



TSTCI Annual Meeting  
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# Successful Strategies to Deal With Reform

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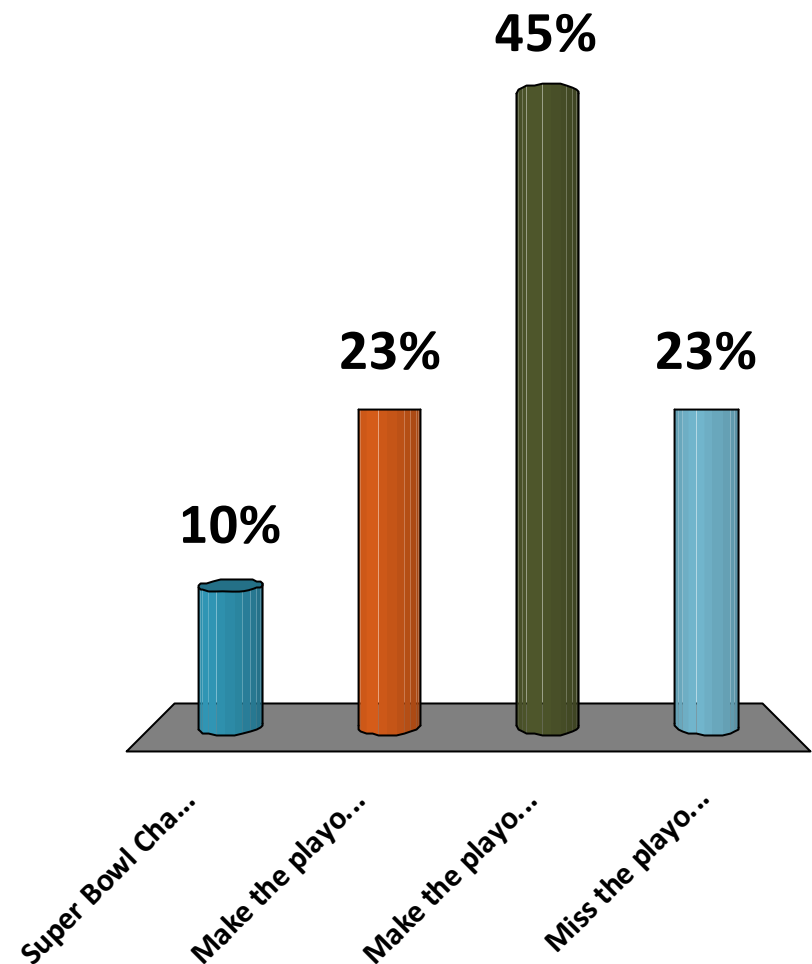
*Acumen. Agility. Answers.*



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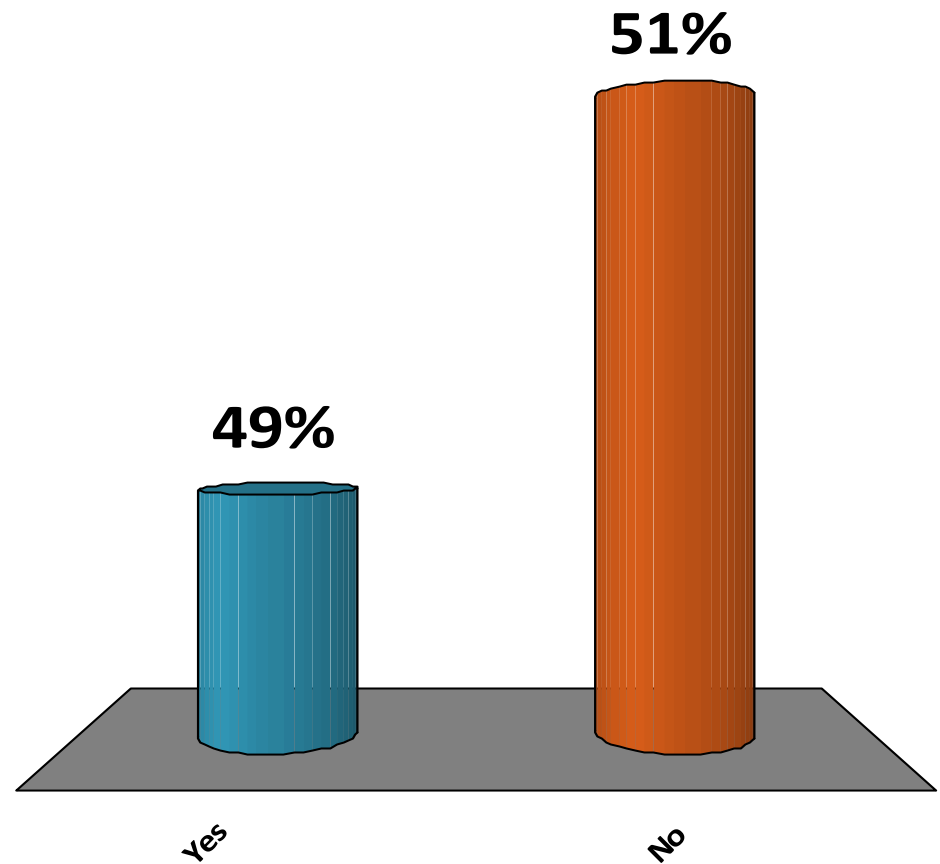
# HOW WILL THE DALLAS COWBOYS DO THIS YEAR?

