conditions Precedent Met
- Real Market Exists
- Vendors Meet Specs
- RUS Delivers
- Pole Attachments Available in timely fashion
- Install may take 1-2 years for fiber!
- Content is accessible

Schedule

ID	i	Task Name	1st Half		2nd Half		1st Half		2nd H
			Qtr 1	Qtr 2	Qtr 3	Qtr 4	Qtr 1	Qtr 2	Qtr 3
1		Engineering Study							
2		Market Study							
3		Vendor Negotiations							
4		Content Access							
5		Customer Commitment							
6		Franchise							
7		Equity							
8		RUS Approval							
9		Pole Attachment							
10		Install							
11		Service Start							

Rindge Engineering Analysis

The Telmarc Group, LLC
September 10, 2005
Not for Public Distribution

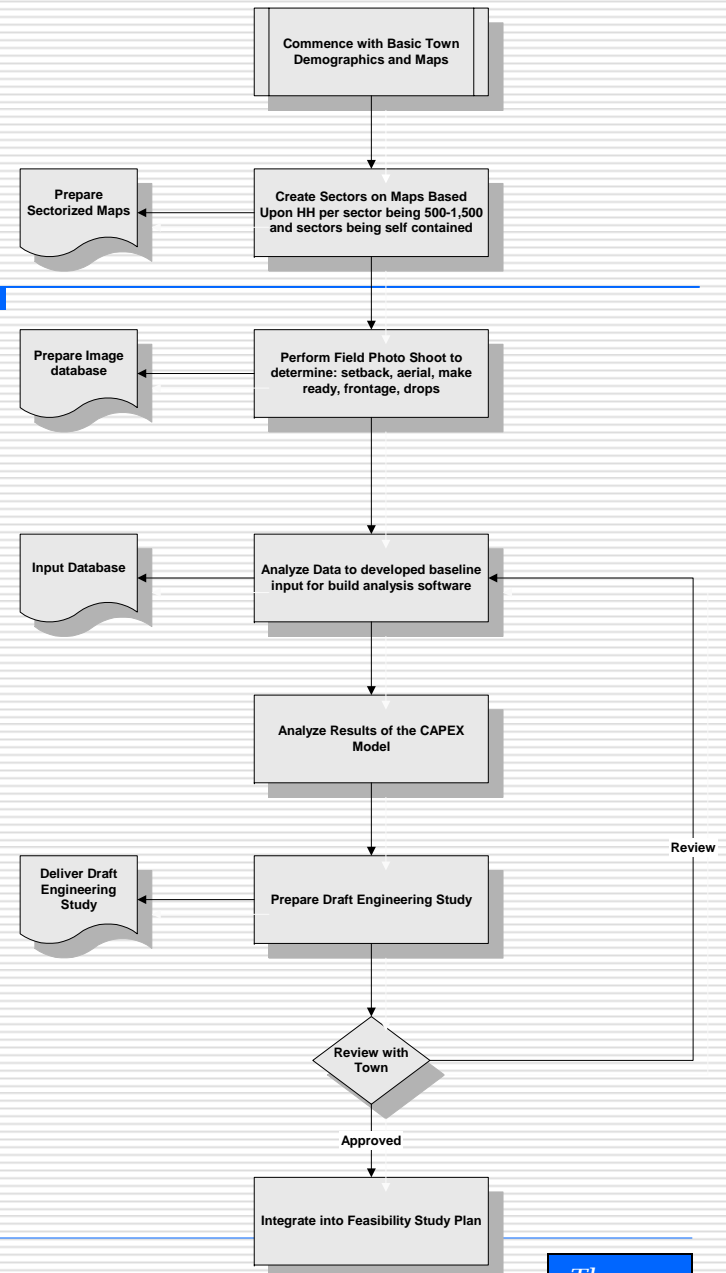


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Overview

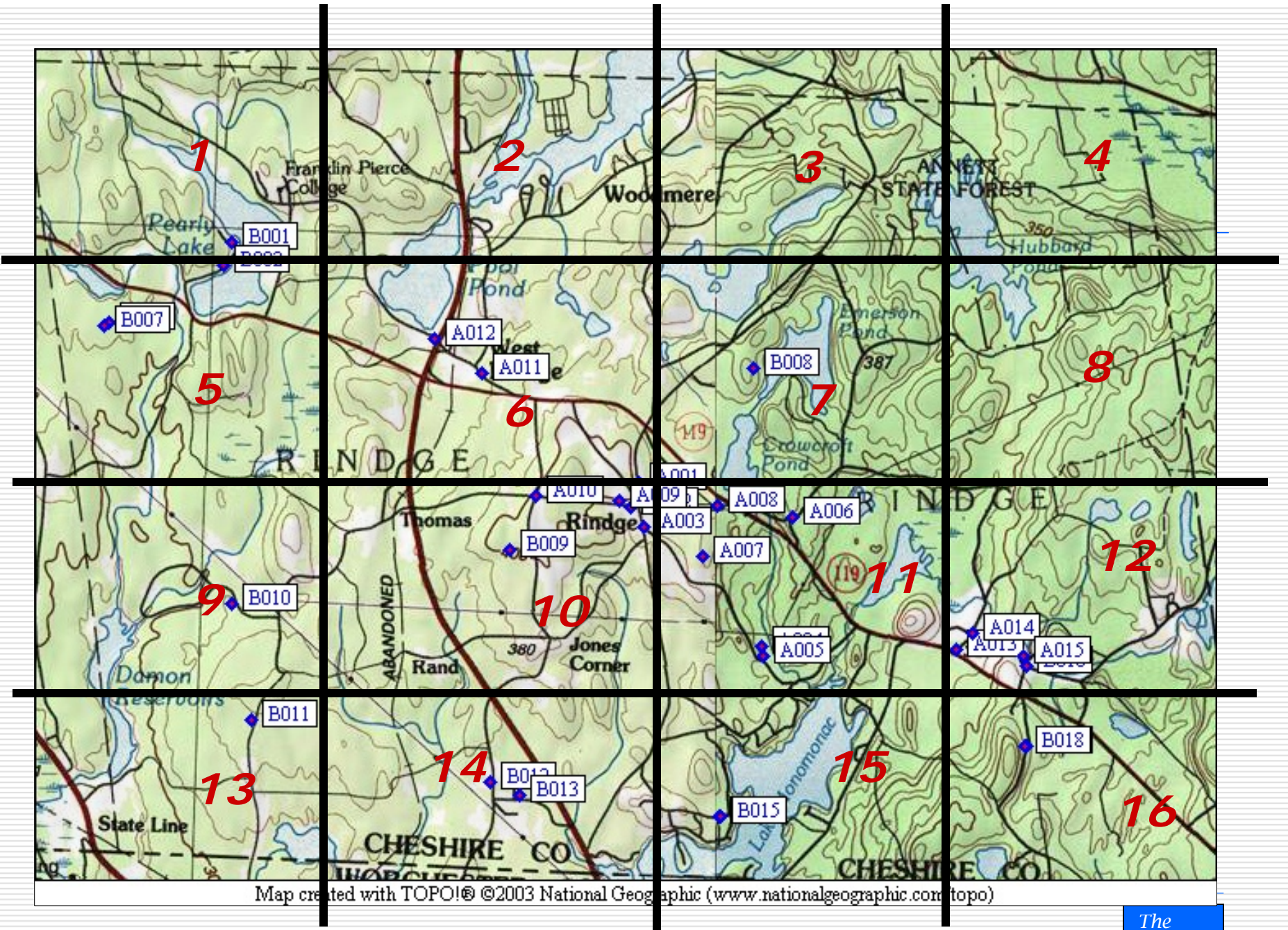
- ❑ Prepared detailed engineering analysis of Rindge, NH
- ❑ Obtained detailed data on build out of plant and sensitivity to costs
- ❑ Performed financial analysis of CAPEX requirements and demand sensitivity
- ❑ Performed analysis of USDA RUS financing possibility

