

Industry Report:
Broadband Stimulus

Companies Covered:
KeyOn (KEYO)
ERF Wireless (ERFW)
Towerstream (TWER)
Internet America (GEEK)

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Analyst Certification

I, Joseph Noel, hereby certify (1) that the views expressed in this research company report accurately reflect my personal views about any or all of the subject securities or issues reflected in this company report, and (2) no part of my compensation was, is, or will be directly or indirectly related to specific recommendations or views expressed in this company report.

July 15, 2009

The Broadband Stimulus - Explained

Small Cap Stocks That Will Benefit – Which to Buy Now

- Over the coming few months an unprecedented amount of public capital will be deployed to foster rural broadband connectivity. We believe these funds are just the beginning of the federal government's commitment with billions of additional dollars likely being allocated over the coming years.
- Of the \$787 billion stimulus package enacted at the beginning of 2009, \$26.25 billion is dedicated toward stimulating the information and communications technology sectors of the American economy. \$7.2 billion of this has been designated specifically to broadband, much of which will be dedicated to rural projects.
- Applications for the \$4 billion of funds allocated to the first round of funding are due by August 14th with awards expected shortly thereafter. The Obama Administration is under intense pressure to move stimulus funds into the marketplace in order to reduce the effects of one of the most serious recessions in memory.
- There are relatively few publicly traded, small-cap companies that will be seeking broadband stimulus funds. We identify four: KeyOn Communications Holdings, Inc. (OTC:KEYO), ERF Wireless, Inc. (OTC:ERFW), Towerstream, Inc (Nasdaq:TWER) and Internet America (OTC:GEEK). The stock prices of the companies receiving these funds will likely move significantly higher – In the case of KEYO, which we believe is currently significantly undervalued, we believe a tripling of share prices is very possible.
- We believe the risk/reward in owning either KeyOn Communications or ERF Wireless is very positive as both appear to be very strong candidates for stimulus funds, the receipt of which would likely send stock valuations soaring. We are particularly excited about KeyOn as their applications will be extensively researched and prepared.
- While we believe Towerstream will likely be able to present a strong argument to receive funding in future rounds, we believe it is unlikely it will be awarded a portion of the initial \$4.0 billion due to TWER's exclusive focus on urban connectivity.

Please see important disclosures, including analyst certification

EXECUTIVE SUMMARY

Over the coming few years, the number of people throughout the world with broadband access to the Internet and other computer resources will grow at a rapid rate.

According to a recent study released by Park Associates, this number will reach 640 million households by the year 2010. The vast majority of this growth, however, will occur in the booming Asian economies and not within the United States.

The United States continues to lag the rest of the industrialized world in broadband deployments, currently ranking 15th in Internet subscribers per capita. Countries of Northern Europe dominate this list with up to 34 broadband connections per 100 inhabitants versus only 20 per 100 within the U.S. There are many reasons the United States has fallen well behind much of the rest of the world.

While issues of geographic scope, population density and costs of services are certainly contributing factors to this poor performance, the lack of a coordinated policy at the federal level is the major contributing factor.

The United States has become a land of digital haves and have-nots with wide disparities in connectivity rates between different types of Americans. Historically, lower income Americans have seen far lower broadband connectivity rates, but this gap has begun to narrow as the result of government and service provider programs to make broadband more affordable to lower income Americans. As result, significant gains have been realized. Many other sectors of the American population have also made dramatic gains in Internet connectivity rates.

While the disparity between broadband connectivity rates between some groups of Americans is beginning to be less pronounced, disparity between urban and

rural Americans remains wide. Currently, only 46% of rural households have access to broadband services, whereas over 60% of non-rural residents are wired for broadband. Rural residence remains one of the strongest predictors that a household will lack broadband access. This rural versus urban gap places rural businesses and individuals at a distinct disadvantage relative to both commercial and educational opportunities and threatens to leave rural America behind.

A new set of policy makers in Washington has stated their clear intentions to bridge the significant broadband gap between urban and rural Americans, and a significant number of policy changes are in the works. The Obama Administration's new heads of the FCC and the Rural Utility Service are strong proponents of policies to increase rural broadband deployments.

The FCC is currently working on a comprehensive broadband strategy that will be delivered to Congress in February 2010. Broadband deployment to rural areas will be a major focus of this plan. We believe federal stimulus funds that have been allocated toward accelerating deployments are simply a down payment on what will likely be tens of billions of additional dollars to be spent over the coming years on bringing rural America into parity with the rest of the country.

Of the \$787 billion stimulus package enacted at the beginning of 2009, \$26.25 billion is dedicated toward stimulating the information and communications technology sectors of the American economy. \$7.2 billion of this has been designated specifically to broadband, much of which will be allocated to rural projects.

\$2.5 billion of the broadband stimulus monies will be appropriated by the Rural Utilities Service (RUS), which is part of the Department of Agriculture. The remaining \$4.7 billion falls under the jurisdiction of the National

Telecommunications and Information Administration (NTIA), which is part of the Department of Commerce. Nearly all of the RUS funds will be awarded by year end, with the majority of NTIA funds being allocated sometime in 2010.

Applications for the \$4 billion of funds allocated to the first round of funding are due by August 15th, with awards expected shortly thereafter. Bidders that propose “shovel ready” projects in unserved rural areas that have a strong track record of service deployments, strong financial backing and solid service offerings are likely to receive preference over other applicants.

The Obama Administration is under intense pressure to move stimulus funds into the marketplace in order to reduce the effects of one of the most serious recessions in memory. Because of this, we believe the evaluating organizations, RUS in particular, will move quickly to award funds. It appears the bid evaluation process within NTIA will be more extensive and possibly more prone to delays due to potential confusions relating to rules and definitions, which in our opinion could lead to award delays. The process relative to RUS appears to be much more streamlined and likely less controversial. Therefore, we believe these funds will be seen relatively soon.

There are relatively few publicly traded, small-cap companies that will be seeking broadband stimulus funds. We identify four: KeyOn Communications Holdings, Inc. (OTC:KEYO), ERF Wireless, Inc. (OTC:ERFW), Towerstream, Inc (Nasdaq:TWER) and Internet America (OTC:GEEK).

With solid operations, strong management teams, and extensive track records of rural deployments, both KeyOn Communications Holdings and ERF Wireless appear to be strong candidates for receipt of stimulus funds.

While we believe Towerstream will likely be able to present a strong argument to receive funding in future rounds, we believe it is unlikely it will be awarded a portion of the initial \$4.0 billion due to their exclusive focus on urban connectivity. Internet America, with a

rapidly deteriorating customer base, may also be able to make a case for some limited funding, although we believe it may be difficult for the Company to find strong partners. The Company has some history of providing connectivity to schools, libraries and government organizations, which could strengthen its case for NTIA funds that will mainly be available in 2010.

We believe the risk/reward ratio of owning either KeyOn Communications or ERF Wireless is very positive as both appear to be very strong candidates for stimulus funds, the receipt of which would likely send stock valuations soaring. In our opinion, KeyOn is currently undervalued. A stimulus award would likely triple the current value of its shares.

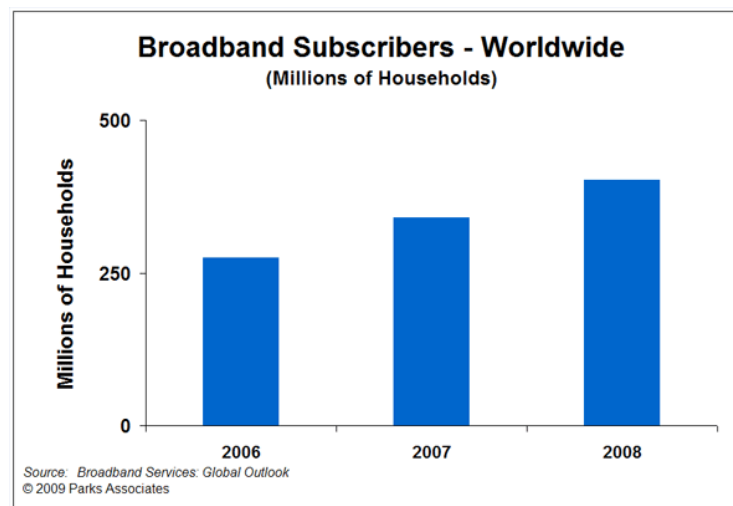
We especially like KeyOn's odds of receiving stimulus funds as its preparations have been extensive and it has lined up strong potential financing partners, which we believe will be very favorably viewed by government evaluators. KeyOn has also hired one of the top consulting firms in the telecommunications industry, Interactive Broadband Consulting Group, to guide the organization through the bidding process. Due to the complexities of the bidding and evaluation process, we believe thorough preparation will be a critical success factor. We believe KeyOn's applications will be extremely well researched and prepared.