1. Super Bowl Champs
2. Make the playoffs and finally get a win
3. Make the playoffs and lose again
4. Miss the playoffs



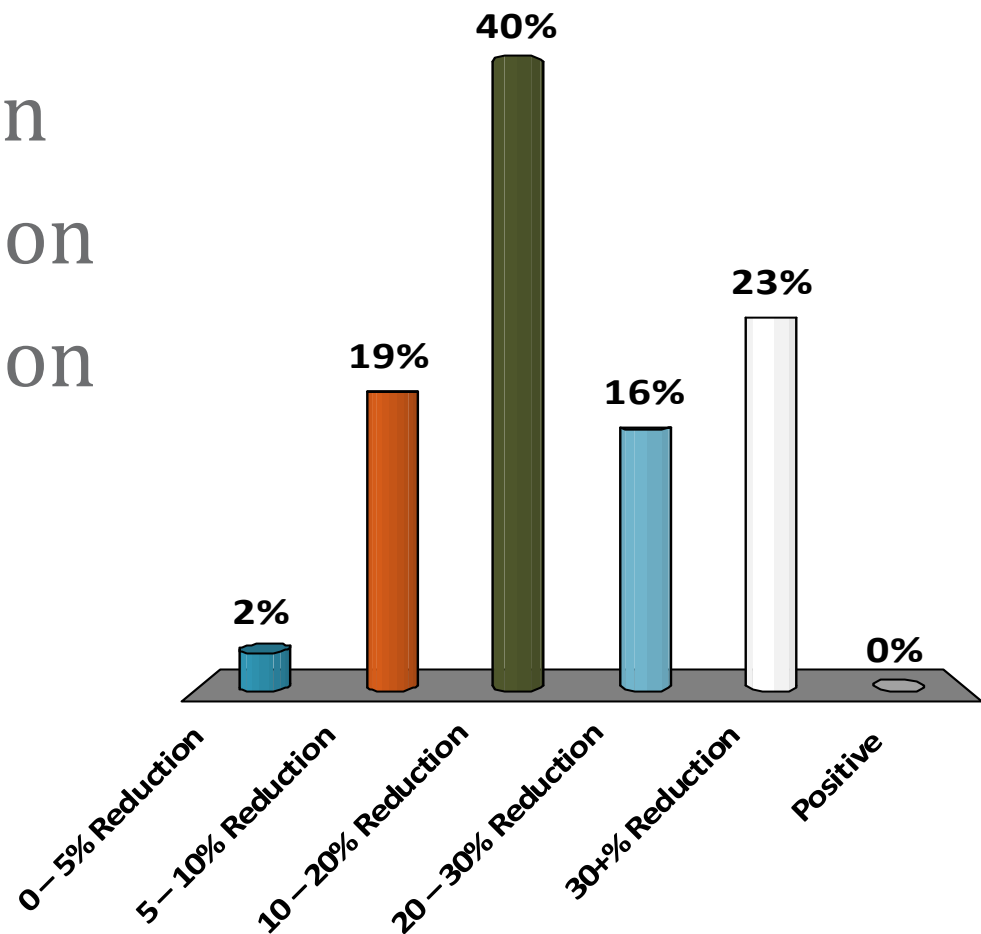
# DID YOU THINK THE AUDIENCE RESPONSE CLICKERS WERE ACTUALLY GOING TO WORK THIS TIME?

1. Yes
2. No



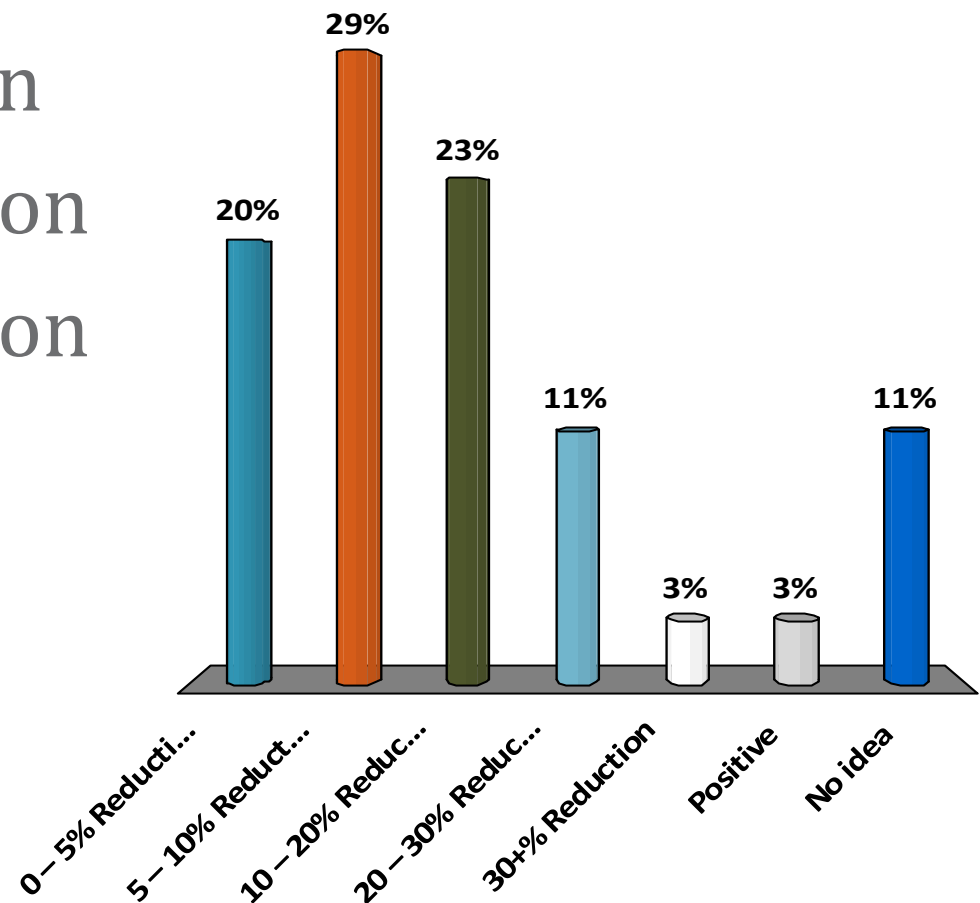
# WHAT IMPACT IS REFORM HAVING ON INDUSTRY REVENUES IN TOTAL?

