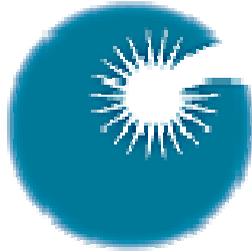


The Ashland Fiber Network

Five Year Business Plan

Updated

March 3, 2009



COMMUNITY BROADBAND

AFN Anywhere, Anytime, for Anyone

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Message from Staff

This is an update of the business plan presented to the City Council in February 2007.

Assumptions and actual expenses and revenues have been revised and include first six month performances of the current fiscal year.

Recap of recent activity is summed up below:

| | |
|---------|--------------------------------------------------------------------------------------|
| FY 2007 | Restructured AFN spun off cable TV November 1, 2006 |
| FY 2008 | Regained network health with the installation of new CMTS |
| FY 2009 | Generated positive operational cash flow, contributed \$356,000 toward debt payment. |

AFN's expenses and revenues are currently meeting adopted budget projection and in spite of the economic downturn in the fall of 2008, AFN's cable modem service continues to experience growth of 2.4% from last year. January end-of-month active modem net counts increased to 4191.

As AFN primarily wholesales the Internet product lines, we depend upon the success of private businesses to meet our revenue projections. We maintain solid relationships with our Internet Service Provider Retailers and one of AFN's marketing distinctions continues to be 'friendly local service, and expert local technical support.'

The 2007 business plan discussed AFN becoming a retail ISP with the express purpose of gaining additional collective market share. This did not occur as an agreement between AFN and its ISP Retailers was reached in 2007, and the ISP's pledged to actively grow customers. We have recently had discussions with our retailers regarding raising the minimum monthly payment of \$1500 and establishing a higher customer growth target to incentivize acquisition efforts. If these growth targets are not met within the first two quarters of FY 2010 this business plan assumes that AFN will aggressively market services as a retail internet provider. As a retailer, AFN is not interested in migrating customers from our current ISP's but instead would convert customers using other services such as cable modem, DSL, and dial-up services, along with households that do not yet have a connection. There is some marketplace uncertainty with the imminent business restructuring of Charter Communications.

We have seen variations from the original business plan last presented on February 2007. The VOIP (Voice Over Internet Protocol Telephone service) was launched and then due to the corporate reorganization the retailer did not market the product or provide quality of service resulting in sales that did not meet the business plan projections. The underperformance in this VOIP revenue did not negatively affect the bottom-line as the amounts originally projected were projected conservatively at \$9,800 this year and \$11,200 for FY 2010.

Staff recommends the implementation of Wi Max (wireless broadband internet) as "the third pipe" of community broadband connectivity augmenting cable modem and high speed data (fiber) services. Deploying Wi Max services is the most efficient method to reach homes within the city that AFN can't currently service with the wired network due to construction costs. Another advantage of AFN Wi Max is its green powered transmission sites which minimizes the digging up of streets and yards to bury cable. Wi Max creates a *culture of use* of mobility which fits the needs of the younger demographics. Wi Max will be promoted as *AFN anyplace, anytime, for anyone*. Wi Max will enable AFN to extend services to residents and businesses outside of our city's urban growth boundary, providing rural residents with broadband connectivity and substantially increasing AFN's service area reach.

Staff has included the capital expense of the Wi Max build in the Federal Stimulus Package which earmarks \$9 billion for the express purpose of building out broadband services to rural areas. As this is a critical

product innovation to acquire significantly more new customers, and there is no guarantee of acquiring federal funding, the implementation of WI Max is also projected into our capital expense.

AFN staff is working with the League of Oregon Cities for a portion of the federal economic stimulus package designated specifically for expanding broadband services to rural areas. Staff is also communicating directly with offices of our regional and state representatives for Title VI Broadband Technologies Opportunities Program federal stimulus funding. AFN should receive favorable consideration for stimulus funding as we fit the federal criteria of being a rural area, operating a true open access network, our network is municipally owned, we already offer specified broadband speeds, and are ready to build out within 60 days of receiving funds.

The entire AFN staff is committed to further growing our internet and high speed customer base and increasing AFN's financial health so we can continue to contribute to the technology debt payment. AFN staff appreciates the passionate support of the business and residential community for our products and services and we pledge to continue to provide our community with new relevant products backed up with friendly local service and expert local technical support.