Engineering Methodology



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Core Data by Sector

Sum of HH	
Sector Number	Total
1	91
2	662
3	61
5	128
6	168
7	227
8	29
9	42
10	223
11	268
12	81
13	32
14	174
15	598
16	76
Grand Total	2,860

Sum of Miles	
Sector Number	Total
1	4.23
2	23.12
3	4.40
5	5.20
6	9.45
7	9.15
8	1.50
9	2.13
10	11.08
11	11.35
12	5.21
13	1.75
14	4.80
15	21.00
16	6.30
Grand Total	120.66

Key Data Elements

Average of Avg Set Back	
Sector	Total
1	70
2	60
3	100
5	70
6	162
7	70
8	350
9	200
10	170
11	269
12	177
13	60
14	77
15	619
16	150
Grand Total	209

Average of Average Front	
Sector	Total
1	67
2	65
3	126
5	170
6	222
7	80
8	120
9	300
10	517
11	597
12	456
13	130
14	124
15	879
16	175
Grand Total	371

Average of Aerial	
Sector	Total
1	100%
2	100%
3	100%
5	100%
6	100%
7	100%
8	100%
9	100%
10	74%
11	100%
12	100%
13	100%
14	54%
15	100%
16	100%
Grand Total	94%

Average of Make Ready	
Sector	Total
1	0%
2	0%
3	0%
5	0%
6	33%
7	0%
8	0%
9	0%
10	4%
11	0%
12	2%
13	0%
14	0%
15	0%
16	0%
Grand Total	4%

Key Financial Factors

Key Outputs

Number Users year 5	1,494
Percent effective penetration year 5	52.3%

Raw Cost per New Sub year 5	\$1,113.02
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CAPEX per User Year 5	\$2,416
CAPEX Fiber per user year 5	\$1,522
CAPEX Other per user year 5	\$894

Revenue per user per month year 5	\$108.00
P&I per user per month year 5	\$16.37
Cost of Service per user per month year 5	\$48.11
OPEX per user per month year 5	\$34.60
Cash Flow per user per month year 5	\$8.93

IRR	29.05%
NPV (\$000)	\$238
RUS Debt year 5	\$3,002
Equity and Other year 5	\$1,705

TIER Year 5	1.59
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Initial Penetration	35%
Maximum Penetration	55%
Penetration Increase per Year	50%

Penetration of Base for Internet	100%
Penetration of Base for Video	70%
Penetration of Base for Voice	65%

Percent HH Targeted	95%
Feeder Overage	0%
Distribution Overage	0%
Effective HH per mile	23.83
Effective users per mile year 5	15.57
Number Build miles year 5	96.00

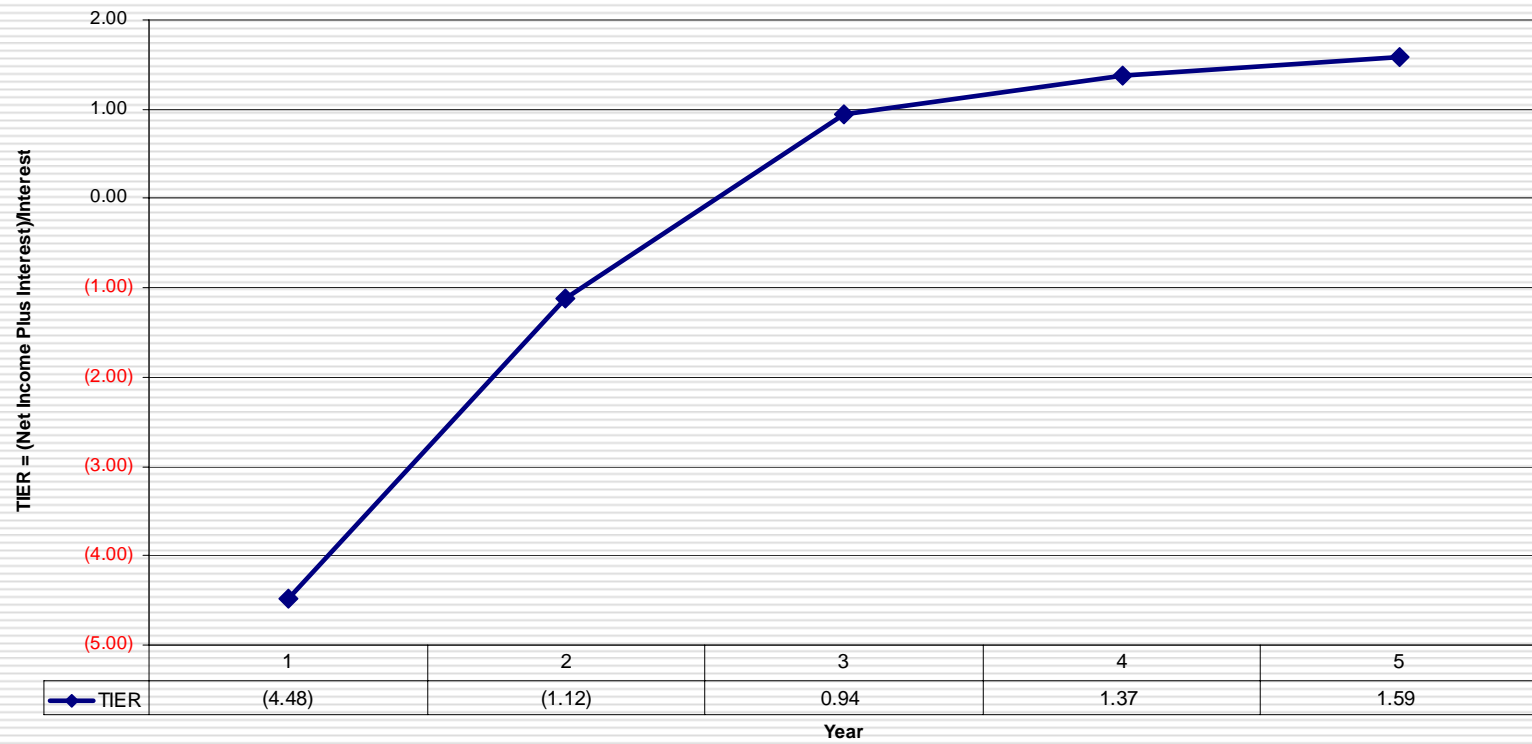
Broadband Internet Fee per Month per user	\$ 45.00
Video Basic Fee per month per user	\$ 49.00
Basic Telephony per month per user	\$ 39.00