Over the coming few months, an unprecedented amount of public capital will be deployed to foster rural broadband connectivity. We believe, however, that these funds are just the beginning of the federal government's commitment toward such deployments with billions of additional dollars likely being allocated over the coming years. We believe this will create strong potential revenue growth for the companies targeting rural broadband and strong returns for investors in these organizations.

The Broadband Stimulus - The Stimulus Money Is Ready to Flow with Additional Allocations Likely

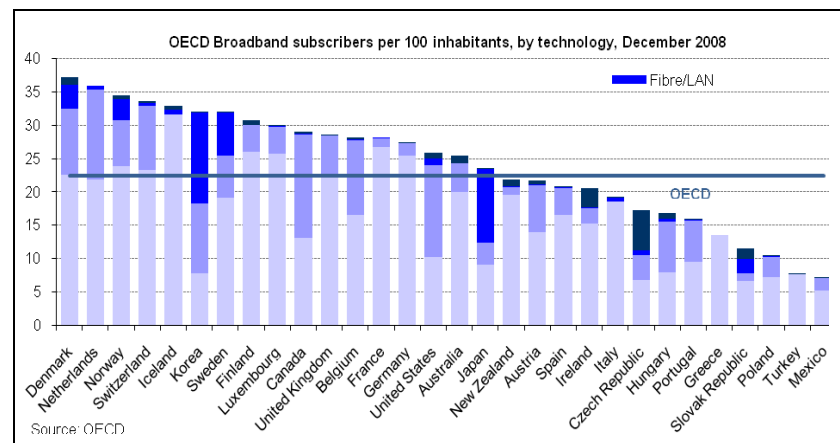
Last month, we were excited to see a study produced by Parks Associates on the expected worldwide growth of broadband Internet access and data communications services. The study, which was widely discussed in numerous news articles and blogs, forecasts that broadband access will reach 640 million households by the year 2013. Please see Figure One. While we were initially excited to hear this statistic as it is approximately double the number of users online as of the end of 2007, our enthusiasm was quickly dampened when we read that the Asia-Pacific region currently has, and is expected to continue to have, the largest share of broadband Internet access. By 2013, the Asia-Pacific region is likely to account for approximately 50% of total worldwide broadband connectivity.

Figure One - Growth in Broadband Subscribers – But It Is Mainly Outside of the U.S.



These statistics are further evidence of the significant degree to which the United States has fallen behind the rest of the world in broadband deployments. In fact, the United States does not even rank in the top 10 of the most wired countries per capita, according to the Organization for Economic Cooperation and Development (OECD). For example, each of the top 10 countries has at least 23 broadband subscribers per 100 inhabitants. Denmark, at the top of the rankings, has more than 34 broadband connections per 100 inhabitants. The United States, with approximately 20 broadband subscribers per 100 inhabitants, ranks a dismal 15th. Please see Figure Two.

Figure Two – Broadband Subscribers per 100 Inhabitants



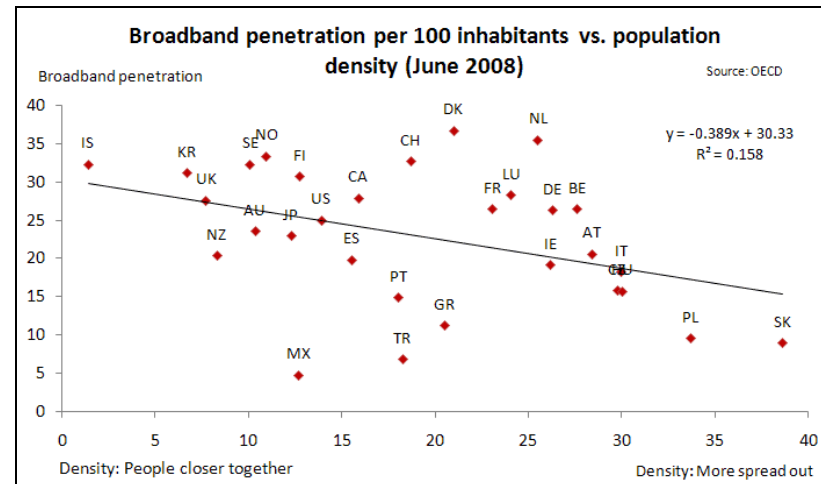
While it is very easy, and often done by many telecommunications industry watchers, to blame in this poor performance by the country that invented the Internet on the lack of a coordinated federal government policy to promote broadband, there are other contributing factors, with many of these factors relating to total population and growth, geographic size and population densities.

For example, the top ranked country, Denmark, has a population of only 5.5 million. South Korea has the largest population of any country on the top 10 list at only 50 million people, which is relatively small when compared to the U.S. population of more than 300 million. America's population growth rate has also been considerably higher than nearly every other country on the top 10 list. Additionally, there are vast differences between the United States and most of the countries ranked in the top 10 list relative to geographic size. It is considerably more expensive and difficult to implement broadband networks across large expanses of territory, and this has certainly held true considering the United States encompasses an area of almost 10 million square kilometers. Denmark, for example, has an area of only 44,000 kilometers.

As can be seen in Figure Three, there is a rough correlation between broadband penetration and population density, but it is not particularly pronounced, and there are certainly countries, Canada for example, that have higher broadband penetration rates even though their populations are even more spread out than are America's. Therefore, we do not believe the convenient excuse used by many policy makers and industry watchers within the United States that the geographic scope

and dispersion of Americans, is the major reason for the lack of significant rural broadband penetration.

Figure Three - Broadband Penetration Versus Population



Source: OECD

One of the striking differences between the broadband services available in the countries with the highest broadband penetration rates and in America is in the monthly cost for the services. Out of the top 30 wired countries of the world, prices in the United States were ranked as the 18th most expensive, with broadband pricing within all of the top 10 countries being at least 30% below those available to the average U.S. subscriber. These higher prices in the United States have had a profound effect on penetration rates, which can easily be seen in some of the statistics provided in Figure 4, which is provided below.

While the United States certainly has some geographic scope and population density issues that have limited the rollout of broadband services to the masses, it is also very clear to most who follow the industry that lack of a coordinated national policy is also a major contributing factor. This contrasts sharply to most of the industrialized world, where nearly all of have implemented coordinated national policies for comprehensive broadband deployments. The vast majority of these countries have backed up these national policies with strong legislative action. The United Kingdom, for example, recently imposed a 50-pence monthly levy on every phone and broadband line to fund the rollout of broadband services to rural areas. Nearly all Western European nations have similar programs.

While the United States federal government, over the past 100 years, has created a complex web of industry cross subsidies which are the lifeblood of many rural systems, allowing rural telephone subscribers to enjoy a level of regular voice service and prices that are on par with urban and suburban subscribers, no such similar federal programs have been implemented to foster rural broadband parity. This lack of a coordinated federal government policy is likely the major contributing factor to the relatively slower implementation of broadband by Americans.

The United States – Land of the Digital “Haves” and “Have Nots”

The high price of broadband services within the United States that we outlined above is a major impediment to connectivity for low income individuals, but major progress is being made relative to this area. For example, according to the Pew Internet and American Life Project, at the end of 2007 only 34% of households with annual incomes of less than \$30,000 had a broadband connection, whereas 70% of households that earned over \$75,000 per year were wired for broadband connectivity. These statistics are outlined below in Figure Four.

This “economic digital divide” is now being addressed on several levels, with major telecommunications providers offering stripped down versions of broadband services (DSL in particular) at significantly lower monthly rates. Additionally, major American cities, including New York, Philadelphia, Chicago, Houston and Los Angeles, have launched programs to increase broadband access, particularly among low income and public housing residents. These and other similar programs have done much to begin a trend toward increased rates of broadband connectivity among lower income urban residents. Based on the recently published figures by Pew, now more than 53% of those households with an annual income of less than \$30,000 now have broadband access.

Many other sectors of the American population have made dramatic gains in Internet connectivity rates. Hispanics, for example, have rapidly increased their use of broadband with only 41% of Hispanic households having broadband access as of 2006. Today, more than 68% of Hispanic households are connected via broadband. Similar, although less dramatic, gains have been achieved by other groups of Americans.