Michael Ainsworth

Interim Director of Information Technology

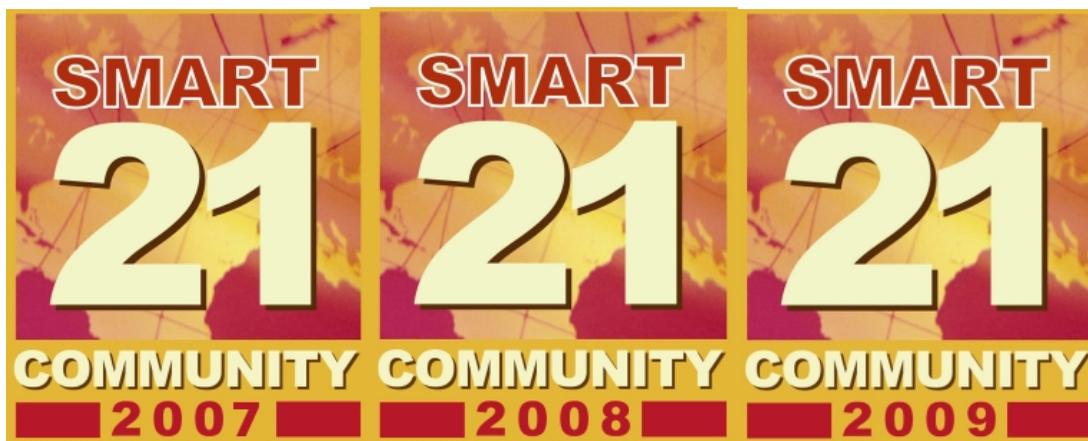
Where We Are

The creation of the Ashland Fiber Network has created a broadband *culture of use* among Ashland's businesses and residents. The City of Ashland was recently awarded its third consecutive Smart 21 Community Award from the Intelligent Community Forum international organization for social and economic gains in our community thru the use of broadband technology.

AFN currently has an estimated market share of 60% with our internet product. The cable television service and the majority of our internet product are retailed and marketed by nine Internet Service Providers / Retailers. Competitive environment includes, Charter Communications, satellite providers, and telephone providers. High Speed Data serves numerous organizations and businesses in Ashland. "AFN Rural Wireless" is AFN's commercial grade radio wireless internet service which is available to over 800 customers outside of our city via a green powered (solar & wind) wireless network. "AFN anywhere" is a limited range wireless 802.11 network that currently serves our visitors and some stationary residents who live in areas unserviceable by our wired AFN service in our city. Neither of these short range wireless services are as robust as Wi Max which will deliver 3-5mbps speeds with blanket service range in miles.

There is some marketplace uncertainty with the imminent business restructuring of Charter Communications. Charter has filed for Chapter 11 and news reports of this reorganization will generate consumer confidence erosion in their provider which AFN and its Retailers can leverage toward acquiring more internet and cable TV (retailed by Ashland TV) customers.

The community of Ashland thrives with the community broadband connections provided by the Ashland Fiber Network. Business, tourism, education, community organizations, and the average household have all benefited significantly over the years from the telecommunications and competition brought by AFN. This business plan update presents a conservative, realistic view of the next three years.



Current Financial Summary

Fiscal Year 2007/2008 was AFN's first full year of operation without cable TV, which has been retailed by a private business, Ashland TV, since November 1, 2006. We therefore have 18 months of run rates to more accurately trend out expenses and revenues in this business plan update that we originally had when the business plan was last presented back in February 2007.

By shedding AFN's cable TV service, we were able to stop operational losses of \$341,442 back in FY 2007.

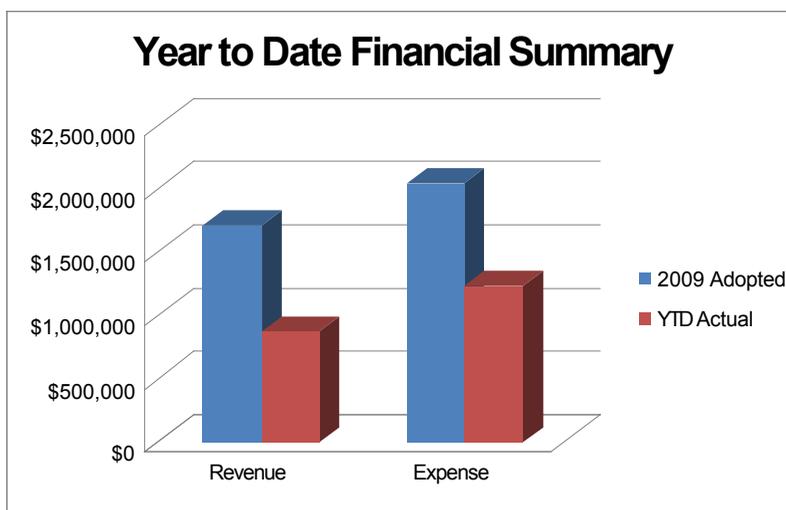
In FY 2009, AFN was able to contribute \$356,000 toward the technology debt and moving forward AFN will continue to contribute \$356,000 to the debt. This is a significant positive variance to the original 2007 AFN Business Plan which projected a substantially less debt payment of \$200,000 per year.

For the first six months of this current fiscal year, AFN is right on track for year-to-date budgetary expenses and revenues. This is in large part due to stabilized cable television subscriber counts and net gains of 2.4% in billable internet accounts where we continue to see growth in spite of the economic downturn.