Cost of Capital	25.00%
Terminal Cash Flow Multiple	10

Sales per month per Rep	25
Inbound Telemarket Contacts per Sale	10
Percent Direct Sales	75%

TIER

TIER vs Year



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Per User

Per User Metrics



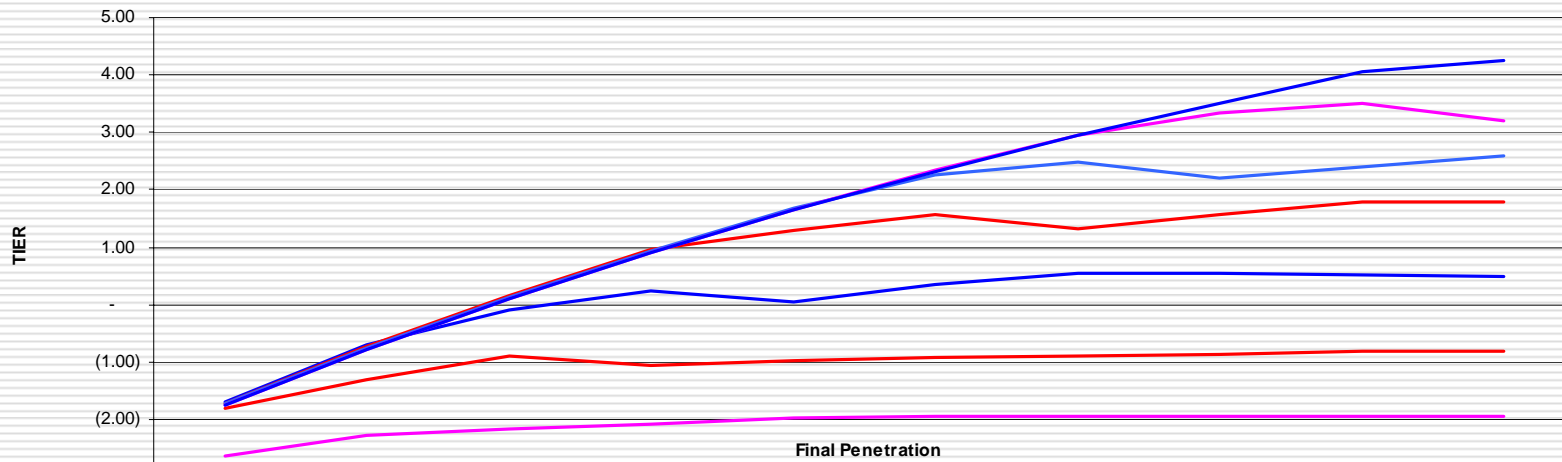
Revenue / User / Month	\$98.60	\$98.63	\$98.67	\$98.72	\$98.79	\$98.88	\$98.99	\$99.09	\$99.18	\$99.27
Total Oper Expenses / User / Month	\$158.26	\$85.35	\$71.78	\$69.86	\$68.97	\$68.54	\$67.98	\$67.54	\$67.37	\$67.39
Interest & Principal / User / Month	\$49.37	\$20.22	\$16.50	\$16.16	\$16.37	\$16.41	\$16.60	\$17.13	\$17.36	\$17.36
Operating Cash Flow / User / Month	(\$84.24)	\$3.70	\$19.50	\$22.07	\$23.40	\$24.39	\$25.48	\$26.30	\$27.04	\$27.74