While the disparity between broadband connectivity rates between many different types of American urbanites are beginning to be less pronounced, the disparity between urban and rural Americans remains very wide.

Figure Four – Trends in Home Broadband Adoption

Trends home broadband adoption by group				
(% in each group with broadband at home)				
	% with broadband at home (2006)	% with broadband at home (2007)	% with broadband at home (2008)	% with broadband at home (2009)
Yearly adoption				
All adults	42%	47%	55%	63%
Gender				
Male	45	50	58	64
Female	38	44	53	63
Families				
Parents with minor children at home	51	60	69	77
Age				
18-29	55	63	70	77
30-49	50	59	69	72
50-64	38	40	50	61
65+	13	15	19	30
Race /ethnicity				
White (not Hispanic)	42	48	57	65
Black (not Hispanic)	31	40	43	46
Hispanic (English speaking)	41	47	56	68
Educational attainment				
Less than high school	17	21	28	30
High school grad	31	34	40	52
Some college	47	58	66	71
College +	62	70	79	83
Household income				
Under \$20K	18	28	25	35
\$20K-\$30K	27	34	42	53
\$30K-\$40K	40	40	49	54
\$40K-\$50K	47	52	60	71
\$50K-\$75K	48	58	67	80
\$75K-\$100K	67	70	82	82
Over \$100K	68	82	85	88
Community type				
Non-rural	45	50	59	67
Rural	25	31	38	46

Source: Pew Internet and American Life Project

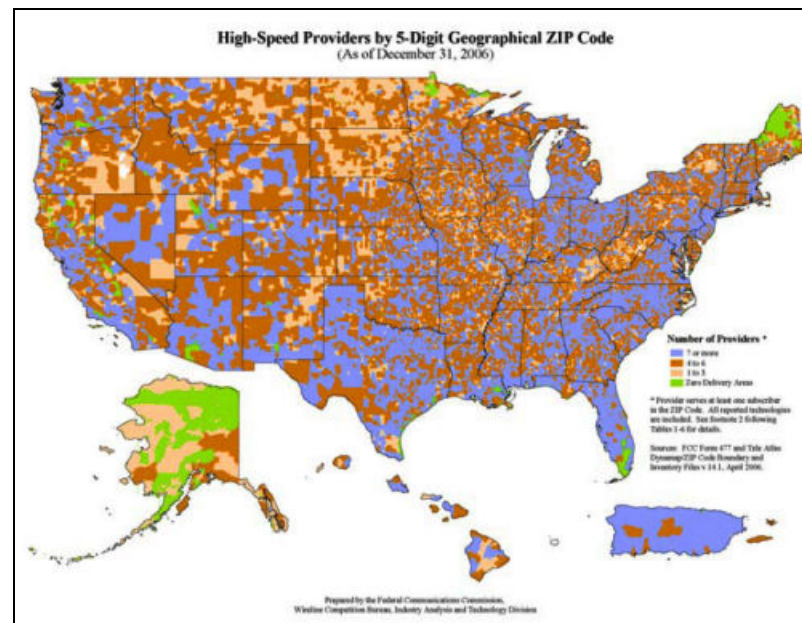
Figure Four outlines the significant gap in broadband connectivity rates that has existed, and continues to exist, between rural and non-rural Americans. According to the most recently published data, only 46% of rural households have access to broadband services, whereas 67% of non-rural residents are connected to broadband.

We believe it is particularly noteworthy that while many sectors of Americans have narrowed the broadband connectivity gap, the connectivity differences between urban and rural areas have remained consistently wide for an extended period of time.

Outside of major urban areas, connectivity rates fall rapidly as the geographic distance from major city centers increases, with many “close in” rural areas having limited affordable broadband connectivity options, and the vast majority of “remotely located” rural areas having almost no affordable broadband connectivity. For tens of millions of Americans who live outside of major population centers, there is often only the choice of dial-up connectivity or satellite-based broadband, which can easily cost hundreds of dollars per month.

In Figure Five, it is easy to see these gaps in rural broadband coverage, with large areas of large states such as Nevada, Utah, Texas, Alabama, Georgia, North Carolina, Florida, Michigan and others having significant gaps in service availability.

Figure Five – Broadband Service Availability by Zip Code



Perhaps the good news is that while the gap between rural and urban use of home broadband Internet is large, it has remained relatively unchanged over the past few years. According to Pew, a 20% gap between world and urban adoption of broadband found in 2006 has been consistent over the past few years, even as increasing numbers of people adopted broadband. In fact, growth of rural broadband adoption has been rather robust. 38% of those living in rural America now have broadband at home, compared to 31% at the end of 2007. This is a growth rate of 23%.

While the number of rural Americans with access to broadband connectivity has grown on a percentage basis, it is clear that rural Americans are still far less likely to have broadband access. Rural residence remains one of the strongest predictors that a household will lack broadband access.

These gaps in broadband connectivity are a national issue for America. Whereas in other industrialized countries, particularly those in Western Europe, nearly all residents have at least some access to affordable broadband connectivity, such a situation does not exist for many, or perhaps most, rural Americans. This gap in rural versus urban broadband connectivity places rural businesses and individuals at a distinct disadvantage relative to both commerce and education opportunities and threatens to leave rural America behind.

We agree with an excerpt from a University of Maryland on this subject report that states, *“One of the main issues with the digital divide is that not only does it hinder individuals from certain underprivileged groups from succeeding, but it can make the situation for certain groups and even entire classes even worse. In fact, many fear that the failure to address the gap will likely aggravate current levels of poverty and isolation and increase the already large gaps in education and access to opportunity between historically privileged and historically disenfranchised groups.”*

These statements apply almost universally across the world, but are particularly relevant within the United States. People located in rural areas without Internet access are far less likely to learn the important skills needed to gain access to competitive colleges and to acquire the skills needed for top paying jobs. While the growing unemployment rate in the United States has almost equally affected urban and rural areas, certain rural areas such as those in California, Michigan, and the Deep South have considerably higher unemployment rates and have experienced a much higher rate of economic decline.

A Significant Change in American Telecommunications Policy Is Pending

The new set of policy makers in Washington have stated their clear intentions to bridge this significant gap between urban and rural Americans, and a significant number of policies are currently in the works. While the main subject of this report is the \$7.2 billion allocated to broadband deployment under the \$787 billion stimulus package that was unveiled earlier this year, we believe it is also important to point out that, in our opinion, the \$7.2 billion is simply a down payment on what we believe Washington policy makers plan to spend on rural telecommunications infrastructure over the next decade.

New Policies from a New American Government

The Obama administration has publicly stated that expanding broadband Internet access to rural parts of the United States is one of the top priorities of the new Federal Communications Commission (FCC). President Obama appointed Julius Genachowski, a telecommunications industry executive, to administer this and other mandates. In his first meeting as FCC chairman, Genachowski publicly stated that one of his top priorities is a national broadband plan that will emphasize rural deployments. In his first address to employees of the FCC he stated, *“The FCC will bring more power to consumers and extend high-speed Internet access into rural communities.”*

Congress has also tasked the new FCC Chairman with submitting a detailed broadband implementation roadmap to Congress by February 2010. It is expected that rural broadband deployments will be a major emphasis of the plan.

Prior to the new FCC chairman's Senate confirmation, acting FCC Commissioner Michael Copps released a report that provided a starting point plan for the development of policies to deliver broadband to rural areas. The report was a result of a 2008 Farm Bill mandate that requires the FCC to coordinate with the Secretary of Agriculture to submit to Congress a plan describing a comprehensive rural broadband strategy. The plan is considered a partial framework for allocation of the \$7.2 billion in federal stimulus monies, and while the FCC will not have a direct say in how these monies will be spent, its role as a significant influencer cannot be denied.

The new FCC Chairman is not the only powerful advocate for rural broadband deployment within the new Obama Administration. Former FCC Commissioner Jonathan Adelstein was recently appointed to the role of Administrator of the Department of Agriculture's Rural Utilities Service (RUS), which is tasked with allocating \$2.5 billion of the recently allocated broadband stimulus money, in addition to loans that will translate into billions of dollars of additional investment. In one of his first official statements he was quoted as saying, *“Some have argued that the reason we have fallen so far behind in the international rankings is that we are more rural than those ahead of us. If that is correct, we must cite it not as a disparaging excuse, but as a clarion call to redouble our efforts to promote rural broadband.”*

We believe it is also likely that these new policymakers will seek to redirect funds from the Universal Service Fund (USF) toward rural broadband deployments. The USF was created by the FCC of 1996 to advance universal telephony (dial up telephone service) access mainly to residents of rural areas. All telecommunications carriers that provide interstate services are required to contribute to the fund. There is a growing movement among Washington policymakers to expand the use of USF funds to include the promotion of broadband services to underserved areas and to disadvantaged groups.