Note: Expenses are currently 10% over YTD projections solely due to the timing of the one-time \$356,000 debt payment which is not spread out over the 12 month budget year.

| 2009 YEAR-TO-DATE as of 12/31/08 SIX MONTHS | | |
|---------------------------------------------|-------------|-------------|
| | Revenue | Expense |
| 2009 Estimate | \$1,708,389 | \$1,938,114 |
| YTD Actual | \$875,260 | \$1,232,281 |
| Percent Collected / Expended | 51.20% | 60% |

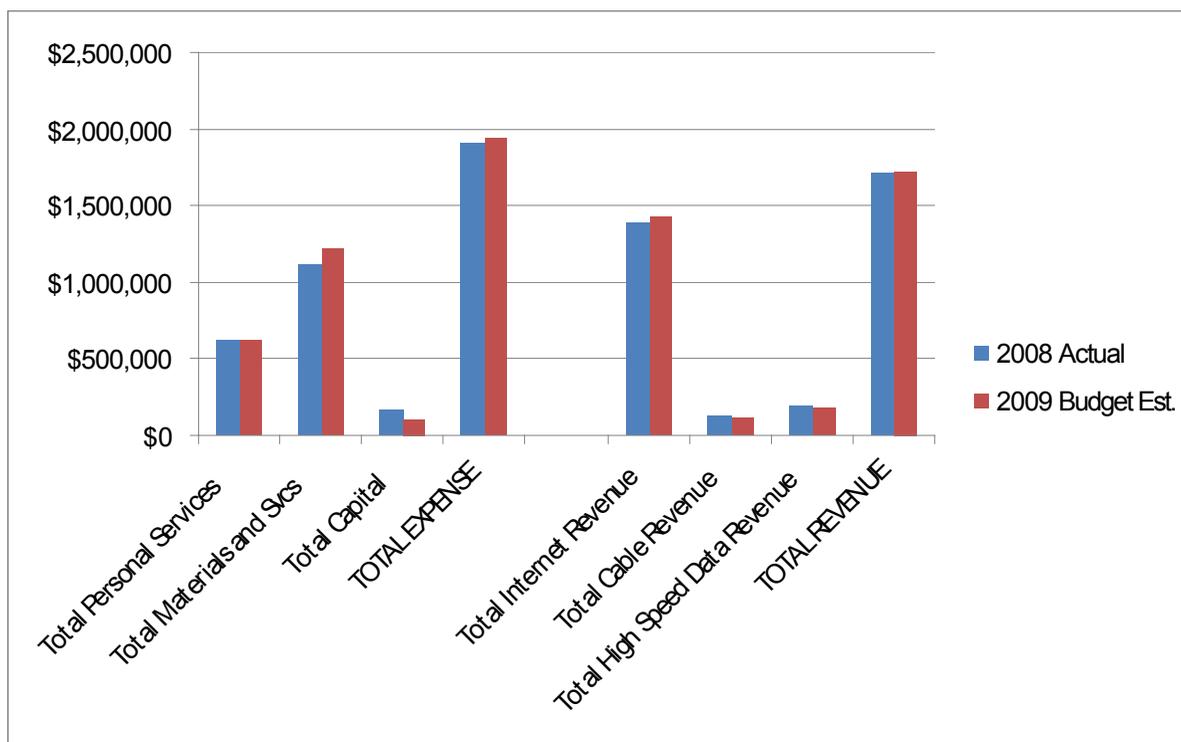
Note: Expense includes \$356,000 payment to technology debt. [Expenditure detail report numbers.](#)



Comparison of Last year's Financials to this year's Estimate

| | 2008 | 2009 |
|--------------------------|--------------------|--------------------|
| | Actual | Budget Est. |
| Total Personal Services | \$627,737 | \$616,509 |
| Total Materials and Svcs | \$1,112,017 | \$1,221,605 |
| Total Capital | \$163,417 | \$100,000 |
| TOTAL EXPENSE | \$1,903,171 | \$1,938,114 |

| | | |
|-------------------------------------------|--------------------|--------------------|
| Total Internet Revenue | \$1,386,343 | \$1,428,000 |
| Total Cable Revenue | \$132,124 | \$112,000 |
| Total High Speed Data Revenue | \$191,229 | \$185,000 |
| TOTAL REVENUE Charges for Services | \$1,709,696 | \$1,725,000 |



Note: "Cost of Service" includes Operational, Capital expenses AND \$356,000 Debt Service

Five Year Forecast

The following table is a summary of revenues, expenditures, and the associated “net” for the next three fiscal years. This includes all capital expenses for each year. Staff is proposing a \$150,000 capital outlay for FY 2010 to launch Wi Max, and therefore the 2007/08 “net” operational cash flow is lower.

| | Total Annual Gross Revenue | Total Annual Gross Expense | Total Annualized Net |
|---------|--------------------------------------|--------------------------------------|--------------------------------|
| FY 2008 | \$1,709,710 | \$1,547,200 | \$162,580 |
| FY 2009 | \$1,750,500 | \$1,582,100 | \$168,400 |
| FY 2010 | \$1,828,000 | \$1,813,900 | \$14,100 |
| FY 2011 | \$1,930,000 | \$1,773,300 | \$156,700 |
| FY 2012 | \$2,127,800 | \$1,954,500 | \$173,300 |

\$356,000 debt payment is not included above

**2010 Wi Max \$150,000 capital expense*

Revenue Summary

The assumptions made in projecting revenue are as follows:

1. Wholesale Internet revenues will increase 5% annually
2. Wireless Internet revenue will increase 3% annually through the end of 2009 when we see customers migrate to new Wi Max service in 2010 projected to erode 9%
3. High Speed Data revenue will increase 4% annually
4. Wholesale Internet revenue (revenue from other ISP's) will increase 3% quarter-to-quarter through 2009 and are projected in 2010 and beyond to increase 5%
5. Ashland Home Net will start 1st Quarter FY 2010 with 2100 customers averaging \$4.00 per customer per billing month. Cable Television (CATV) revenue will increase 2% annually

AFN staff is anticipating some moderate erosion of the AFN Anywhere and AFN Rural Wireless service with some customers migrating to Wi Max services. Anticipated revenues project this impact to one service trending down and another product service gaining customers to feed the revenue bottom line positively.

On November 4, 2008, the City Council passed a rate resolution to increase AFN's wholesale Internet prices by 5% to offset projected inflationary expenses that were growing faster than revenues. The new rates took affect January 2009 and are included in this business plan's updated revenue forecasts.

We have experienced revenue underperformance of the VOIP product as projected in the original February 2007 Business Plan. The good news is that the overall revenue bottom line has not been negatively affected by the underperforming VOIP product as it represented a small percentage of overall revenue. The reduction or elimination of capital projections detailed in the February 2007 Business Plan for budgetary reasons did result in the reduction of projected revenues.

Fortunately the economic downturn has not impacted our principal product line, cable modem internet service, as business and residential users consider this an essential service. The last quarter of 2008 along with end-of-month activity in January 2009, continue to show a positive net customer acquisition trend in spite of the economic downturn.

Total Charges by Service Revenue Summary by Category

| Fiscal Year | Annual Revenue by Product Line | | | Charges for Services | | | | TOTAL Annual Gross |
|-------------|--------------------------------|------------|-----------|----------------------|-----------------|----------------|---------|--------------------|
| | Wholesale Internet | High Speed | CATV | Retail Wi Max | Retail Wireless | Retail AFN ISP | VOIP | |
| 2008 | \$1,323,400 | \$190,000 | \$132,000 | \$0 | \$24,800 | \$38,000 | \$1,600 | \$1,710,000 |
| 2009 | \$1,355,500 | \$185,000 | \$112,000 | \$0 | \$33,400 | \$39,000 | \$100 | \$1,725,000 |
| 2010 | \$1,423,275 | \$192,400 | \$114,240 | \$46,000 | \$25,000 | \$44,000 | \$1,200 | \$1,846,000 |
| 2011 | \$1,494,439 | \$200,096 | \$116,525 | \$165,000 | \$20,000 | \$48,000 | \$2,400 | \$2,046,500 |
| 2012 | \$1,643,883 | \$208,100 | \$118,855 | \$344,000 | \$20,000 | \$52,800 | \$4,800 | \$2,392,500 |

“Charges by services” does not include interest and miscellaneous revenues. 2012 consumptive rates.

Wholesale Internet Revenue Summary

5% growth rate

| Fiscal Year | Low Gross Monthly Revenue | Target Gross Monthly Revenue | High Gross Monthly Revenue | Gross Annualized Revenue |
|-------------|---------------------------|------------------------------|----------------------------|--------------------------|
| 2008 | \$93,741 | \$110,283 | \$115,798 | \$1,323,400 |
| 2009 | \$96,015 | \$112,958 | \$118,606 | \$1,355,500 |
| 2010 | \$100,815 | \$118,606 | \$124,537 | \$1,423,275 |
| 2011 | \$105,857 | \$124,538 | \$130,764 | \$1,494,450 |
| 2012 | \$116,443 | \$136,992 | \$143,841 | \$1,643,900 |

incentify ISP's to grow in 2010

Revenue Summary for High Speed Data “FTTP”

4% growth rate

| Fiscal Year | Low Gross Monthly Revenue | Target Gross Monthly Revenue | High Gross Monthly Revenue | Gross Annualized Revenue |
|-------------|---------------------------|------------------------------|----------------------------|--------------------------|
| 2008 | \$13,458 | \$15,833 | \$16,625 | \$190,000 |
| 2009 | \$13,104 | \$15,417 | \$16,188 | \$185,000 |
| 2010 | \$13,628 | \$16,033 | \$16,835 | \$192,400 |
| 2011 | \$14,173 | \$16,675 | \$17,508 | \$200,096 |
| 2012 | \$14,740 | \$17,342 | \$18,209 | \$208,100 |

reflects an actual drop in commercial activity due to economic downturn

Cable Television Revenue Summary

2% growth rate

Subscriber counts stabilized 2009

| Fiscal Year | Low Gross Monthly Revenue | Target Gross Monthly Revenue | High Gross Monthly Revenue | Gross Annualized Revenue |
|-------------|---------------------------|------------------------------|----------------------------|--------------------------|
| 2008 | \$9,350 | \$11,000 | \$11,550 | \$132,000 |
| 2009 | \$7,933 | \$9,333 | \$9,800 | \$112,000 |
| 2010 | \$8,089 | \$9,517 | \$9,993 | \$114,200 |
| 2011 | \$8,252 | \$9,708 | \$10,194 | \$116,500 |
| 2012 | \$8,422 | \$9,908 | \$10,404 | \$118,900 |