1. 0 – 5% Reduction
2. 5 – 10% Reduction
3. 10 – 20% Reduction
4. 20 – 30% Reduction
5. 30+% Reduction
6. Positive



# WHAT IMPACT IS REFORM HAVING ON YOUR COMPANY'S REVENUES?

1. 0 – 5% Reduction
2. 5 – 10% Reduction
3. 10 – 20% Reduction
4. 20 – 30% Reduction
5. 30+% Reduction
6. Positive
7. No idea





# IMPACTS OF FCC REFORM

- How do you measure the impacts of reform?
  - ICC
    - Interstate depends on trend of actual costs
      - <5% annual reduction – negative impact
      - >5% annual reduction – positive impact
    - Intrastate depends on trend of terminating switched access minutes
      - <5% annual reduction – negative impact
      - >5% annual reduction – positive impact



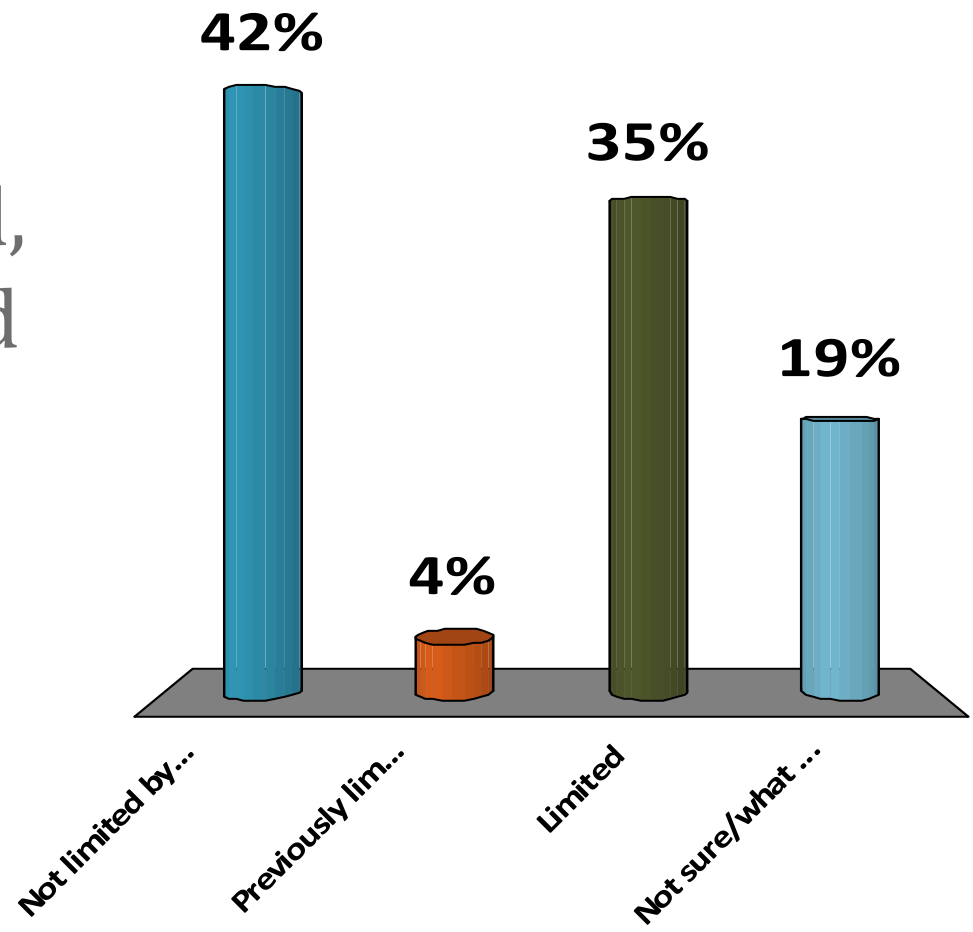
# IMPACTS OF FCC REFORM

- How do you measure the impacts of reform?
  - USF – depends on cost structure
    - Regression – 70 impacted carriers
      - 6<sup>th</sup> Order on Reconsideration
        - » Combined CapEx and OpEx into a single regression calculation
        - » 2013 is a simple addition of the two
          - Impact is limited to the lesser of 50% of limitation or 15% of total HCLS
        - » 2014 is a new calculation
        - » WCB given the flexibility to maintain calculations for a period of time, or to make changes annually



# FROM A REGRESSION PERSPECTIVE, MY COMPANY IS...

1. Not limited by Regression
2. Previously limited, but now unlimited
3. Limited
4. Not sure/what is Regression?





# IMPACTS OF FCC REFORM

- How do you measure the impacts of reform?
  - USF – depends on cost structure
    - Corporate Operations Expense -  $\approx 25\%$  of all RoR carriers
      - Now applies to ICLS as well as HCLS
      - Minor revisions to formulas
    - Artificially Low Voice Rates
      - $\approx 257\text{K}$  lines below \$10 (NECA Carrier Survey 2011)
      - $\approx 849\text{K}$  lines below \$14
      - $\approx 1,435\text{K}$  lines below \$15.62