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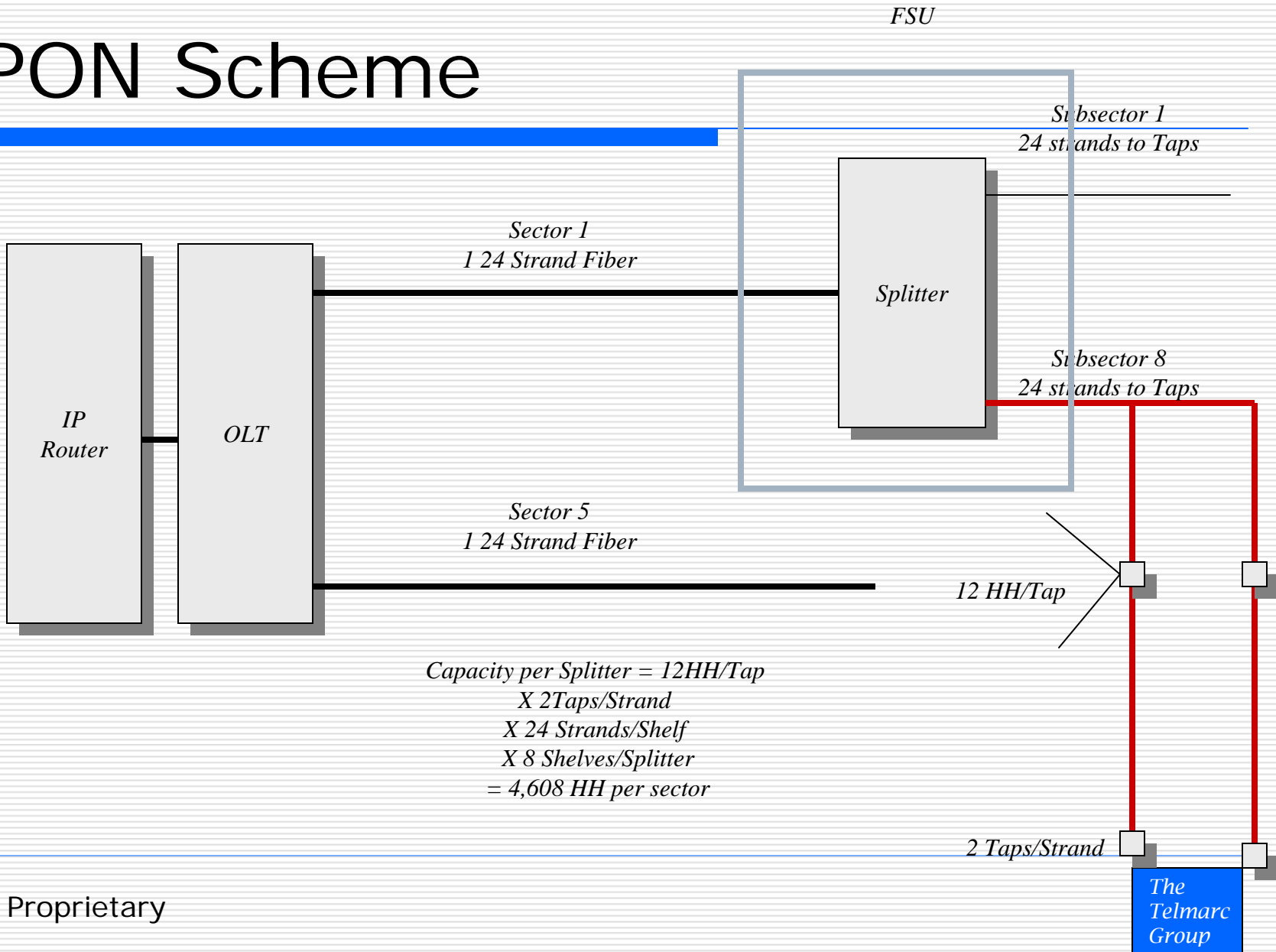
TIER Sensitivity

TIER versus Final Penetration and Initial Penetration



	35%	40%	45%	50%	55%	60%	65%	70%	75%	80%
7.50%	(2.65)	(2.29)	(2.18)	(2.09)	(1.99)	(1.96)	(1.96)	(1.96)	(1.96)	(1.96)
10%	(1.80)	(1.32)	(0.89)	(1.06)	(0.97)	(0.93)	(0.89)	(0.86)	(0.83)	(0.82)
12.50%	(1.69)	(0.72)	(0.10)	0.25	0.04	0.36	0.56	0.53	0.51	0.49
15%	(1.71)	(0.74)	0.14	0.95	1.30	1.57	1.32	1.56	1.80	1.78
17.50%	(1.73)	(0.76)	0.13	0.93	1.67	2.27	2.49	2.20	2.41	2.59
20%	(1.74)	(0.77)	0.11	0.91	1.65	2.33	2.96	3.33	3.50	3.19
22.50%	(1.76)	(0.79)	0.09	0.90	1.64	2.32	2.95	3.52	4.06	4.24