Revenue Summary for Retail AFN Internet

3% growth rate - transactional response

unless ISP's do not meet growth benchmark

| Fiscal Year | Low Gross Monthly Revenue | Target Gross Monthly Revenue | High Gross Monthly Revenue | Gross Annualized Revenue |
|-------------|---------------------------|------------------------------|----------------------------|--------------------------|
| 2008 | \$2,800 | \$3,100 | \$3,500 | \$38,000 |
| 2009 | \$3,825 | \$3,200 | \$4,892 | \$39,000 |
| 2010 | \$4,180 | \$3,700 | \$4,977 | \$44,000 |
| 2011 | \$3,900 | \$4,000 | \$5,200 | \$48,000 |
| 2012 | \$4,028 | \$4,400 | \$5,400 | \$52,800 |

Revenue Summary for Wireless Internet

Flattens out to Wi Max

Tourist Service

| Fiscal Year | Low Gross Monthly Revenue | Target Gross Monthly Revenue | High Gross Monthly Revenue | Gross Annualized Revenue |
|-------------|---------------------------|------------------------------|----------------------------|--------------------------|
| 2008 | \$1,757 | \$2,067 | \$2,170 | \$24,800 |
| 2009 | \$2,366 | \$2,783 | \$2,923 | \$33,400 |
| 2010 | \$1,771 | \$2,083 | \$2,188 | \$25,000 |
| 2011 | \$1,417 | \$1,667 | \$1,750 | \$20,000 |
| 2012 | \$1,417 | \$1,667 | \$1,750 | \$20,000 |

Wi Max Revenue Summary

Three year ROI @30% net revenue

| | Retail Price | Customer Count Start Year | Customer Monthly Gain | Customer Count End Year | Target Gross Monthly Revenue | Gross Annualized Revenue |
|------|--------------|---------------------------|-----------------------|-------------------------|------------------------------|--------------------------|
| 2010 | \$30 | 0 | 25 | 265 | \$3,800 | \$46,000 |
| 2011 | \$30 | 295 | 30 | 625 | \$13,700 | \$165,000 |
| 2012 | \$35 | 655 | 30 | 985 | \$28,500 | \$344,000 |

Revenue Summary for AFN VOIP

Commercial @ \$6 per line (first two lines) additional lines @ \$2.50 each.

Residential @ \$7 per line.

Unrealized revenue of \$10,000

| Fiscal Year | Low Gross Monthly Revenue | Target Gross Monthly Revenue | High Gross Monthly Revenue | Target Gross Annualized Revenue |
|-------------|---------------------------|------------------------------|----------------------------|---------------------------------|
| 2008 | \$6 | \$192 | \$205 | \$1,600 |
| 2009 | \$6 | \$12 | \$12 | \$100 |
| 2010 | \$6 | \$12 | \$12 | \$100 |
| 2011 | \$200 | \$200 | \$300 | \$2,400 |
| 2012 | \$400 | \$400 | \$500 | \$4,800 |

Breakdown of Total Expense by Percentage

Discretionary expenses are controllable by department management and non discretionary expenses are not. Changes to either expenses impact the net revenue bottom line.

Discretionary expenses

| | |
|-----|------------------------------------|
| 30% | Personal Services |
| 9% | Supplies |
| 5% | Rental, Repair, Maintenance |
| 2% | Licensing (Misc. Charges and Fees) |
| 2% | Other Purchased Services |
| 1% | Communications |
| 5% | Capital |
| 54% | Total |

Non Discretionary expenses

| | |
|-----|--------------------------------------------|
| 20% | Central Services (Misc. Charges and Fees) |
| 18% | Debt payment (Misc. Charges and Fees) |
| 5% | Misc. Charges and Fees |
| 3% | Use of Facilities (Misc. Charges and Fees) |
| 46% | Total |

Expense Detail

The table below provides more detail of expense history and projections. Personal Services, salaries and benefits increases follow city practices and are projected to increase 5%. An annual 3% increase to Materials and Services is included to account for inflationary increases.

One significant expense is noteworthy to point out. Numerous industry sources anticipate bandwidth use to double in the next few years. Staff has projected out this expense below in FY 2012. Capital expenses are based on projections of actual purchases and planned replacement and have been pared down in response to the economic downturn. More specifics for Capital follow on the next page.