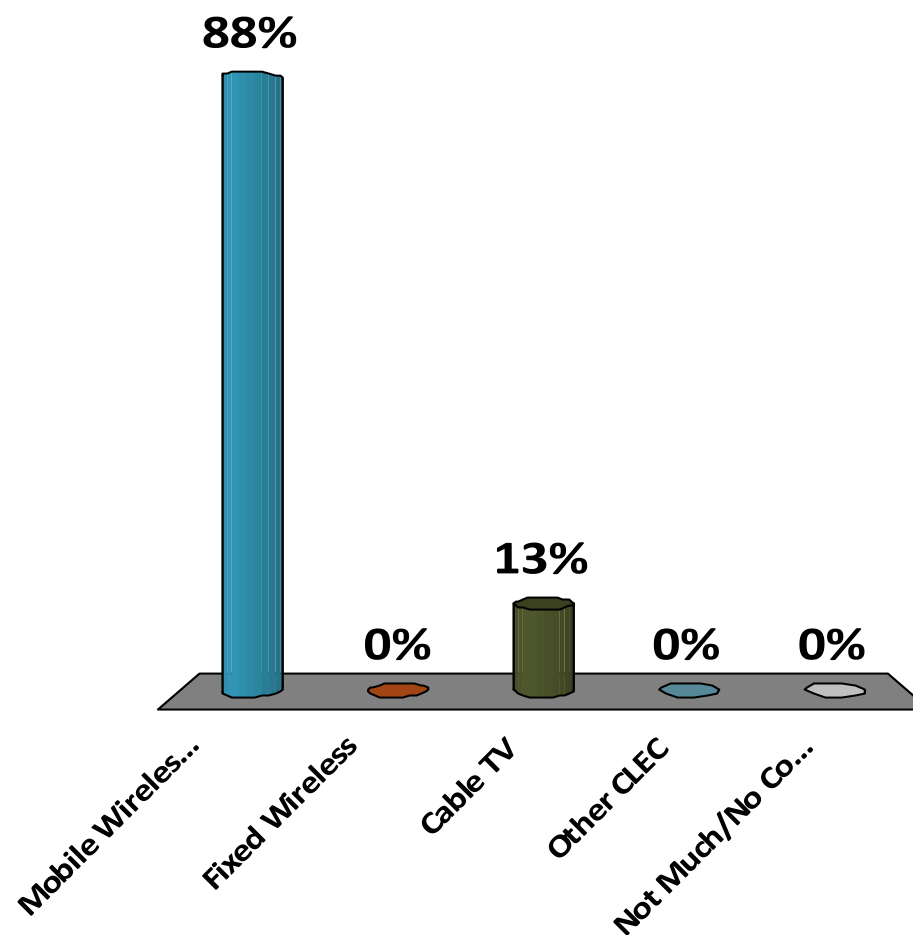


# IMPACTS OF FCC REFORM

- How do you measure the impacts of reform?
  - USF – depends on cost structure
    - Safety Net Additive
      - 402 Rural RoR Carriers - \$72.7M (4Q2011 USAC)
    - \$250/Line/Month Cap
      - 26 carriers in 2011
      - 8 have filed for waivers to date
    - Unsubsidized Competition
      - 18 carriers with  $\geq 99\%$  overlap
      - 37 carriers with  $\geq 95\%$  overlap
      - 88 carriers with  $\geq 80\%$  overlap

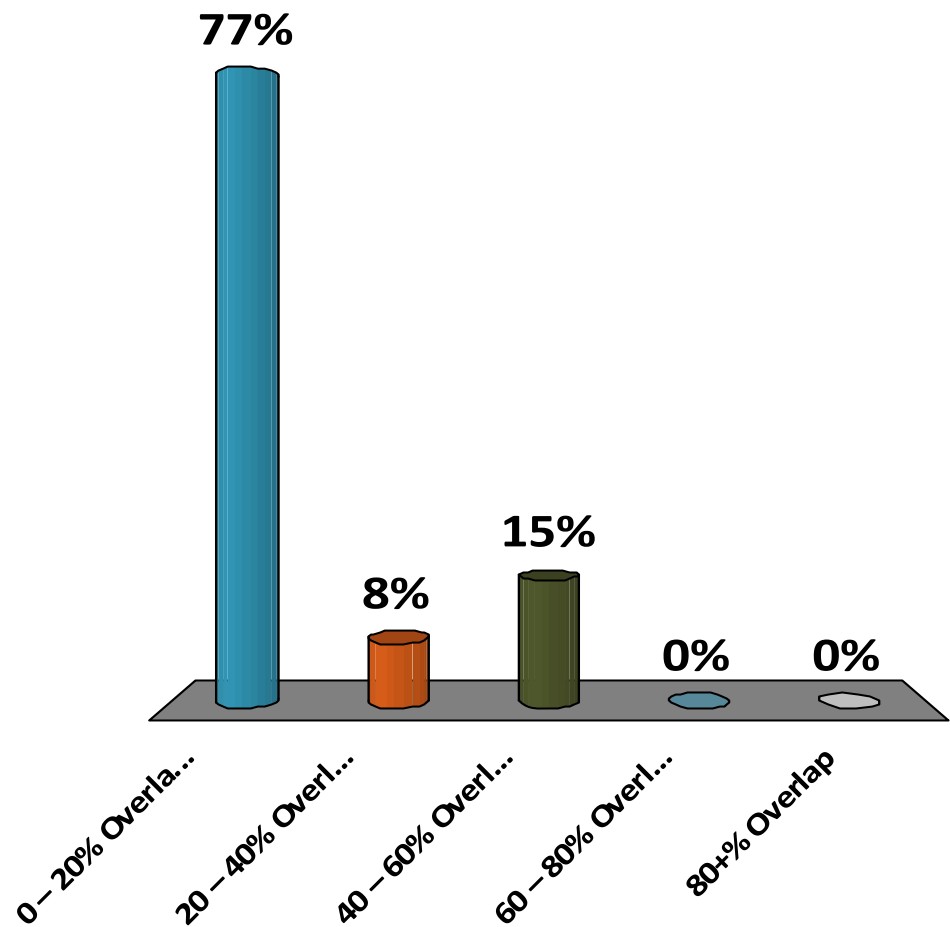
# WHO PROVIDES THE GREATEST COMPETITIVE RISK IN YOUR STUDY AREA?

1. Mobile Wireless
2. Fixed Wireless
3. Cable TV
4. Other CLEC
5. Not Much/No Competition



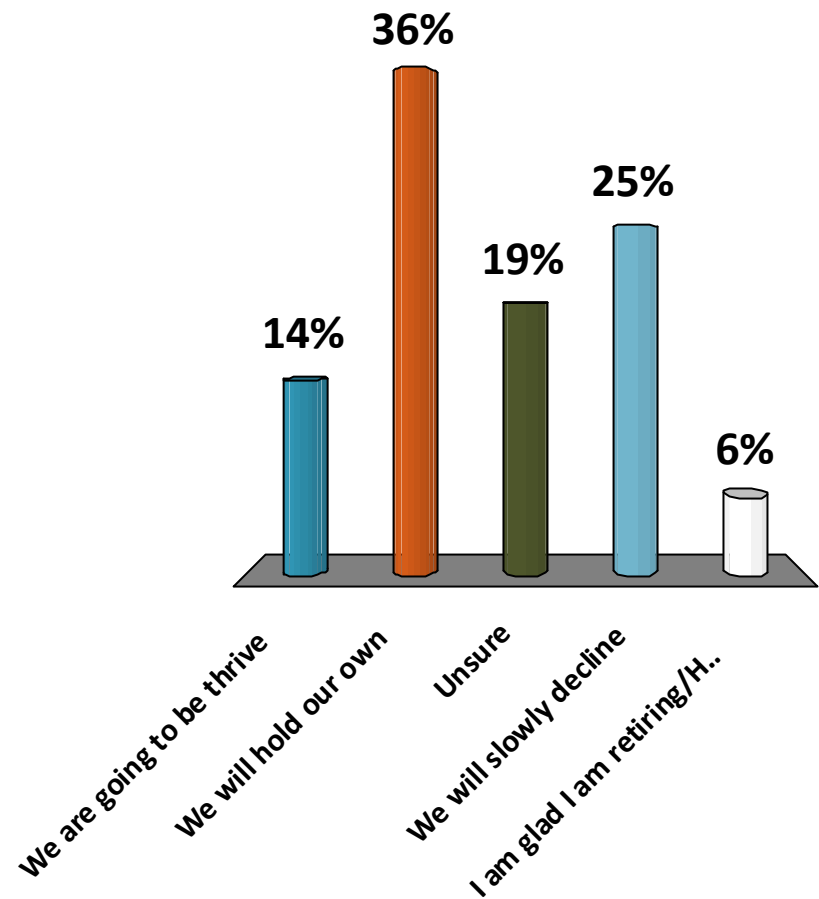
# HOW MUCH FIXED COMPETITION IS THERE IN YOUR STUDY AREA?