We outlined information on the new FCC Chairman, the head of the RUS and potential policy changes relative to the Universal Service Fund to emphasize that the deployment of rural broadband is a comprehensive goal of the Obama Administration. These policies have firm backing from the Democratic controlled House and Senate.

We believe this new set of policy makers views the current \$7.2 billion that has been allocated toward broadband deployment as simply a down payment on what will likely be tens of billions of additional dollars that will be spent over the coming years on bringing rural America into parity with the rest of the country relative to broadband deployments.

We believe the U.S. government is preparing to invest unprecedented amounts of government capital into the rural broadband arena. These funds will initially be derived out of stimulus related pools of money, but we believe additional funds will be added as Congress passes legislation in 2010 after the FCC delivers its broadband plan for America early in that year. We also believe there is a strong likelihood that USF funding will be opened up to include broadband deployments.

In our opinion, this creates significant investment opportunities for companies operating in the sector of the telecommunications marketplace. Especially, those companies that provide wireless equipment and wireless network services because the use of wireless technologies is the most cost effective methodology for rural broadband deployments, considering the geographic scope and population densities.

Details of the Broadband Stimulus Program

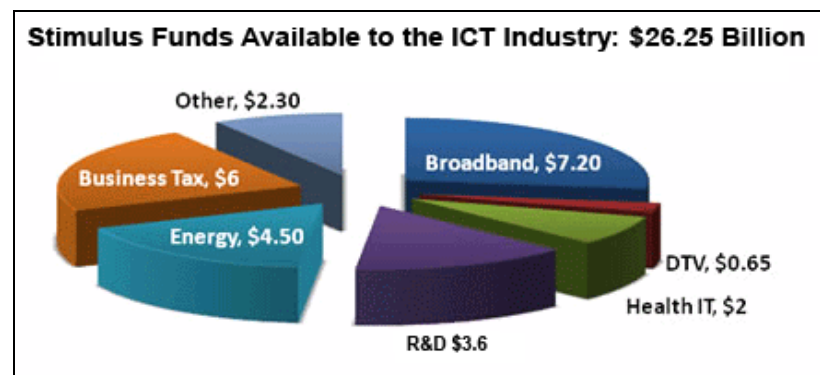
On February 17, 2009, President Obama, fulfilling one of his major campaign promises, signed the American Recovery and Reinvestment Act of 2009 into law. The goal of the Recovery Act is to provide a direct financial boost to lift the United States from the greatest economic crisis in generations.

The act identified five main purposes:

1) Create jobs and promote economic recovery, 2) Assist those most impacted by the recession, 3) Provide investments needed to increase economic efficiency, 4) To invest in transportation and environmental protection and other structure that will provide long-term benefits, and 5) To stabilize state and local government budgets.

Of the \$787 billion stimulus package, \$26.25 billion was dedicated toward stimulating the Information and Communications Technology (ICT) sectors of the American economy. Please see Figure Six for these break downs.

Figure Six – Stimulus Funds



Source: U.S. Congress

A major component of the Recovery Act was the allocation of \$7.2 billion to expand access to broadband services in the United States. These monies were allocated to the Rural Utilities Service, (RUS) which is part of the U.S. government's Department of Agriculture, and to the National Telecommunications and Information Administration (NTIA), which is part of the Department of Commerce.

The FCC's role in the process is not specifically outlined, but the legislation states that the FCC is to work closely with the two agencies to “Leverage the authorities and resources provided in the Act.” What this means, in our opinion, is that while the FCC does not have direct authority to assign the funds, its role is nevertheless very important, as the allocation of broadband stimulus funds is partially designed to advance the FCC's development of a comprehensive broadband strategy for the entire country. An important component of this plan is the advancement of rural broadband.

The Recovery Act appropriates \$2.5 billion to the RUS to extend loans, loans/grant combinations, and grants. 75% of the funds are to be used in rural areas that lack sufficient access to high-speed broadband services to facilitate rural economic development. Billions of additional dollars are available through RUS in the form of loans. The program implemented by RUS is called the Broadband Initiatives Program (BIP).

The remaining \$4.7 billion of the Recovery Act was allocated to the NTIA to provide grants for broadband initiatives throughout the United States, including underserved areas. There are no loans available under this program. These funds are designed to spur job creation, stimulate long-term economic growth, and narrow gaps in broadband deployment and adoption. We interpret this section relating to narrowing gaps in broadband deployment and adoption to mainly relate to rural deployments, although the narrowing of gaps relative to underprivileged groups is also specifically outlined. The part of the program implemented by NTIA is called the Broadband Technology Opportunities Program (BTOP).

On July 1, 2009, the agencies released a document called a, NoFA-Notice Of Funds Available, which describes the available funds and the application requirements for entities wishing to participate in the programs.

Submissions to both RUS and NTIA will be evaluated in a two-step process. In step one, the goal is to create a pool of acceptable and potentially fundable applications. In step two, applications will be more fully evaluated, with the most highly qualified applications receiving funding. We believe the process outlined by RUS looks relatively simple and is likely to result in relatively quick decisions and funding. On the other hand, the process outlined by NTIA looks much more complex, which in our opinion, could easily result in an extended

decision cycles and delays in funding.

The June 30th document outlines approximately \$4 billion of funding, for which bids can be submitted starting July 14, 2009, with the bidding window closing on August 14, 2009. It is expected that funds will begin to be allocated in the fourth quarter of 2009. Under the program, all funds must be distributed by September 30, 2010, with all projects being “substantially complete” by September 30, 2012.

It is expected that the vast majority of this \$4 billion of initial funding will be geared toward rural broadband deployment. Nearly all of the RUS funds are expected to be awarded, while only \$1.6 billion of the \$4.7 billion allocated to the NTIA is expected to be disbursed during this round. The remaining approximately \$3.2 billion will be made available at a later date, likely beginning in the Spring of 2010.

The NoFA document outlining the bid requirements and process is extremely detailed, consisting of more than 120 pages.

In an attempt to simplify the document, we offer the below interpretation and summary. The purpose of the below summary is to provide investors with an overview of the process and to provide only the information that they may need to make informed investment decisions. Therefore, some of the details that are not important to investors have been excluded

The Broadband Stimulus – A Summary

Rural Utility Services Funding (Department of Agriculture)

The \$2.5 billion available under the RUS's Broadband Initiatives Program (BIP) is designed to be used to make loans and to provide grants, or combinations of loans and grants, for the purpose of facilitating broadband deployment in rural communities. The installation of broadband services into many rural areas is an expensive process. Thus, many telecommunications service providers do not provide services into such areas because the monthly rates they would need to charge to recoup investment would be prohibitive. One of the major goals of this part of the stimulus program is to provide funds to service providers so these types of rural areas can be served. The RUS will make this possible by providing grants and loans with attractive terms to telecommunications service providers that are willing to install services into these areas. We believe it is clear that companies and organizations that submit applications that emphasize installation of broadband services to these expensive to install rural areas will be viewed very favorably by those who will evaluate the applications.

The stimulus act requires that 75% of funds be spent in areas that lack sufficient access to high-speed broadband services. For the purposes of this funding, broadband is being defined as 768 Kbps, which is a relatively low-speed. RUS evaluators will give applicants extra points to bidders for proposing services that exceed this speed.

The application process will favor applicants that propose a higher percentage of loan funds versus grant funds, although an applicant may request 100% loan funding. It is believed that the RUS will closely scrutinize a Company's ability to repay loans and will seek reasonable security requirements.

Rapid disbursement of funds is a major priority of the program, although the agency states that it must also ensure responsible use of funds. In order to balance these two objectives, RUS will favor funding projects that can commence construction promptly (shovel ready) and demonstrate technical and financial feasibility and organizational capacity. We interpret this as meaning a priority will be given to applicants who have shovel-ready projects and who are able to demonstrate to RUS the ability to quickly and efficiently install services in a responsible manner. Therefore, we believe organizations with currently available service offerings are likely to be more

successful in the bidding process than will private enterprises or community-based organizations that have little to no operating history.