| | Actuals FY 2008 | Current Year FY 2009 | FY 2010 | FY 2011 | FY 2012 |
|--------------------------------------------------|--------------------|-------------------------|--------------------|--------------------|--------------------|
| EXPENSE Personal Services | | | | | |
| Salaries and benefits | \$627,737 | \$648,957 | \$647,300 | \$679,600 | \$713,600 |
| Total Personal Services | \$627,737 | \$616,509 | \$647,300 | \$679,600 | \$713,600 |
| | | | | | |
| EXPENSE Materials and Services | | | | | |
| Supplies | \$174,844 | \$188,140 | \$193,784 | \$199,598 | \$325,586 |
| Rental, Repair, Maintenance | \$72,844 | \$111,731 | \$116,200 | \$120,848 | \$125,682 |
| Communications | \$9,283 | \$16,597 | \$17,261 | \$17,951 | \$18,669 |
| Contractual Services | \$20,125 | \$400 | \$500 | \$600 | \$700 |
| Misc. Charges and Fees (DEBT & Central Services) | \$810,407 | \$857,995 | \$900,895 | \$945,939 | \$993,236 |
| Other Purchased Services | \$44,507 | \$46,700 | \$49,035 | \$51,487 | \$54,061 |
| Total Materials and Svcs | \$1,132,010 | \$1,221,563 | \$1,277,675 | \$1,336,424 | \$1,517,935 |
| | | | | | |
| CAPITAL | | | | | |
| Equipment | \$151,881 | \$70,000 | \$150,000 | \$50,000 | \$50,000 |
| Improvements Other Than Bldgs | \$11,535 | \$30,000 | \$25,000 | \$25,000 | \$25,000 |
| Total Capital | \$163,420 | \$100,000 | \$175,000 | \$75,000 | \$75,000 |
| EXPENSE TOTAL | \$1,903,171 | \$1,938,072 | \$2,099,975 | \$2,091,024 | \$2,306,535 |
| | | | | | |
| REVENUE | | | | | |
| Internet | \$1,387,800 | \$1,423,275 | \$1,511,175 | \$1,574,967 | \$1,726,623 |
| Cable | \$132,000 | \$112,000 | \$114,240 | \$116,525 | \$118,885 |
| High Speed | \$190,000 | \$185,000 | \$192,400 | \$200,100 | \$208,100 |
| Wi Max | \$0 | \$0 | \$46,000 | \$165,000 | \$344,000 |
| Other Interest Misc Investments | \$99,289 | \$15,050 | \$15,500 | \$15,500 | \$15,500 |
| REVENUE TOTAL | \$1,809,089 | \$1,735,325 | \$1,879,315 | \$2,072,092 | \$2,413,108 |
| | | | | | |
| OPERATIONAL NET (Does Not Include Capital) | \$49,342 | (\$102,747) | (\$45,660) | \$56,068 | \$181,573 |
| NET (Includes Capital) | (\$114,078) | (\$202,747) | (\$220,660) | (\$18,932) | \$106,573 |
| Contribution to AFN Debt Service | \$356,000 | \$356,000 | \$356,000 | \$356,000 | \$356,000 |

Capital

With the dire economic situation, forecasted capital projections have been leaned out to absolute critical needs only. The \$150,000 Wi Max expenditure is critical for customer acquisition and retention. The Capital projections listed in the table below are the same as indicated in the City's Capital Improvement Plan (CIP).

| | WiMax | FTTP | Wireless Buildout | Network Refresh | Routers | Server Replace | Printer | CMTS | Relocate Fiber w develop | GIS Spatial Data Engine | TOTAL |
|------|-----------|----------|-------------------|-----------------|----------|----------------|----------|-----------|--------------------------|-------------------------|------------------|
| 2008 | \$0 | \$0 | \$0 | \$20,000 | \$20,000 | \$0 | \$0 | \$125,000 | \$0 | \$0 | \$165,000 |
| 2009 | \$0 | \$15,000 | \$20,000 | \$25,000 | \$20,000 | \$20,000 | \$0 | \$0 | \$0 | \$0 | \$100,000 |
| 2010 | \$150,000 | \$10,000 | \$5,000 | \$10,000 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$175,000 |
| 2011 | \$10,000 | \$10,000 | \$5,000 | \$10,000 | \$0 | \$15,000 | \$20,000 | \$0 | \$5,000 | \$0 | \$75,000 |
| 2012 | \$10,000 | \$10,000 | \$1,000 | \$10,000 | \$0 | \$0 | \$0 | \$0 | \$20,000 | \$24,000 | \$75,000 |

Network Refresh

AFN technicians and network engineers perform routine network refreshing replacing worn 'bits and pieces' on a regular basis. However, last year we performed the first significant equipment refresh in nine years of AFN's existence with the replacement of the Cable Modem Termination System. The CMTS is a system of devices located in the head-end that allows AFN to offer high-speed Internet access to home computers. As cable modems cannot communicate directly with each other they must communicate by channeling their signals through the CMTS. The new CMTS allowed AFN to provide the several tiered internet service packages with significantly faster speeds and better quality of service.

AFN staff also continue to perform planned maintenance and replacement of other key network components to include; optical nodes, power supplies and batteries, and other active devices in the outside plant, as they reach end-of-service lifecycles.

AFN Anywhere, Anytime, for Anyone "Wi Max/FTTP"

In order to provide relevant services to our customers we constantly look to and plan for the future in order to ensure the community continues to enjoy the benefits of state-of-the-art telecommunications products and services. For the past several months AFN Customer Service has been receiving 10-15 unduplicated inquires per month for wireless services.