1. 0 – 20% Overlap
2. 20 – 40% Overlap
3. 40 – 60% Overlap
4. 60 – 80% Overlap
5. 80+% Overlap



# WHAT IS YOUR OUTLOOK ON THE FUTURE OF YOUR COMPANY GIVEN THE CHANGING ENVIRONMENT?

1. We are going to be thrive
2. We will hold our own
3. Unsure
4. We will slowly decline
5. I am glad I am retiring/How soon can I retire?





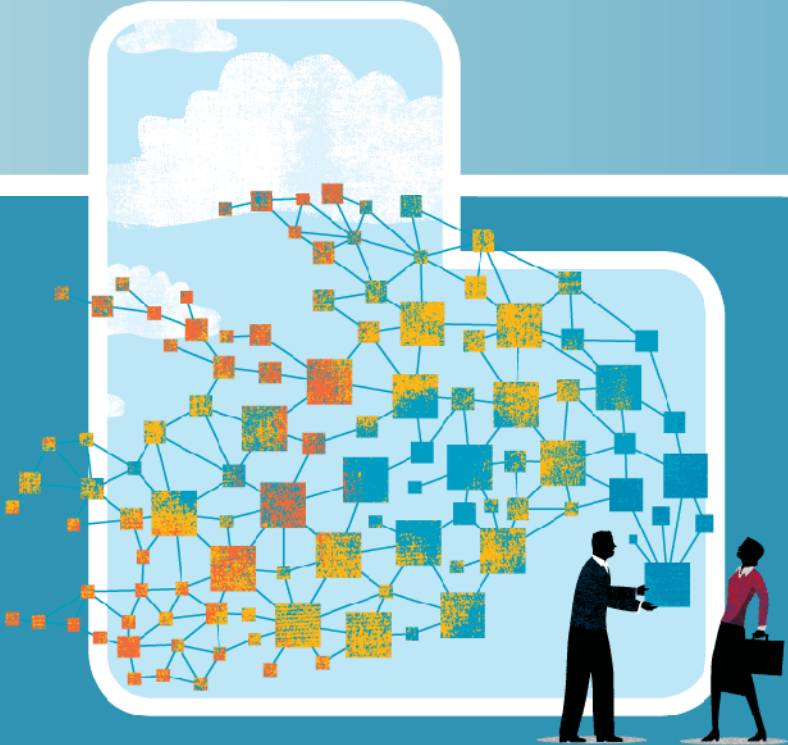
## WHERE DO WE STAND?

- Many are in a position of strength in terms of their balance sheet.
  - Cash
  - Equity
- Challenges. There will not be one answer to thrive – but clearly slowing revenue growth/profitability and regulatory reform requires a different approach to the future

*“When you are winning, and things are going well, is the time to question yourself”*

-Roger Federer

# STRATEGIC OPPORTUNITIES



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## REFORM STRATEGIES

- It is important to recognize the reform has significantly changed the support and settlement process that is responsible for a significant amount of revenues, so we must adapt our business to continue to maximize revenues.



## NETWORK RELATED STRATEGIES

- Switching cost recovery phasing down by 5% annually – **Costs must be reduced**
  - Switch sharing/leasing opportunities
  - Legacy switch retirements/migrate to softswitch
  - Switch technician sharing
  - Maintenance contracts/maintaining the switch
  - Corporate operations expenses – Big 3 allocation
  - Strategies to assist others to reduce switching costs
  - Network design



## NETWORK RELATED STRATEGIES

- Transport costs are capped & Intrastate rates to Interstate – **Costs must be watched**
  - Ensure proper categorization between Toll and Private Line
  - Are electronics upgrades critical?
  - Dark fiber leases to/from other carriers
  - Corporate operations expenses – Big 3 allocation