Funds will be awarded in a two-phase application process. During the first phase, ineligible and incomplete applications will be rejected. In a second phase, the remaining applications will be scored based on a point system evaluating project purpose, project benefits, project viability and project budget/sustainability.

Many different types of organizations are expected to apply for RUS funding. These organizations will range from experienced broadband service providers that serve other rural areas to small community-based organizations with no current service availabilities. We believe organizations that will receive funding are likely to be current rural service providers that show a strong willingness to extend their services to areas where it has been cost prohibitive to expand operations. We believe the vast majority of applications from inexperienced operators and community organizations will likely see little funding.

We believe it is clear that the Obama Administration is under intense pressure to distribute stimulus funds. Because of this pressure to distribute funds and because the RUS evaluation process does not look particularly cumbersome, we believe it is likely that RUS funding will occur relatively quickly. We believe other parts of the broadband stimulus spending allocation, such as those provided by NTIA, are likely to occur much more slowly.

NTIA Funding (Department of Commerce)

The \$4.7 billion available under the broadband technology opportunities program (BTOP) are to be disbursed to three types of eligible projects,

- 1) Broadband infrastructure to underserved and unserved areas.
- 2) Public computer centers - These projects will expand public access to broadband services and enhanced broadband capabilities at entities such as community colleges and public libraries.
- 3) Sustainable broadband adoption - This category will fund innovative projects that promote broadband demand, including projects focused on providing broadband education, awareness, training, etc., particularly among vulnerable populations where broadband technology has traditionally been underutilized.

Of the \$4.7 billion, at least \$200 million must be made available for grants to expand public computer center capacity, and at least \$250 million must be allocated to sustainable adoption. We interpret this to mean the vast majority of the remaining funds will be used in support of broadband infrastructure to underserved and unserved areas. We believe these will be primarily rural areas, although the advancement of broadband deployment to underprivileged groups is likely an additional emphasis.

NITA will also implement a two-step process, throwing out incomplete and ineligible applications in the first round and then selecting among remaining applications in a second step. This process during the initial evaluation is similar to that to be implemented by RUS, but in the second step NTIA has added an additional layer of complexity.

This agency's selection process specifically outlines independent reviewer involvement in making selections. Additionally, the governors of states where projects may be located will be given a list of applications under consideration. The governor of each state will be able to prioritize and make recommendations relating to which projects should be given funding and when these projects should be funded. Because of the more rigorous screening process and due to the involvement of independent reviewers and state representatives, we believe the NTIA decision-making process will be considerably lengthier.

Industry Concerns Relative to the Bidding Process

Within only a few days of the Notice of Funds Available (NoFA) being made public, several industry groups were already expressing concerns about the process.

Several representatives of incumbent cable television providers and telephone companies have been concerned that this stimulus funding will enable competition to take hold in areas where broadband services already exist. Additionally, these entities have expressed concern that the funds would be used to encourage broadband adoption among consumers who are already able to afford broadband services, but simply choose not to subscribe.

We believe there will likely be little controversy relative to grants and loans for areas that are unserved by broadband services. Such areas are usually remotely located, with residents having only the option of dial up access or expensive satellite-based Internet connectivity. These areas are the primary targets for this stimulus money, and we would expect a substantial portion to be quickly and uncontroversially allocated toward providing broadband connectivity to these unserved areas.

We believe there will likely be considerable controversy relative to grants and loans to underserved areas; as such areas are served by a mix of existing telephone Company and cable television operators and, in some cases, wireless Internet service providers. The bidding rules require maps of the contiguous blocks of proposed broadband projects be posted on a website run by both the RUS and NITA.

How these blocks are allocated is likely to be contentious in that some existing service providers may challenge the definitions of underserved, contending that their service offerings are sufficient to prevent such categorization. It is unclear how such disagreements will be handled by the agencies, but such conflicts could potentially delay project awards or possibly prevent the agencies from awarding any loans or grants to applicants who wish to service these contested blocks.

There are some other potentially contentious issues dealing with the definition of an underserved area, especially a provision in the bidding document outlining an additional definition relating to if 40% or fewer households within the block are currently broadband subscribers. How this section of the rules will be interpreted is unclear, which could

result in funding delays.

While there are likely to be considerable numbers of controversies relating to these bidding processes, we believe both agencies are under intense pressure to award these stimulus funds. For this reason, we believe there may be a tendency for both agencies to award a proportionally higher percentage of the funds to bidders who propose projects in unserved areas, as this may become a path of least resistance allowing the agencies to release some funds in relatively short order.

Potential Winners Within the Small Cap Telecommunications Arena

Only very few investors in the small-cap space have looked into companies that are likely to gain broadband stimulus funds. Over the coming weeks, as applications begin to trickle in to both the Department of Agriculture and Department of Commerce for a piece of the \$7.2 billion that will be allocated toward broadband service initiatives, we believe investors will begin to notice that there are some excellent stock picks within the ranks of small-cap, rural-oriented, wireless service providers.

The federal government recently announced that \$4.0 billion of the \$7.2 billion will be awarded in the first round of funding, the bidding for which will close on August 14, 2009. Most of this funding will be awarded to foster rapid development of rural broadband services. Therefore, we believe investors should primarily be investigating companies involved in providing these types of services. We believe the federal government is under intense pressure to award the stimulus funds, and as a result, we believe we are likely to see significant awards beginning in September through December of 2009, with additional major awards occurring in 2010.

There are relatively few publicly traded, small-cap companies that will be seeking broadband stimulus funds. We identify four; KeyOn Communications Holdings, Inc. (OTC:KEYO), ERF Wireless (OTC:ERFW), Towerstream, Inc. (Nasdaq:TWER) and Internet America (OTC:GEEK).

With solid operations, strong management teams, and extensive track records of rural deployments, both KeyOn Communications and ERF Wireless appear to be strong candidates for receipt of stimulus funds.

While we believe Towerstream will likely be able to present a strong argument to receive funding in future rounds, we believe it is unlikely it will be awarded a portion of the initial \$4.0 billion due to its exclusive focus on urban connectivity. Internet America, with a rapidly deteriorating business, may also be able to make a case for some limited funding, although we believe it may be difficult for the Company to find strong partners. The Company has some history of providing connectivity to schools, libraries and government organizations, which could strengthen its case for NTIA funds that will mainly be available in 2010.

We believe the risk/reward ratio relative to owning either KeyOn Communications or ERF Wireless is very positive as both appear to be very strong candidates for stimulus funds, the receipt of which would likely send stock valuations soaring. We believe this is especially the case relative to KeyOn, as we see the shares as already being undervalued.

We especially like KeyOn's odds of receiving stimulus funds, as its preparations have been extensive and it has lined up strong potential financing partners, which we believe will be very favorably viewed by government evaluators. KeyOn has also hired one of the top consulting firms in the telecommunications and broadband industries, Interactive Broadband Consulting Group, to guide the organization through the bidding process. Due to the complexities of the bidding and evaluation process, we believe thorough preparation will be a critical success factor. We believe KeyOn's applications will be extremely well researched and prepared.

KeyOn Communications Holding, Inc.



Company Name: KeyOn Communications Holdings, Inc.

Stock Symbol and Exchange: KEYO – OTC

Market Cap: \$11.16 MM

Fully Diluted Shares: 12.4 MM

Headquarters: Omaha, Nebraska

CEO: Jonathan Snyder

The predecessor company, KeyOn Communications, LLC, began operations in early 2002, serving the market located in Las Vegas, Nevada and its surrounding areas with wireless broadband services. In August of 2007, KeyOn became a publicly traded Company via a reverse merger with Grant Enterprises, Inc.

Shares now trade on the over-the-counter market under the symbol KEYO. As of the most recently reported quarter, March 31, 2009, there were approximately 8.8 million outstanding shares. There are also approximately 1.7 million warrants outstanding, with an average strike price of \$5.29. Since the March reporting, some additional shares have been issued as a result of a small equity round and for payment of consulting services. We estimate the total share count, including the 1.7 million warrants, at approximately 12.4 million.

KeyOn is relatively unknown to small-cap investors, although trading volume in the shares has begun to increase recently. Average trading volume, however, is still only approximately 17,000 per day, and the stock trades with a large spread. As of the date of publication of this report, shares were bid at \$0.70 and asked at \$1.00.