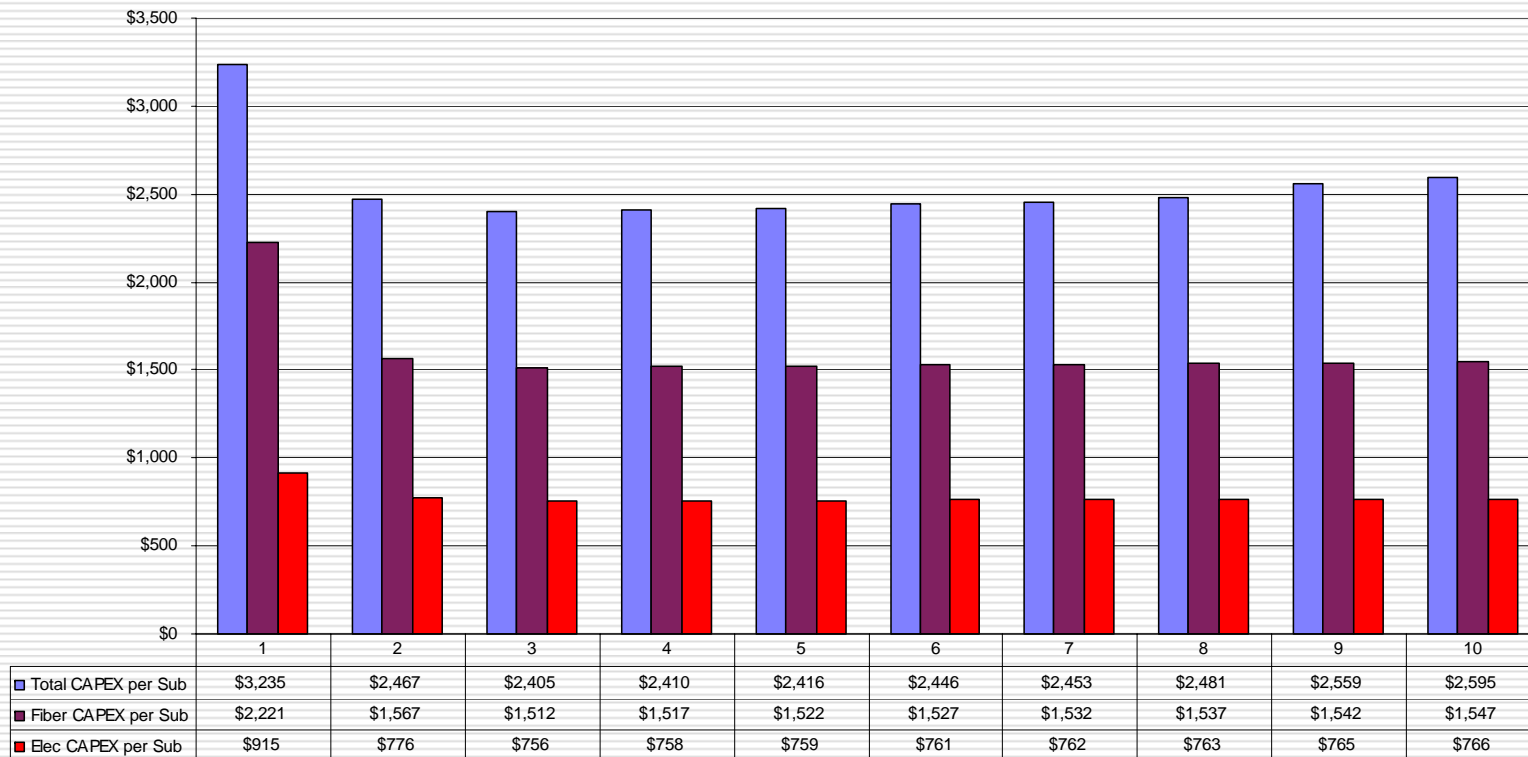
PON Scheme



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CAPEX per Sub

CAPEX per Sub

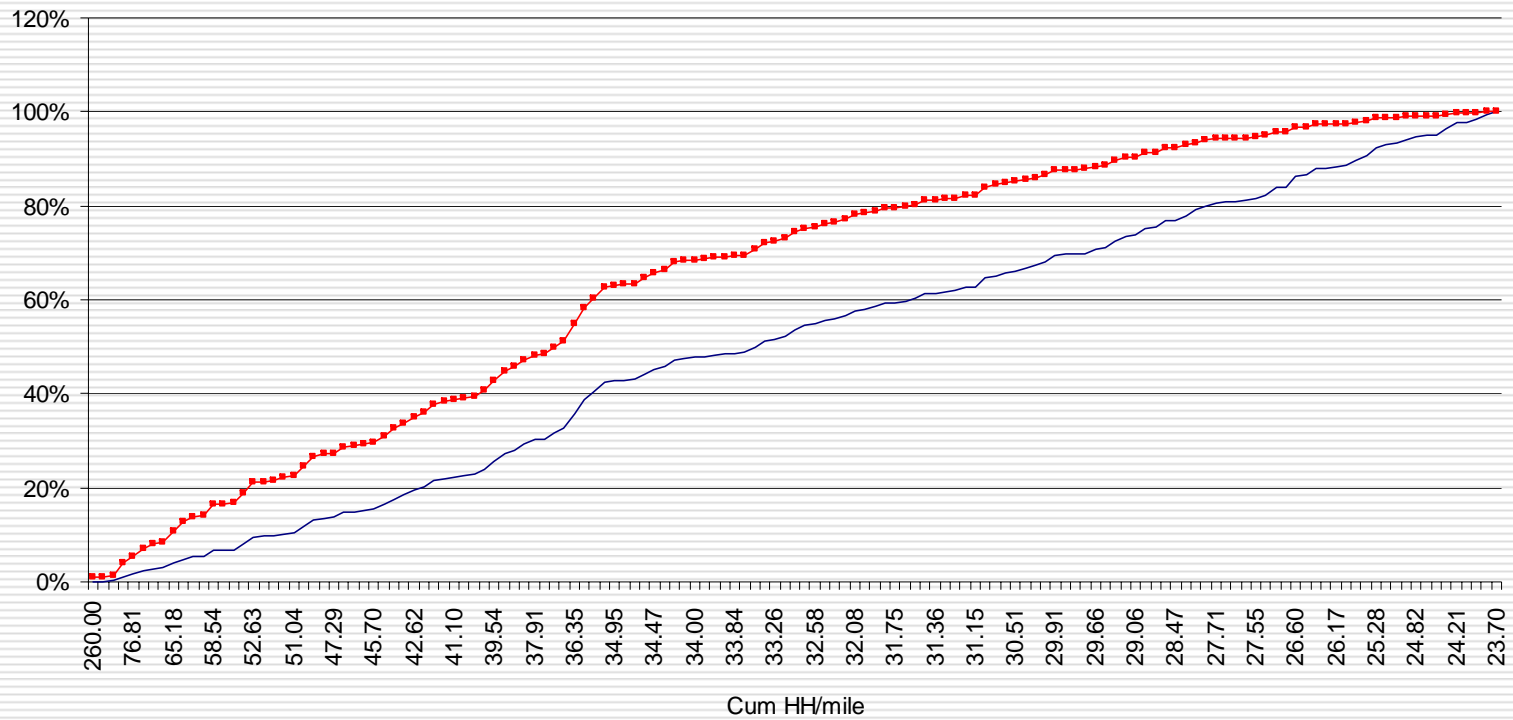


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HH and Miles Distribution