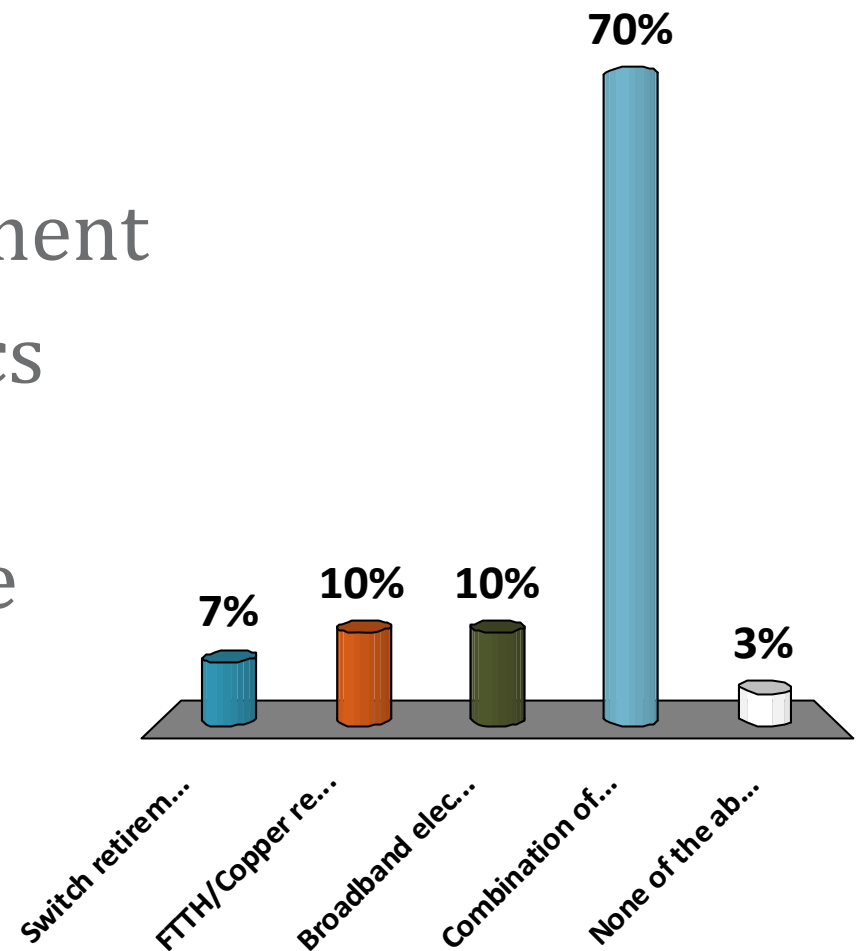


## NETWORK RELATED STRATEGIES

- Loop costs are subject to limitations on USF –  
**Must understand the calculations**
  - Loop related investments are the basis of the calculation of SACPL - Subject to HCLS limitations
    - % of Undepreciated Plant – higher = higher limits
      - One of two independent variables you can impact (Loops)
      - Retire or invest your way out of limitations, or both
    - Loop counts have the largest positive coefficient in the calculation of the limitation
      - How do you ensure that customers stay on your network?
        - » Broadband capability

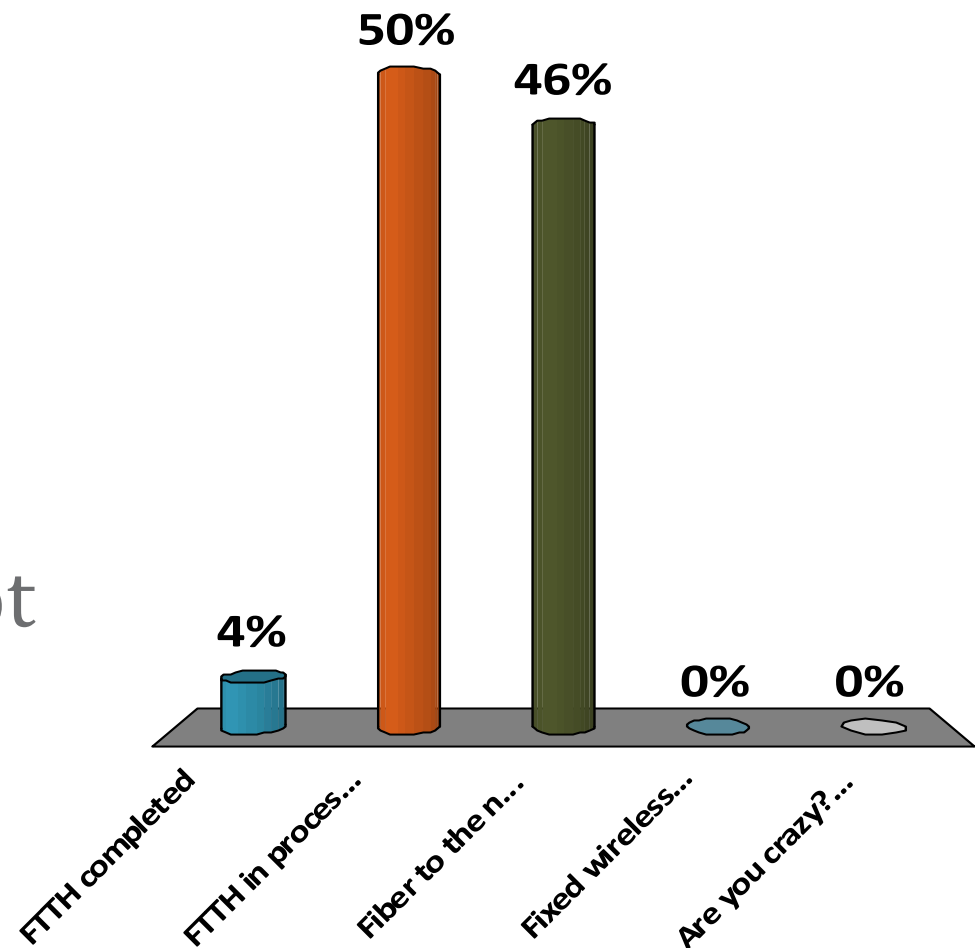
# WHAT NETWORK RELATED STRATEGIES HAVE YOU IMPLEMENTED?

1. Switch retirements/  
lease
2. FTTH/Copper retirement
3. Broadband electronics  
upgrades
4. Combination of above
5. None of the above



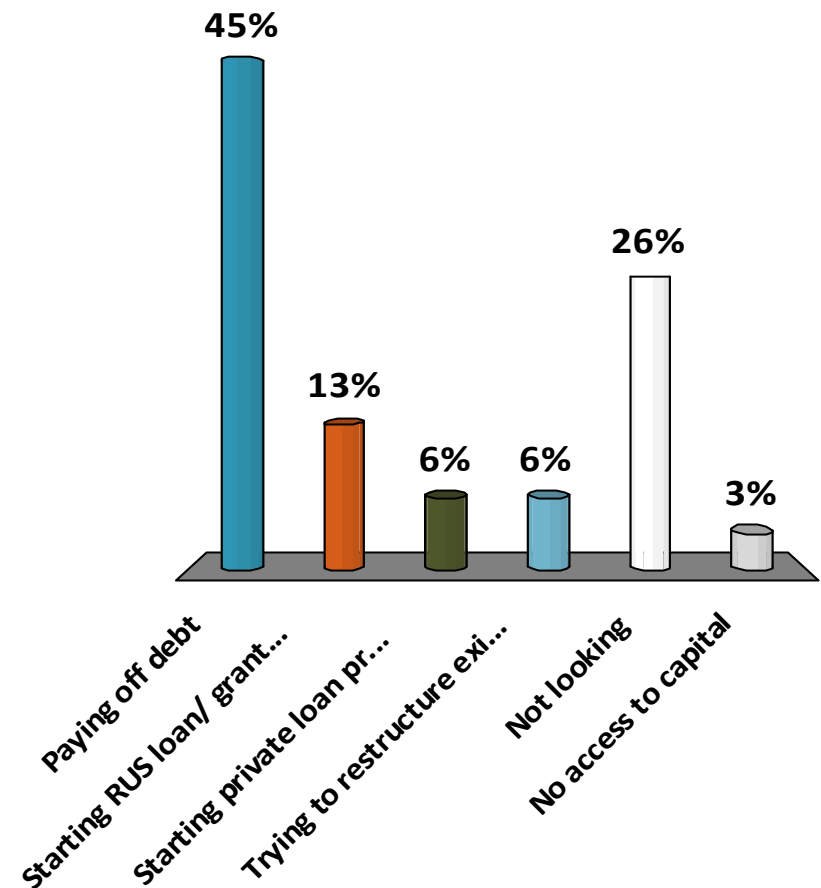
# WHAT ARE YOUR LOOP BUILD-OUT PLANS AND STAGE?