Introduction to KeyOn Communications Holdings, Inc. Operations and Services

KeyOn is a provider of wireless broadband, satellite video, and, to a lesser extent, voice over IP (VoIP) services, primarily to small towns and rural markets in the Midwest and Western states. The primary markets served are in the states of Colorado, Idaho, Illinois, Indiana, Iowa, Kansas, Nebraska, Nevada, Ohio, South Dakota, and Texas. This service area, which encompasses approximately 50,000 square miles, is

serviced by more than 380 wireless communications towers spread throughout these 11 states. This network footprint services an area of approximately 2.5 million people as well as hundreds of thousands of small to midsize businesses. As of the end of the last reported quarter, the Company had approximately 15,000 wireless subscribers and approximately 46 full-time employees.

Growth in subscribers and revenues has mainly occurred as a result of the acquisition of other wireless broadband service operators and, to a lesser extent, through organic growth in the customer base. Over the past two years, the Company has acquired four properties, all of which have been adjacent to the Company's existing network footprint. It appears the Company plans to continue this acquisition strategy, as it allows the Company to grow its subscriber base quickly but with minimal operational expansion.

KeyOn Service Offerings

KeyOn offers residential and business broadband access services that are similar to traditional broadband services provider via technologies such as cable modems, Digital Subscriber Line (DSL) or satellite links. The primary market for these services is rural customers who are located in areas where cable modem and/or DSL services are not available. The vast majority of these customers have only the option of dial up services or satellite-based Internet access. Dial up services are often too slow to support most applications, and satellite services are often cost prohibitive and operate with transmission delays that make their use for many applications impractical.

Most of the markets targeted by KeyOn are generally areas with populations of less than 50,000 people. The installation of services to these communities is often expensive and, as a result, it is difficult for the traditional service providers to recoup expenses at monthly prices that most consumers would consider reasonable. This lack of attention and unwillingness of traditional service providers to provide connectivity to these communities creates a strong market opportunity for providers that are able to utilize cost effective technologies, such as wireless, to service the broadband needs of these consumer groups.

KeyOn offers broadband services to consumers within these communities under an annual, two-year, or month-to-month service agreement. Typically, the Company bills for these services in advance, with revenue recognition occurring as the services are provided. KeyOn is also a reseller of satellite TV services for DISH network.

The Company primarily utilizes unlicensed spectrum to provide its wireless communications services to its customers, which allows for rapid and cost effective implementation of services and the ability to quickly expand operations.

Utilization of the 3.65 GHz Spectrum Band

During November of 2007, the Company received a nationwide license in the “lightly-licensed” 3.65 GHz band and has deployed its first network utilizing WiMAX wireless technology to service a portion of Nevada. Use of this spectrum band requires no upfront capital expenditure or recurring payment to the federal government for use of the wireless frequency, allowing for extremely cost effective service deployments. KeyOn plans to expand the use of WiMax technologies to drive revenue through increased speeds and increased penetration of its currently served markets. In the future, the Company will also be able to utilize its WiMax network to capture revenues from nomadic computer usage throughout its service areas.

WiMAX, or Worldwide Inter-operability for Microwave Access is based on a standard created by the Institute of Electrical and Electronic Engineers (IEEE) designated 802.16 for fixed wireless applications and 802.16e for mobile wireless applications. Most within the telecommunications industry define WiMAX as an alternative to the traditional “last mile” broadband connectivity options, such as digital subscriber line (DSL) and T-1 or faster services provided by the local telephone companies.

Many within the telecommunications industry and government regulatory agencies consider WiMAX as the most appropriate choice for companies seeking broadband stimulus funds due to the cost effective manner in which this technology can be used to reach unserved in underserved areas. We believe KeyOn's experience using the 3.65 GHz frequency to deliver WiMAX will enhance the appeal of its application for stimulus grants and loans.

Recent Financial Performance

For the most recently reported quarter, March 2009, KeyOn reported revenues of approximately \$1.9 million and total operating costs and expenses of approximately \$2.0 million, resulting in a loss from operations of just over \$100,000. After interest and other expenses, the net loss was approximately \$347,000, which translated into an EPS loss of (\$0.04), based on 8.8 million shares. Net cash flow from operations was a negative \$136,000.

Revenue results for the March quarter, which were down 8.8% year over year, were consistent with the Company's cost restructuring plan, which primarily focuses on maintaining the current subscriber base by reducing overall marketing and advertising costs. This reduction in marketing and advertising has had a negative effect on subscriber growth.

KeyOn's management team has been working to reduce operating costs, with these costs down more than 55% on a year-over-year basis, although much of this decrease was attributable to non-cash refunds related to stock-based compensation expenses. Excluding this factor, however, the Company was able to meaningfully reduce salaries and benefits, which accounted for approximately 13% of the decrease. Additionally, decreases in new customer acquisition costs and a decrease in operating expenses resulted in an additional 9.1% and 13.5% of the decrease, respectively. The Company has also been able to marginally reduce its network operating costs, which mainly consist of tower rental and Internet transport/termination expenses.

KeyOn has recently moved to strengthen its balance sheet with a loan extension and modification of terms. The modification involved the extension of the maturity date of a loan from June 4, 2009 until June 4, 2015. As part of the agreement, KeyOn made a principal reduction payment of \$450,000, reducing the principal balance on the loan from \$4.5 million to \$4.05 million. The modification allowed for reclassification as long-term debt, where all of the loan had previously been in current liabilities. This change, in conjunction with the principal reduction, improves the Company's working capital position and current ratio. This improvement in the balance sheet enhances its applications for stimulus dollars.

KeyOn's Strategy Moving Forward

The management team's strategy through the remainder of 2009 and into 2010 is to both continue to acquire properties that it can easily integrate into its current operations and to seek federal stimulus funds to accelerate a significant rollout of broadband services into new areas that are adjacent to areas currently serviced. The management team is also actively seeking equity partners for the government stimulus programs in order to meet requirements for outside funding.

Odds of Receiving Stimulus Funding

We like KeyOn's chances of receiving stimulus funding. The Company will be able to leverage its existing network assets, which consists of more than 380 Towers and 44 hub sites, in order to quickly expand its service offerings to adjacent communities.

The Company is already an experienced operator of rural broadband networks through its deployment of more than 50,000 square miles, and the Company is showing strong innovation through its implementation of innovative technologies such as WiMAX. The Company also has an experienced management team that has demonstrated its capability to build and manage networks across a wide geographic area. The management team members of KeyOn have been involved in many different types of network deployments, including common paging networks, regional cellular, undersea fiber optics, and long-haul fiber optic systems.

We also believe KeyOn will have a significant advantage in gaining government stimulus funds due to the high quality equity partners that are likely to be outlined in its RUS and NTIA applications. We believe these partners are prepared to offer substantial equity commitments in support of KeyOn's deployment efforts. We believe this will be especially impressive to the government evaluators, as it more effectively leverages the stimulus money, effectively creating a public/private partnership to accelerate the deployments of rural broadband services.

We believe the risk/reward relative to owning these shares is extremely positive as we believe, if properly managed, KeyOn could present a compelling application for receipt of broadband-related stimulus funds. Should their application be successful, we believe the Company's share price would rise dramatically.

ERF Wireless, Inc.



Company Name: ERF Wireless, Inc.

Stock Symbol and Exchange: ERFW – OTC

Market Cap: \$36 MM

Fully Diluted Shares: 111 MM

Headquarters: League City, Texas

CEO: Dr. Dean Cubley

Introduction to ERF Wireless, Inc. Operations and Services

ERF Wireless, Inc. trades under the symbol ERFW on the over-the-counter market. The Company's market capitalization is approximately \$36 million, with the stock trading at approximately \$0.32 cents per share. ERF went public in 2004 and currently has approximately 90 employees.

The Company's network currently covers more than 160,000 square miles, almost all of which is located in New Mexico, Texas and Louisiana. The Company has been very active on the acquisition front, recently acquiring its 15th property, Frontier Internet, a Texas-based Internet service provider.

The Company was founded in 2004 in order to provide a variety of communications-related services to a limited set of customers in the enterprise and retail markets. The Company has expanded its operations over the past few years and now is one of the nation's leading providers of wireless services for the regional banking industry and the oil and gas services market, with industry giant Schlumberger acting as its flagship corporate customer.

ERF utilizes wireless broadband technology via a secure network appliance called CryptoVue to replace relatively expensive T-1 data circuits (1.544 Mbps) that are traditionally offered by the local

telephone companies. This service has mainly been targeted at the banking community and now services more than 100 locations.