The deployment of Wi Max services is an option we need to do now and will benefit our citizens and community:

- Provide greater access to the internet for our residents and neighbors. Most cost effective manner to build out network to reach over 1,300 homes AFN can't not currently service.
- Provide broadband services beyond our urban growth boundaries to include rural homes in the broadband culture of use promoted by President Obama
- Minimize the digging up of streets and yards to bury cable to reach new customers
- Green solar powered tower sites
- Provide Ashland's younger demographic with the mobile services they use and rely on.
- Create a "mobile Ashland" community of use which may create new business and social opportunities for Southern Oregon University, Ashland School District students, faculty, and

graduates, along with Ashland businesses, and visitor services including Oregon Shakespeare Festival.

- Provide First Responders with mobile data access for 911 and other emergent and non emergent data systems.
- Provide the City of Ashland employees and its partner's access to permitting, code, and inspection and geospatial information systems.
- Mobile Ashland would represent one critical service to make Ashland more attractive to younger adults and help retain these family-aged demographics living in Ashland.

Revenue projections are predicated on the deployment of Wi Max services and if we determine not to deploy Wi Max, staff will have to revise the revenue figures.

While the future of technology is rarely crystal clear, we can make educated projections of future needs and what products will best fill those needs. This business plan allows for the continued build-out of the wireless internet product we currently have deployed in parts of the city.

It also includes a planned migration to a Wi Max solution that is the next generation of wireless internet. Wi Max is AFN's 'third pipe' of connectivity augmenting cable modem and fiber-to-the-premise services. Wi Max is AFN's solution for unmet customer needs and to complete unfinished business of building out AFN's network so everyone in our community will have the option of choosing AFN as their Internet service.

Marketing AFN Wi Max will primarily target new customer acquisition, with a secondary concurrent focus to sell ala carte service to existing (wired) customers as a modest add-on monthly fee.

We have two primary customer demographics to serve. The younger customer's lifestyle revolves around portability and we believe AFN Wi Max will meet their communications and entertainment needs. The older demographic customer seeks the wired solution for their homes. Within the next three years significantly more residential customers will turn to the Internet for entertainment offerings such as high definition programming, video on demand, full length movie downloads which require the bandwidth of fiber to the premise (FTTP) and AFN has the capability to meet these market demands right now. AFN has been providing FTTP to businesses and a few homes in Ashland for the past ten years.

Wi Max and FTTP are not risky technologies; they are proven products now being rolled out to meet customer demand in large cities, such as Portland. Residents, visitors, and businesses in Ashland also demand metropolitan technology products so they can enjoy the quality of life in small town, Ashland, while keeping connected to the world with their Ashland Fiber Network.

We've included continued fiber to the premise installations for those with high-bandwidth application requirements as we continue to field requests for direct fiber service.

AFN is working with the League of Oregon Cities for a portion of the federal economic stimulus package earmarked for building out broadband services to rural areas. Staff is also communicating directly with offices of our regional and state representatives for Title VI Broadband Technologies Opportunities Program federal stimulus funding. AFN should receive favorable consideration for stimulus funding as we fit the federal criteria being in a rural area, with an open access network, municipally owned, already offer specified broadband speeds, and are ready to build out within 60 days of funding. President Obama is also pushing our nation to create electric power "Smart Grids", so that load management can be managed and better utilized when connected to a broadband network.

Innovation, efficiencies toward controlling our consumption of renewable and non renewable resources are all tied into connectivity to the community of the entire planet. The Ashland Fiber Network will continue to look ahead to the near future for bona fide technology products to meet the future demands of our customers and to improve their lives with technology. AFN's business philosophy: we are not a supply side

driven enterprise but instead we are driven to meet our customer's demand for technology by providing meaningful services for our residents and businesses.

Industry trends are showing more customers are switching from stationary desktop workstations to portable laptops increasing demand for wireless services. The deployment of Wi Max will enable AFN to promote community wide roaming connectivity.

Wi Max Revenue Projections

| | Retail Price | Customer Count Start Year | Customer Monthly Gain | Customer Count End Year | Target Gross Monthly Revenue | Gross Annualized Revenue |
|------|--------------|---------------------------|-----------------------|-------------------------|------------------------------|--------------------------|
| 2010 | \$30 | 0 | 25 | 265 | \$3,800 | \$46,000 |
| 2011 | \$30 | 295 | 30 | 625 | \$13,700 | \$165,000 |
| 2012 | \$35 | 655 | 30 | 985 | \$28,500 | \$344,000 |