1. FTTH completed
2. FTTH in process
3. Fiber to the node
4. Fixed wireless to fill in gaps
5. Are you crazy? Not building anything



# WHAT IS YOUR CAPITAL STRATEGY?

1. Paying off debt
2. Starting RUS loan/ grant process
3. Starting private loan process
4. Trying to restructure existing debt
5. Not looking
6. No access to capital





## NETWORK RELATED STRATEGIES

- We are still operating in a rate of return model
  - Monitor declining rate base
  - Strategically invest in plant





# EXPENSE RELATED STRATEGIES

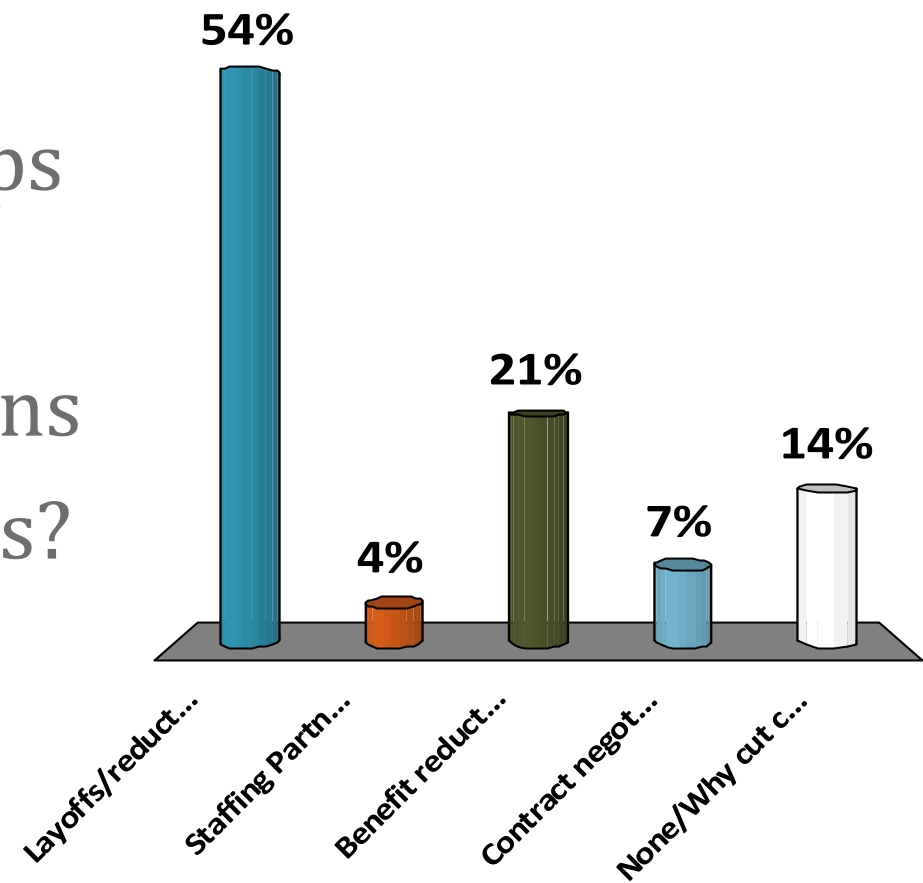


# EXPENSE RELATED STRATEGIES

- Expense reductions are the quickest way to reduce impacts
  - Corporate Operations Expense
  - Shared resources
  - Staffing levels
  - Employee benefits
  - Depreciation rates
  - Vendor contracts