To both the banking sector and the oil and gas industries, ERF wireless sells a variety of wireless messaging services, project level wireless broadband systems design, construction and implementation services and a variety of bundled wireless services, in addition to basic wireless connectivity.

ERF recently announced its plans to seek stimulus funds in order to expand its rural wireless service offerings. It is expected that the Company will seek at least \$20 million, but it could seek nearly \$100 million if the proper partnerships can be arranged. These funds will be used to expand its broadband network to rural banks, expand its projects within the oil services sector to bring wireless broadband to remotely located oil and gas drilling areas, and to significantly expand its wireless ISP operation, which already serves more than 10,000 customers in its three-state service area.

Recent Financial Performance

For the most recently reported quarter, March 2009, ERF Wireless reported revenues of approximately \$1.3 million, with operating expenses of approximately \$2.6 million, resulting in an operating loss of \$2.1 million and a net income loss of \$2.4 million. Revenues during the year ago quarter were approximately \$1.7 million, with the lower revenues during 2009 being attributed to a decrease in sales from wireless messaging services from a single customer. Both wireless bundled services and enterprise network services categories showed meaningful revenue growth in Q1:09 versus Q1:08.

ERF has a weak balance sheet, with only \$1.8 million of current assets versus \$4.1 million of current liabilities. Long-term debt stands at approximately \$4.2 million, and the Company has barely positive total stockholder equity. ERF has shown strong growth over previous periods, although this fact is somewhat difficult to ascertain unless the effects of the loss of revenue from the single customer during the March 2009 quarter are removed.

Odds of Receiving Stimulus Funding

We like ERF's chances of receiving RUS-related stimulus funds for rural wireless projects. The Company is clearly an experienced operator and already specializes in towns with populations under 20,000 and in rural farmland districts. The management team looks sound, and the Company has a strong track record of managing

deployments and integrating operations. The Company also is seeking to deploy faster wireless services, mainly WiMAX. We believe all of these factors are likely to positively contribute to the Company's applications.

With approximately 111 million shares outstanding and the stock price of approximately \$0.32, the market capitalization of ERF is approximately \$36 million, which appears a bit rich to us relative to its revenues.

Receipt of stimulus funds will allow for a significant improvement in the Company's balance sheet and will likely allow the Company to raise additional funds to pay current liabilities and to possibly pay off a \$3 million convertible note outstanding.

If properly managed, ERF could present a compelling application for receipt of broadband related stimulus funds. Should their application be successful, we believe the Company's share price would rise dramatically.

Internet America, Inc.



Company Name: Internet America, Inc.

Stock Symbol and Exchange: GEEK – OTC

Market Cap: \$3.4 MM

Fully Diluted Shares: 17 MM

Headquarters: Houston, Texas

CEO: William E. Ladin, Jr.

Introduction to Internet America Inc. Operations and Services

Internet America, Inc., a regional Internet service provider in the Southwestern United States with headquarters in Houston, Texas, trades on the over-the-counter market under the symbol GEEK.

The Company provides several Internet services for both individuals and business subscribers, including broadband Internet via wireless and DSL, in addition to dial up Internet access. The Company also provides some limited value add services such as online backup, parental control software, and fax to e-mail. The Company began operations in early 1995 and since that time has grown to service more than 27,000 customers, all of which are located in Texas. As of the end of the last quarter, the company has approximately 8,000 wireless broadband customers, with the vast majority of the rest of the customer base being dial up Internet subscribers,

Internet America recently named former Texas Governor Mark White as Council on rural broadband development. Mark White was governor of Texas from 1983 to 1987. His duties will include the development of public/private partnerships to bring broadband Internet to rural areas utilizing broadband stimulus monies.

Over the last year the Company has seen a significant drop in non-wireless (dial-up) subscribers, as customers in metropolitan areas

migrate toward high-speed services with other carriers.

In 2007, Internet America raised cash, and as a result it has been able to maintain a reasonably strong balance sheet. As of the end of the March 2009 quarter, the Company had approximately \$2.8 million in cash and current assets of approximately \$3.8 million, with \$2.5 million of current liabilities. Long-term debt stands at approximately \$817,000 and shareholder equity at approximately \$7 million.

While the balance sheet remains relatively strong, we believe rapid deterioration is likely. Over the past year, cash has fallen to \$2.8 million from \$4.4 million. During the March quarter, net cash used in operating activities was (\$368,687) and almost (\$1.0) million over the past year. These balance sheet trends are especially concerning considering the rapid deterioration in customers and revenues.

In order to maintain viability, the Company is now focused on expanding coverage and public/private partnerships with state and local governments, utility providers and other entities to bring high-speed broadband Internet to additional rural communities. The Company has also aggressively reduced headcount.

Odds of Receiving Stimulus Funding

We believe Internet America has some things going for it relative to receiving stimulus dollars. The Company is an experienced rural operator and it has recently gained some experience in operating high-speed wireless networks.

The Company may also be able to draw upon some of its successful partnerships with nonprofit entities in order to increase its odds of acquiring stimulus funds. The Company provides high-speed data services to many public buildings, including local libraries and schools, and provides connectivity for public service providers, including local and county government law enforcement and firefighters. These factors may increase the Company's ability to acquire funds under NTIA.

Internet America, as of March 31st, had total assets of \$10.4 million, but approximately \$3.5 million of this is goodwill, leaving approximately \$6.8 million of real assets. Total liabilities are approximately \$3.3 million, leaving a value of approximately \$3.5 million. With approximately 17 million shares outstanding and a stock price of \$0.30, the market cap of the Company is approximately \$5.1 million, which we believe is high considering the rapid deterioration in

the subscriber base and the rapidly falling revenues.

While we would not purchase shares of Internet America based on current fundamentals, we do believe there is a possibility that the firm could receive some stimulus monies, which would likely move the shares considerably higher.

Towerstream, Inc.



Company Name: Towerstream, Inc.

Stock Symbol and Exchange: TWER - NasdaqCM

Market Cap: \$37.5

Fully Diluted Shares: 35 MM

Headquarters: Middletown, Rhode Island

CEO: Jeffrey Thompson

Introduction to Towerstream Inc. Operations and Services

Towerstream was founded in early 2002 by Philip Urso and Jeff Thompson, both of whom had been senior executives at Internet service provider startups and veterans of several other successful entrepreneurial ventures. Towerstream grew its operations over the next seven-year period by launching fixed wireless services in Boston, New York, Chicago, Los Angeles, San Francisco, Providence, Rhode Island, Seattle, Dallas-Fort Worth and Miami.

TowerStream's CEO, Jeff Thompson, was recently quoted in the business press, indicating that TowerStream will seek funding from the Broadband Technology Opportunities Plan (BTOP) that is being administered by NTIA rather than seeking stimulus monies from the BIP, being administered by the Rural Utilities Service, which is part of the Department of Agriculture.

We believe this strategy makes sense, as Towerstream has no experience in providing services to rural areas. The Company does, however, have considerable experience in providing services to urban areas. Stimulus funds could be used to extend these wireless services to underserved areas adjacent to the areas where Towerstream currently provides services.

Towerstream certainly has many of the attributes that would impress the reviewers at NTIA - a very strong balance sheet, ability to raise matching funds, a long history of high-quality service offerings,

experience with a high-speed communications, a well-connected Board of Directors, and a highly experienced management team.

We believe playing TWER relative to gaining stimulus money is significantly premature. As we outline in previous sections of this report, we strongly believe the initial funding rounds relative to broadband stimulus will be mainly related to rural deployments. Additionally, we see major potential issues with both the timing of NTIA- related stimulus funds due to the extensive review process and due to the unclear rules governing the process. TowerStream is a sophisticated Company and will likely be able to manage these uncertainties and, as a result, we believe it could ultimately be very successful in gaining NTIA stimulus funds to further its broadband service initiatives. We believe that such funding would likely not occur over the short term and is not likely before mid-2010.

The Company has built a fixed wireless broadband network in the above-mentioned cities that delivers high-speed telecommunications and Internet access services that support Voice over Internet Protocol (VoIP), Virtual Private Networks (VPNs), bandwidth on demand, wireless redundancy, disaster recovery connections, and bundled data and video services at speeds ranging from .512 Mbps to 1 Gigabit per second (1,000 million bits per second). The Company sells these services to commercial entities on a monthly basis in order to connect their corporate customers' locations to a variety of other telecommunications carriers— Internet service providers, long-distance companies, local telephone companies, and in some cases, directly to the corporate customers' other buildings located within the same metropolitan area. The Company is experiencing moderate growth, although this growth rate is considerably lower than the Company had forecasted several years ago.