Cum HH % and Cum mi % vs Average HH/mi



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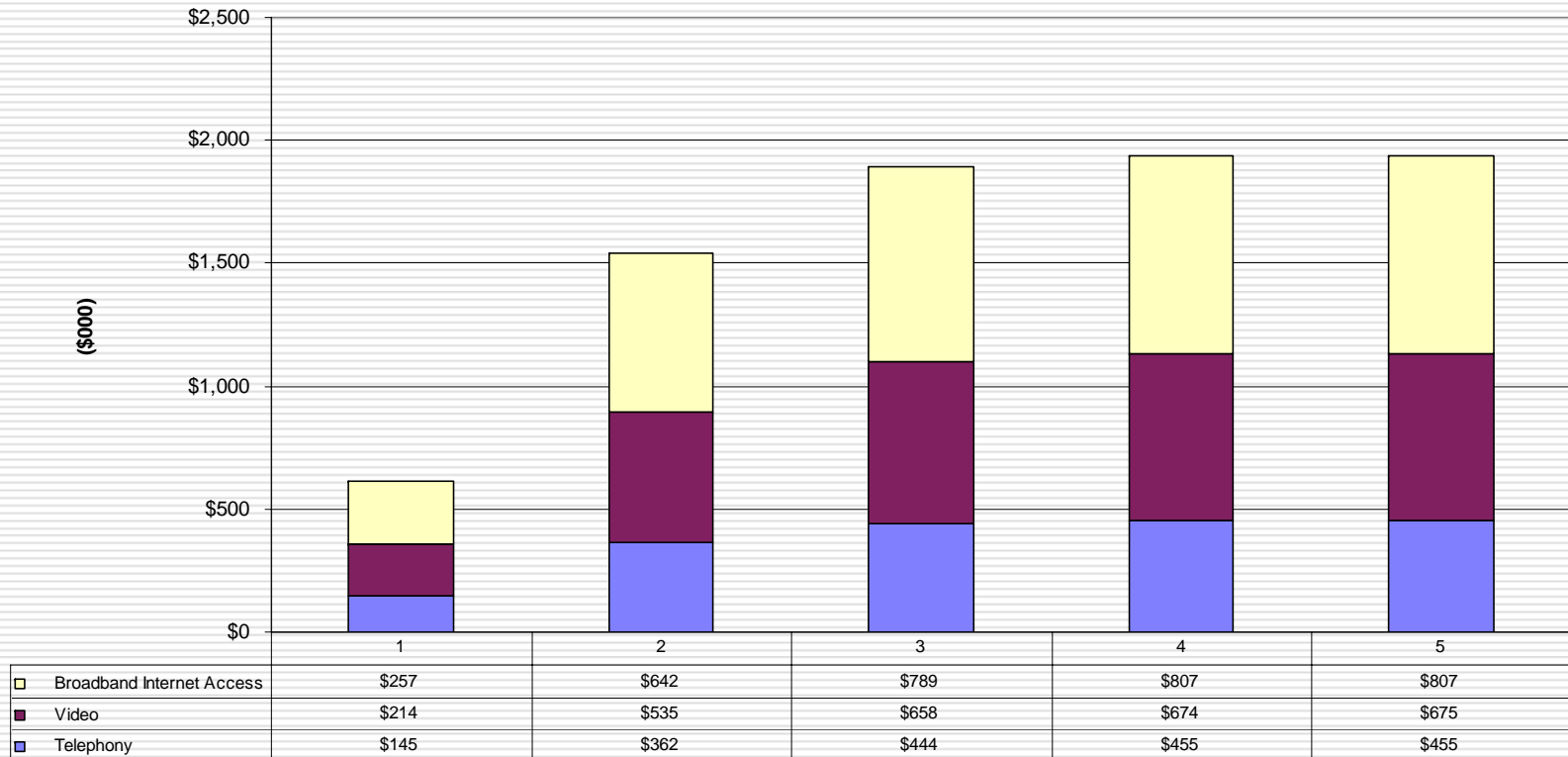
Make Ready etc



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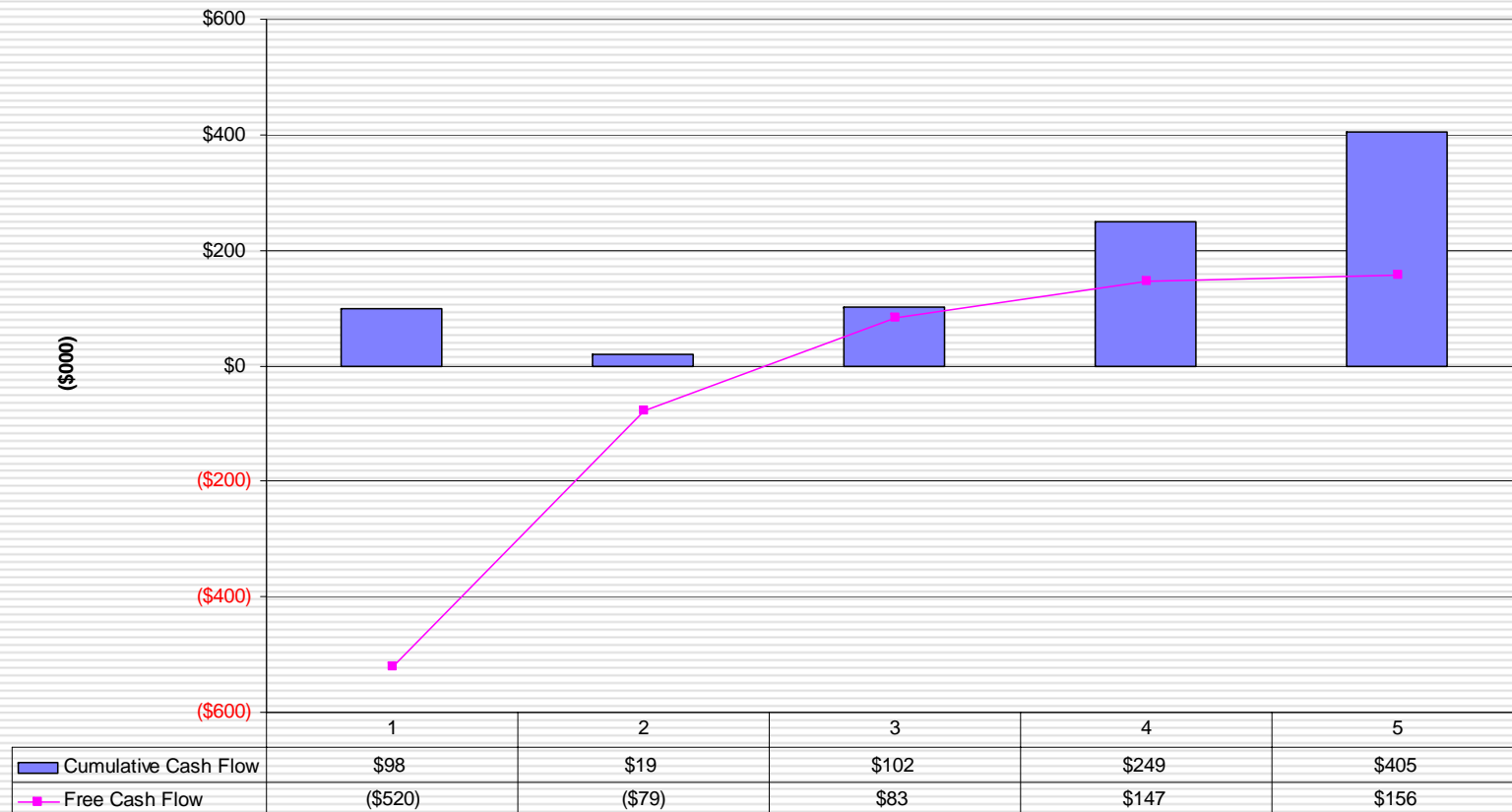
Revenue