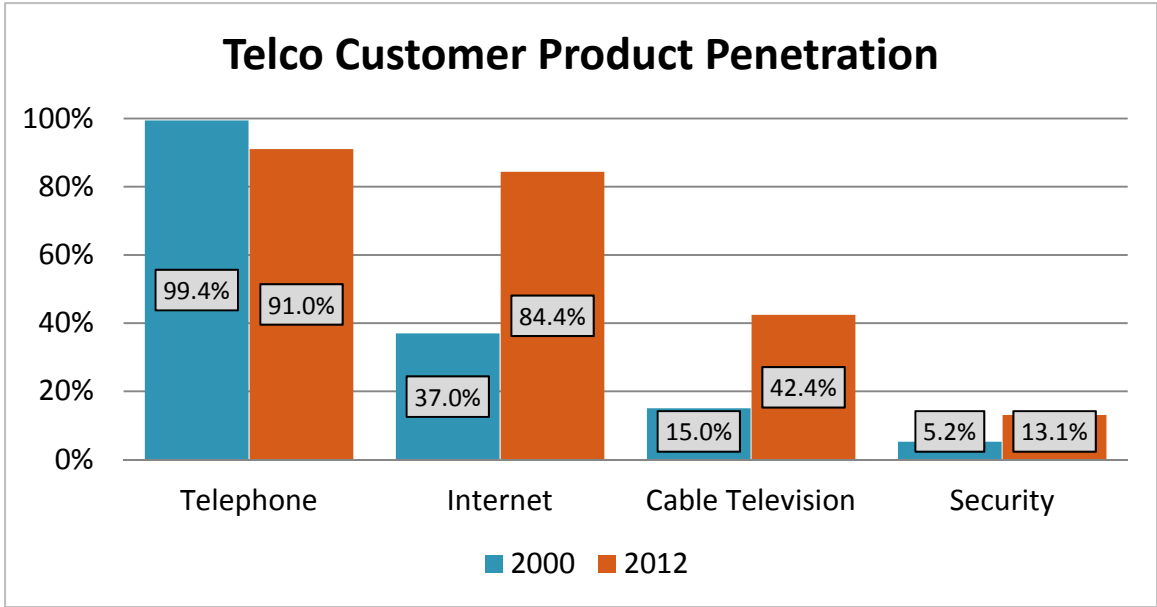
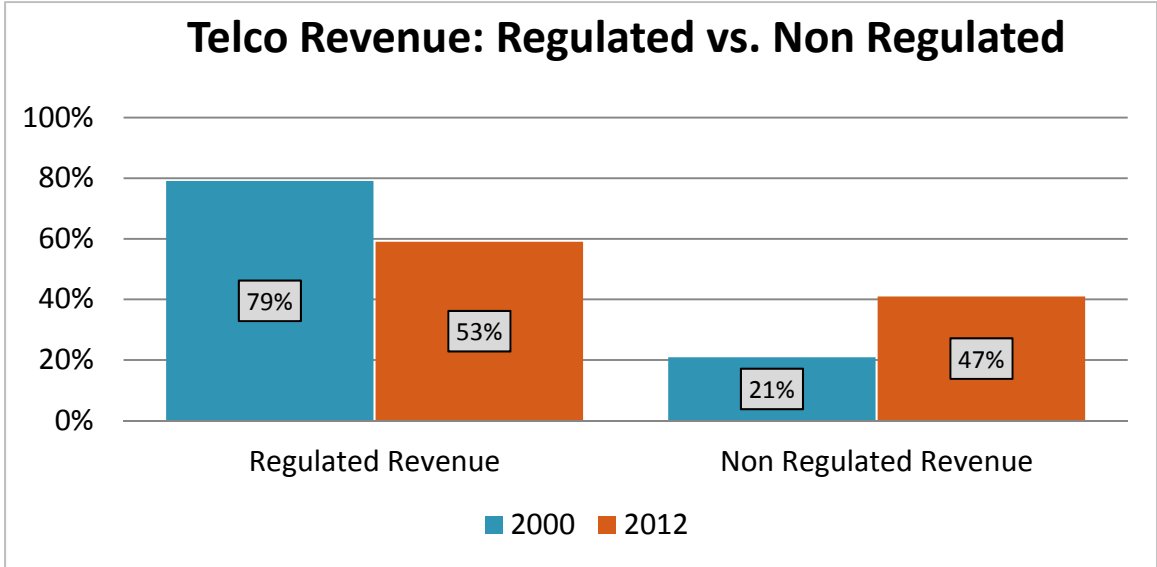
# WHAT COST CUTTING MEASURES HAVE YOU IMPLEMENTED?

1. Layoffs/reductions through attrition
2. Staffing Partnerships
3. Benefit reductions
4. Contract negotiations
5. None/Why cut costs?





# REVENUE/OPERATIONAL RELATED STRATEGIES



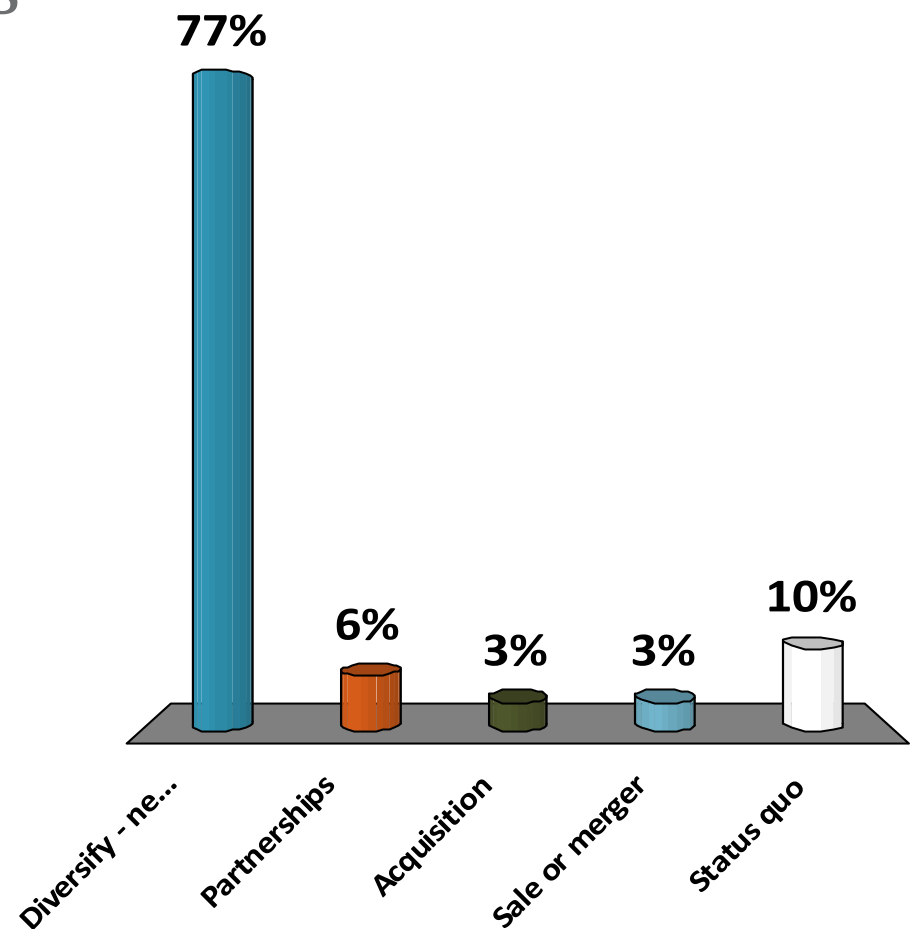


# REVENUE/OPERATIONAL RELATED STRATEGIES

- Additional revenue opportunities
  - Technical services (network/staffing)
  - Management services
  - New lines of business
- Operational opportunities
  - Merger, acquisition or sale
  - Partnerships with other carriers
    - Shared network components
    - Shared human resources and expertise

# WHAT OPERATIONAL STRATEGIES HAVE YOU CONSIDERED?

1. Diversify - new lines of business
2. Partnerships
3. Acquisition
4. Sale or merger
5. Status quo





*Thank you*

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