The Company's wireless connectivity services are offered at various speeds to suit the needs of its customers. For example, a small-sized business would likely connect its corporate location to the Internet via a T-1 connection, for which the customer would pay Towerstream approximately \$400 per month. Lower speed offerings are available for as low as \$256 per month.

The traditional competitor for such a service offering would be the local telephone Company, which would provide connectivity via its copper wire or fiber optic-based infrastructure at a price of approximately 50% more per month. Medium and larger size businesses operating in cities served by Towerstream often connect to

the Internet or other network resource at speeds far in excess of T-1. Towerstream provides connectivity for such corporations at rates that are generally 20% to 70% lower than those charged by the local telephone companies or other local service provider. While Towerstream is usually able to substantially undercut the prices of the traditional local access providers, price alone is not the only reason corporations select Towerstream. In many cases Towerstream is able to offer greater granularity of bandwidth, superior service level agreements, and shorter lead times for connectivity that cannot be matched by the traditional service providers.

Towerstream provides these local connectivity services via a fixed wireless network that utilizes a relatively new technology called WiMAX. The Company provides these services via the installation of an antenna on a rooftop in the serving area. Network connectivity to its customer is then provided via a wireless connection between Towerstream's antenna and a smaller antenna located on the customer's building. Because newer wireless technologies are utilized, the Company is able to install services into metropolitan areas at a very economical cost—typically well less than \$1 million for the initial infrastructure per metropolitan area.

We believe Towerstream's local access products provide strong value to business customers. Typically, the Company's products are priced at a 20% to 70% discount over the competing landline-based solution. Towerstream also offers a granularity of service that is unmatched by the vast majority of telco offerings available today. The amount of time it takes for local telephone companies to install data circuits continues to be measured in weeks in most major metropolitan areas and can often be measured in months for higher speed data circuits, especially if fiber optic access lines must be installed at the Company's location. Towerstream, on the other hand, typically provides installation within three to five business days. We believe this is a major selling and competitive advantage.

Towerstream also offers its customers a significant degree of flexibility in that circuits can be easily upgraded remotely from Towerstream's network operations center. For example, a customer that has been allocated 10Mbps, but is experiencing network congestion can easily be upgraded to a faster speed without a truck roll being initiated by Towerstream.

We also believe Towerstream's customers place a high value on the customer service that is provided by the Company. Over the past few

years, service levels from the incumbent local exchange carriers have deteriorated significantly due to industry consolidation and aggressive cost cutting. We believe service providers who are able to offer a strong level of customer service will continue to be highly valued by corporate data communications customers.

Recent Financial Performance

Over the past few quarters, TowerStream has shown strong top line growth. During the March 2009 quarter, Towerstream reported \$3.4 million dollars in revenue, which represented 6.4% sequential growth and 64% on a year-over-year basis. Gross margins also continued to grow at 76% during the March quarter, a 10% increase on a sequential basis.

Of the nine markets in which the Company provides services, six are operating on a positive EBITDA basis.

The Company continues to operate at an EPS loss, and it continues to burn cash. During the March quarter, the Company generated a net income loss of approximately \$2.4 million, with negative cash flow of more than \$2.0 million.

Some of the overall trends in TowerStream's business look positive. For example, quarterly revenues are rising on a consistent basis and gross margins are strong and have recently significantly increased.

We do see some major problems at the Company. Customer churn remains a major issue, with the March quarter showing a strong increase. Additionally, the Company has been required to engage in aggressive price reductions in order to maintain growth. Average revenue per user for new customers has fallen sharply at \$540 per month during the March quarter versus more than \$770 per month during the previous quarter. For the year of the March quarter, the monthly revenue per new customer was considerably higher at \$842.

While there are a few positive trends, we would continue to resist recommending or owning the shares, as we believe it is unlikely for this Company to generate positive GAAP earnings per-share until sometime in 2011. Simply put, we see many better places to put money within the aggressive growth sector.

TowerStream's balance sheet, however, remains strong, with nearly \$22 million in cash and total assets of approximately \$36 million. Current liabilities are only \$5 million, and the Company remains long-term debt

free.

Odds of Receiving Stimulus Funding

TowerStream's management has already stated that it does not intend to apply for RUS funds. The Company could likely make a strong argument for funds under NTIA relative to underserved areas that are located on the fringes of its current service territories.

We believe that TowerStream is not a particularly good candidate for NTIA funds. The Company's business plan is centered on providing businesses located in major metropolitan areas alternatives to telephone company-provided data communications circuits. This focus is the direct opposite of the intention of the broadband stimulus funds, which means to provide services to unserved and underserved areas.

We suppose that TowerStream could argue that its current network could be expanded to include fringe areas that are currently underserved, but this seems very far afield from its current business strategy. We would actually be somewhat concerned about this Company if it did accept stimulus funds to expand services in this manner. Towerstream is already considerably behind in its business plan, and the receipt of funds, in our opinion, would act as a major diversion.

In the Company's favor relative to such funding are the Company's strong track record, a strong and capable management team, a strong balance sheet and a level of sophistication that would likely allow them to present a well prepared application package to NTIA.

Conclusions

An unprecedented amount of government capital will soon be allocated to expand broadband connectivity in the United States. The vast majority of these funds will be allocated toward rural areas due to the continued gap that exists between broadband deployments in rural areas relative to other areas of the United States.

We believe the majority of these funds will be allocated to organizations that are currently providing wireless broadband services to rural communities. We expect government evaluators to place heavy emphasis on the bidder's track record of deployments in rural areas, ability to deliver on proposed projects, and on the scope of the proposed projects to deliver services into rural areas that have yet to see broadband deployments due to the difficulty and expense of deployments. We expect the vast majority of these funds will be awarded to companies that are currently operating services, and while many communities will seek funds, we do not believe their efforts will be particularly successful.

In this report we analyzed the likelihood of four publicly traded communications providers receiving broadband-related stimulus funds. Because we believe the initial funding round will be heavily focused on rural deployments, we believe Towerstream Corporation's odds of receiving funding in the initial round are very small, although they may be more likely to receive funding in later rounds that will mainly be provided by NTIA.

We believe the funding odds for both KeyOn Communications Holdings, Inc. and ERF Wireless are excellent. Both of these vendors have strong track records, strong management teams, stable businesses and the ability to raise any matching funds that may be required.

We especially like KeyOn's odds of receiving stimulus funds, as its preparations have been extensive and it has lined up strong potential financing partners, which we believe will be very favorably viewed by government evaluators. KeyOn has also hired one of the top consulting firms in the field of telecommunications industry, Interactive Broadband Consulting Group, to guide the organization through the bidding process. Due to the complexities of the bidding and evaluation process, we believe thorough preparation will be a critical success factor. We believe KeyOn's applications will be extremely well researched and prepared.

Analyst and Other Important Disclosures

Analyst Certification - I, Joseph Noel, hereby certify

(1) that the views expressed in this research company report accurately reflect my personal views about any or all of the subject securities or issuers referred to in this company report and

(2) no part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed in this company report.

Analyst:

Joseph Noel is a 29-year veteran investment and technology industries. Joe was recently a senior analyst at Pacific Growth Equities, LLC, where he tracked the communications equipment/services and advanced industrial sectors. Prior to Pacific Growth, he covered both the telecommunications equipment and services industries at Hambrecht & Quist and was employed by Gartner/Dataquest as a communications industry analyst. Before becoming an analyst, Mr. Noel received solid industry experience at a number of telecommunications carriers, including MCI, where he was responsible for the frame relay product marketing launch; and British Telecom, where he was involved in strategic planning for the company's Internet access service. He was also employed by various Bell Operating Companies in both marketing and technical roles for nearly ten years. Mr. Noel received his MBA in finance from Wake Forest University, and holds a BS in business and economics. A four-time Wall Street Journal All-Star Analyst, Joe specializes in emerging growth companies in the communications, Internet and advanced industrial equipment sectors.

The coverage analyst uses a relative rating system in which stocks are rated as: BUY, SELL, or HOLD.

Stock Ratings:

BUY - the stock is expected to outperform the unweighted expected total return of the sector over a 12-month investment horizon.

SELL - the stock is expected to under perform the unweighted expected total return of the sector over a-12 month time horizon

HOLD - the stock is expected to perform in line with the unweighted expected total return of the sector over a 12-month investment horizon.

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