Revenue



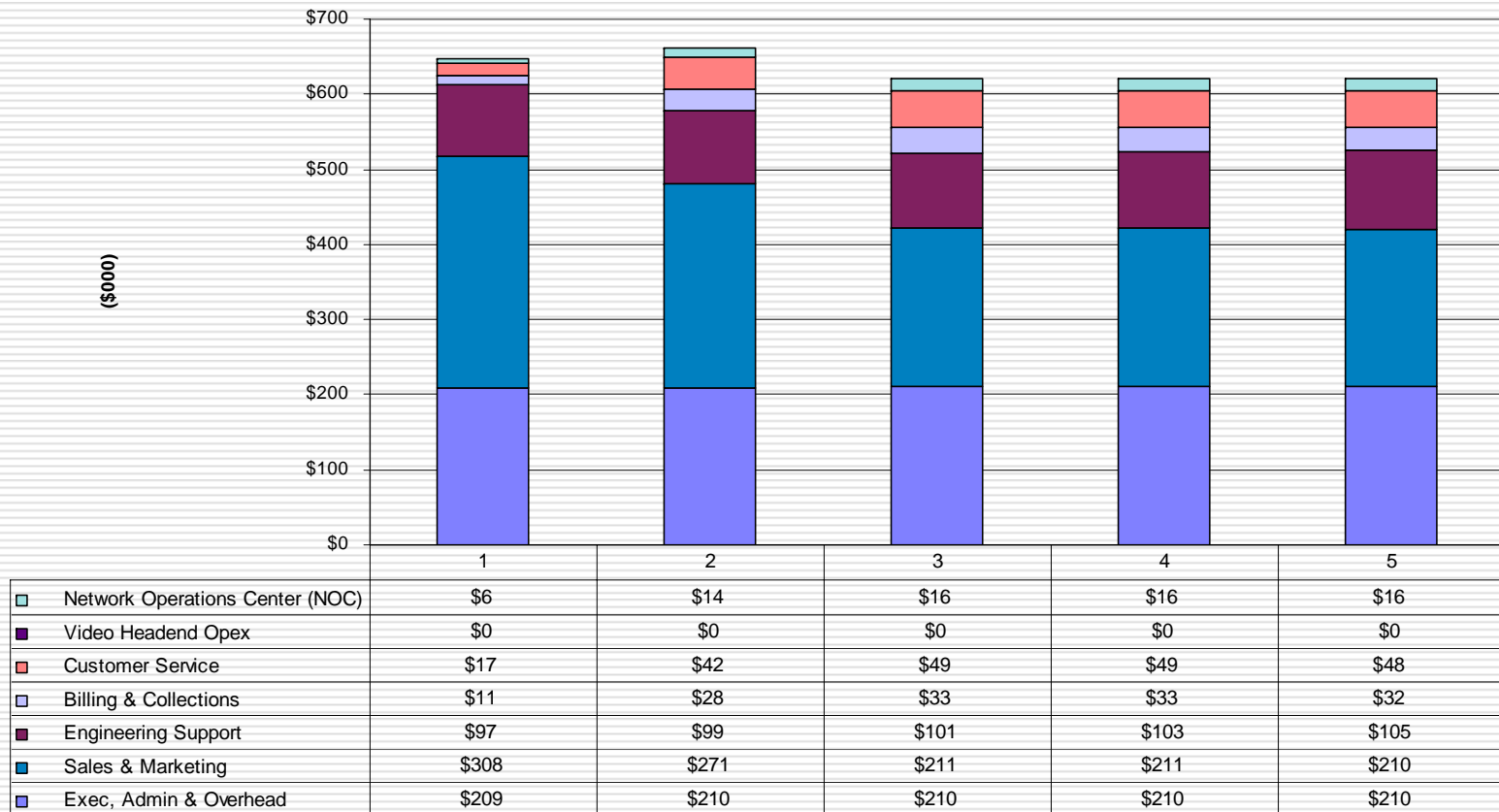
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Cash Flow



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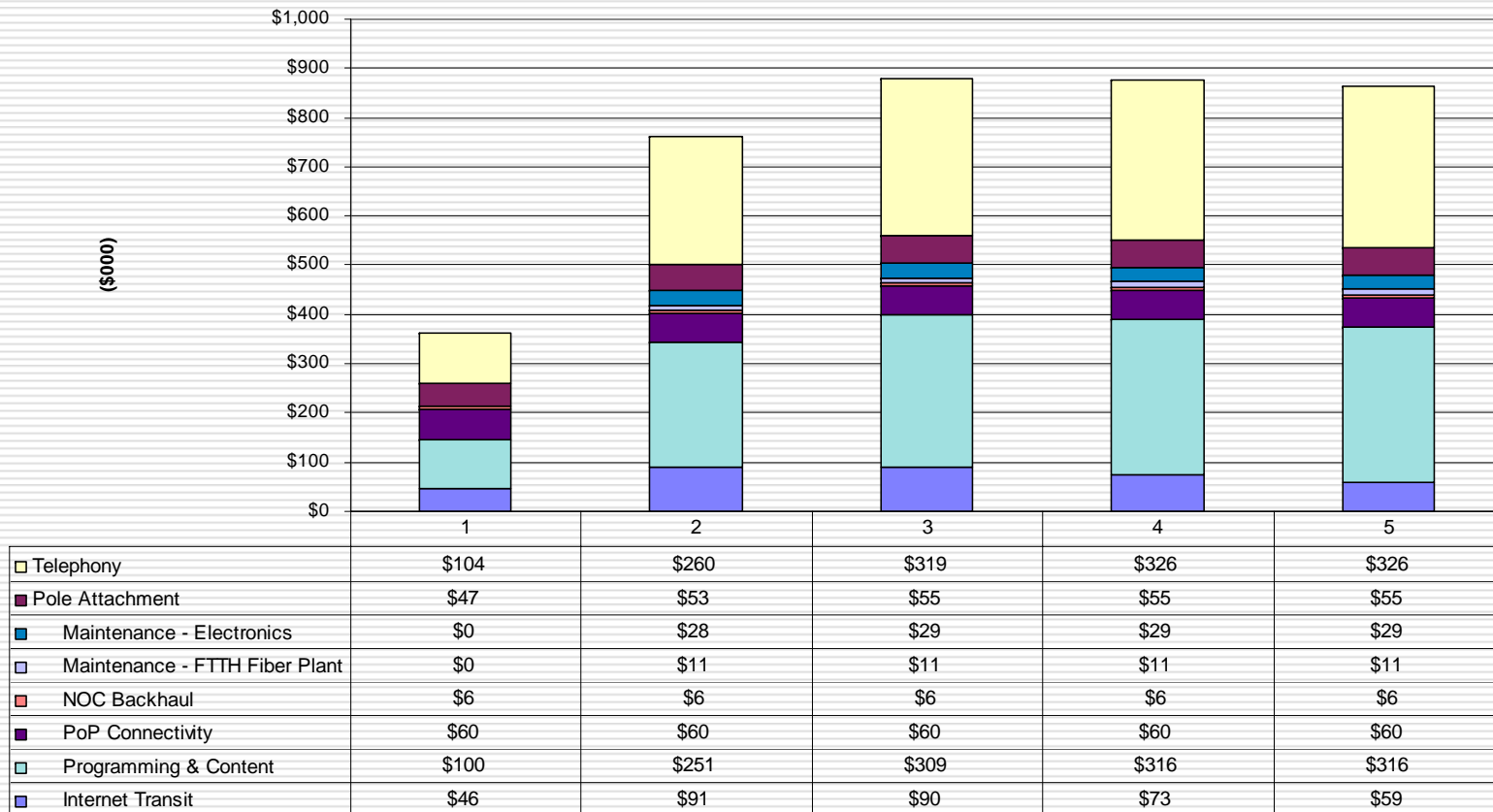
OPEX