Wi Max Customer Acquisition

Three year ROI. Customer acquisition includes ala carte subscribers

| | July | Aug | Sept | Oct | Nov | Dec | Jan | Feb | March | April | May | June | Annual |
|-------------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|------------------|
| 2010 | | | | | | | | | | | | | |
| customers | 0 | 15 | 40 | 65 | 90 | 115 | 140 | 165 | 190 | 215 | 240 | 265 | |
| \$30 | \$0 | \$450 | \$1,200 | \$1,950 | \$2,700 | \$3,450 | \$4,200 | \$4,950 | \$5,700 | \$6,450 | \$7,200 | \$7,950 | \$46,200 |
| 2011 | | | | | | | | | | | | | |
| customers | 295 | 325 | 355 | 385 | 415 | 445 | 475 | 505 | 535 | 565 | 595 | 625 | |
| \$30 | \$8,850 | \$9,750 | \$10,650 | \$11,550 | \$12,450 | \$13,350 | \$14,250 | \$15,150 | \$16,050 | \$16,950 | \$17,850 | \$18,750 | \$165,600 |
| 2012 | | | | | | | | | | | | | |
| customers | 655 | 685 | 715 | 745 | 775 | 805 | 835 | 865 | 895 | 925 | 955 | 985 | |
| \$35 | \$22,925 | \$23,975 | \$25,025 | \$26,075 | \$27,125 | \$28,175 | \$29,225 | \$30,275 | \$31,325 | \$32,375 | \$33,425 | \$34,475 | \$344,400 |

Revenue Summary for Voice over Internet Protocol

(VOIP Telephone)

The VOIP service was created in response to perceived customer demand, which was moderate at best. VOIP represented a small percentage of AFN's overall revenue line and there was no capital outlay. We experienced modest initial results with the third party retailed VOIP product in fiscal year 2008. However, our private vendor partner went through a corporate reorganization which negatively impacted their commitment to our region and seriously eroded the VOIP customer base.

Marketing caveat: Customers attracted to VOIP are usually motivated by the low price and promises of high voice quality and free long distance calling. Typically these customers have higher expectations than some of these VOIP products have recently delivered. AFN will not participate in a roll out of a VOIP product that cannot meet customers' expectations. AFN will determine if this service should be aggressively marketed when customer feedback is meaningful and/or there is a change in the market.

AFN continues to explore all options and in the past two months, staff has met with several providers regarding new partnerships and revenue sharing opportunities with the private vendor providing upfront capital VOIP investment while AFN provides regional marketing resources. We currently are in discussions

with a proven local vendor who has recently ordered a quarter million dollar telephone switch. Projections below are extremely conservative to reflect the dynamic nature of this product. As there is no firm agreement, VOIP revenue projections are candidly conservative.

Revenue Summary for AFN VOIP

| Fiscal Year | Low Gross Monthly Revenue | Target Gross Monthly Revenue | High Gross Monthly Revenue | Target Gross Annualized Revenue |
|-------------|---------------------------|------------------------------|----------------------------|---------------------------------|
| 2008 | \$6 | \$192 | \$205 | \$1,577 |
| 2009 | \$6 | \$12 | \$12 | \$100 |
| 2010 | \$6 | \$12 | \$12 | \$100 |
| 2011 | \$200 | \$200 | \$300 | \$2,400 |
| 2012 | \$400 | \$400 | \$500 | \$4,800 |

*Commercial @ \$6 per line (first two lines) additional lines @ \$2.50 each.
Residential @ \$7 per line.*

Summary

AFN is financially healthy, contributing annual amounts of \$406,000 toward the City's Central Services fund along with \$356,000 toward the technology debt payment each year.

AFN staff is focused on growing our customer base so we can provide metropolitan broadband services to our small community with AFN's unique competitive advantage of providing friendly local customer service and local expert technical support.

This updated business plan forecasts the revenue and expenses for the next three fiscal years. This business plan will be used to create the new fiscal year budget along with subsequent budgets. Staff will update this business plan on an annual basis to insure it is tied directly to the approved budget.

Staff continues to perform research to forecast significant changes and opportunities with our products and services and we have maintained an excellent working relationship with our ISP Retailers.

Presently we strongly suggest that Wi Max service is something we need to do now so we can extend the reach of AFN's network in the most cost efficient manner, without having to dig up streets or yards. Wi Max will allow AFN to increase market share and grow our customer base.

Wi Max does not create an immediate incremental operational expense increase and the capable AFN staff will build the Wi Max network, and perform the day-to-day operation tasks. Wi Max is the critical technological innovation to insure that AFN stays competitive and relevant to our community, and represents our largest 'bang for the buck'.

AFN staff also feels that our High Speed Data product, a.k.a. "FTTP", or fiber to the premise (home or business) will experience demand increase in the years ahead as people seek more robust bandwidth to download high definition programming, HD video on demand, gaming, and other entertainment applications for their convergent devices.

Industry experts are anticipating internet bandwidth use to double in the next two years as users download larger files. AFN staff has budgeted for our bandwidth expense to double in 2012. Our current monthly bandwidth is at 200meg. To offset increased bandwidth expense, AFN will adjust its wholesale and retail rates to a consumptive rate structure following industry trends. The industry is modeling rate structure to keep pace with the change in service use. Typically the model suggests that 10% of the customer base will use excessive bandwidth and will pay an additional monthly amount for consumption over and beyond the average monthly maximum. The majority of users will typically not exceed this monthly bandwidth limit and will not see an additional monthly fee.

In summary, AFN staff, along with our ISP Retailer partners will continue to provide our community with robust broadband services with AFN's competitive advantage of providing personalized local service and expert local technical support.