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Cost of Service



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Total Costs

Per User per Month

<i>Project Management</i>	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
<i>Network Operations Center (NOC)</i>	\$1.00	\$0.97	\$0.94	\$0.91	\$0.89
<i>Video Headend</i>	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
<i>Customer Service</i>	\$3.00	\$2.91	\$2.82	\$2.74	\$2.66
<i>Billing & Collections</i>	\$2.86	\$2.77	\$2.69	\$2.61	\$2.53
<i>Engineering Support</i>	\$16.93	\$6.91	\$5.73	\$5.72	\$5.83
<i>Sales & Marketing</i>	\$54.01	\$18.99	\$12.07	\$11.77	\$11.73
<i>Exec, Admin & Overhead</i>	\$36.60	\$14.70	\$11.99	\$11.72	\$11.72
Total Operating Expenses	\$114.39	\$47.26	\$36.24	\$35.46	\$35.35
<i>Maintenance - FTTH Fiber Plant</i>	\$0.00	\$0.75	\$0.62	\$0.61	\$0.61
<i>Maintenance - FTTH Electronics</i>	\$0.00	\$1.99	\$1.68	\$1.64	\$1.63
<i>NOC Backhaul</i>	\$1.05	\$0.42	\$0.34	\$0.33	\$0.33
<i>Point of Presence Connectivity</i>	\$10.52	\$4.21	\$3.42	\$3.35	\$3.35
<i>Programming & Content (per total user)</i>	\$17.61	\$17.61	\$17.61	\$17.62	\$17.62
<i>Internet Transit (per total user)</i>	\$8.00	\$6.40	\$5.12	\$4.10	\$3.28
<i>Pole Attachments</i>	\$8.20	\$3.74	\$3.11	\$3.07	\$3.09
<i>Telephony (per total user)</i>	\$18.20	\$18.20	\$18.20	\$18.20	\$18.20
Total Cost of Service	\$63.58	\$53.31	\$50.11	\$48.90	\$48.11

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Cash Flows

<i>Total Expenses per User per Month</i>	\$177.97	\$100.57	\$86.35	\$84.36	\$83.46
<i>Principal & Interest per User per Month</i>	\$48.84	\$19.94	\$16.26	\$15.93	\$16.13
<i>Total Operating Cash Expense per User per Month</i>	\$226.81	\$120.51	\$102.61	\$100.29	\$99.59
<i>Revenue per User per Month</i>	\$107.87	\$107.89	\$107.92	\$107.95	\$108.00
<i>Operating Cash Flow per User per Month</i>	(\$118.94)	(\$12.62)	\$5.30	\$7.67	\$8.42

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Income Statement

Year Ending	0	1	2	3	4	5
<i>Revenues</i>	\$0	\$615,479	\$1,538,977	\$1,891,192	\$1,935,856	\$1,936,740
<i>Cost of Service</i>	\$0	\$362,757	\$760,494	\$878,158	\$876,911	\$862,674
<i>Gross Margin</i>	\$0	\$252,722	\$778,484	\$1,013,034	\$1,058,945	\$1,074,066
<i>% Gross Margin</i>		41%	51%	54%	55%	55%
<i>Operating Expenses</i>	\$0	\$647,800	\$662,214	\$620,990	\$621,819	\$620,377
<i>Operating Income</i>	\$0	(\$395,078)	\$116,270	\$392,044	\$437,126	\$453,689
<i>Margin %</i>		-64%	8%	21%	23%	23%
<i>Depreciation & Amortization</i>	\$0	\$226,094	\$266,514	\$271,538	\$272,390	\$273,293
<i>Profit Before Interest</i>	\$0	(\$621,172)	(\$150,244)	\$120,506	\$164,736	\$180,397
<i>Margin %</i>		-101%	-10%	6%	9%	9%
<i>Interest Expenses</i>	\$126,807	\$138,739	\$134,735	\$127,547	\$119,994	\$113,572
<i>Profit Before Taxes</i>	(\$126,807)	(\$759,911)	(\$284,979)	(\$7,042)	\$44,742	\$66,825
<i>Margin %</i>		-123%	-19%	0%	2%	3%
<i>Income Taxes</i>	\$0	\$0	\$0	\$0	\$0	\$0
<i>Net Income</i>	(\$126,807)	(\$759,911)	(\$284,979)	(\$7,042)	\$44,742	\$66,825
<i>Margin %</i>		-123%	-19%	0%	2%	3%

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