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WEST. DIST. OF PENNSYLVANIA

UNITED STATES DISTRICT COURT
WESTERN DISTRICT OF PENNSYLVANIA

UNITED STATES OF AMERICA *ex rel.* [UNDER SEAL], Plaintiff, v. [UNDER SEAL], Defendants.	Civil Action No.: 17-1052 **COMPLAINT FOR VIOLATION OF THE FALSE CLAIMS ACT, 31 U.S.C. §§ 3729 *et seq.*** **FILED IN CAMERA AND UNDER SEAL PURSUANT TO 31 U.S.C. § 3730(b)(2)** **JURY TRIAL DEMANDED**

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UNITED STATES DISTRICT COURT
WESTERN DISTRICT OF PENNSYLVANIA

UNITED STATES OF AMERICA *ex rel.*
JAMES RANKO,

Plaintiff,

v.

ARMSTRONG GROUP OF COMPANIES, ARMSTRONG UTILITIES, INC., JUDCO MANAGEMENT INC., ARMSTRONG TELEPHONE COMPANY, ARMSTRONG TELEPHONE OF MARYLAND, ARMSTRONG TELEPHONE COMPANY NEW YORK, ARMSTRONG TELEPHONE NORTH, ARMSTRONG TELEPHONE COMPANY (AKA ARMSTRONG NORTHERN DIVISION), ARMSTRONG TELEPHONE COMPANY PENNSYLVANIA AND ARMSTRONG OF WEST VIRGINIA.

Defendants.

Civil Action No. 17-1052

COMPLAINT FOR VIOLATION OF THE FALSE CLAIMS ACT, 31 U.S.C. §§ 3729 *et seq.*

FILED IN CAMERA AND UNDER SEAL PURSUANT TO 31 U.S.C. § 3730(b)(2)

JURY TRIAL DEMANDED

COMPLAINT

Pursuant to the qui tam provisions of the federal False Claims Act, 31 U.S.C. § 3729 *et seq.*, (the "False Claims Act" or the "FCA"), *qui tam* Plaintiff-Relator James Ranko ("Relator" or "Relator Ranko"), through his attorneys, on behalf of the United States of America (the "Government"), for his Complaint against Armstrong Group of Companies, JUDCO Management Inc., Armstrong Utilities Inc., Armstrong Telephone Company, Armstrong Telephone of Maryland, Armstrong Telephone Company New York, Armstrong Telephone North, Armstrong Telephone Company (aka Armstrong Northern Division), Armstrong Telephone Company Pennsylvania and Armstrong Of West Virginia ("Defendants" or

"Armstrong Group"), alleges, based upon personal knowledge, relevant documents, and information and belief, as follows:

I. INTRODUCTION

1. This is an action to recover damages and civil penalties on behalf of the United States of America arising from false and/or fraudulent records, statements, and claims made and caused to be made by Armstrong Group and/or its agents and employees in violation of the False Claims Act, 31 U.S.C. §§ 3729 *et seq.*

2. This case concerns false or fraudulent claims made to the Federal Communications Commission ("FCC") Universal Service Fund ("USF")'s High Cost Programs ("High Cost Programs") administered by the Universal Service Administrative Company ("USAC").

3. The purpose of the High Cost Programs is to provide federal funding to expand connectivity infrastructure in rural unserved or underserved geographic areas and to ensure that residents in these areas have access to modern communications networks capable of providing voice and broadband service, both fixed and mobile, at rates that are reasonably comparable to those in urban areas.

4. The FCC's High Cost Programs include the Connect America Fund and a number of related subsidy programs: Mobility Fund, High Cost Loop Support ("HCLS"), Interstate Common Line Support ("ICLS"), Local Switching Support ("LSS"), Safety Valve Support, Safety Net Additive Support ("SNAS"), and the Connect America Intercarrier Compensation Fund ("ICC").

5. To participate in the High Cost Programs, telecommunication carriers must be designated by state regulatory commissions or the FCC as "eligible telecommunications carriers" ("ETCs"). 47 C.F.R. § 54.5. Once designated, ETCs may recover some of their costs from the federal Universal Service Fund to support provision of rural telecommunications services. 47 C.F.R. § 54.201.

6. Defendant Armstrong Group is comprised of wholly-owned subsidiaries including Armstrong Telephone Company, Armstrong Utilities, Guardian Protection Services, Armstrong Development, Armstrong Foods, and Accuspec.

7. Armstrong Telephone operates six affiliated rural telephone service providers, five of which participate in the High Cost Programs and are designated as "rate of return" ETCs.

8. To recover costs from the federal Universal Service Fund, ETCs must provide financial and operational data to USAC annually and certify such data. 47 C.F.R. § 54.313. For privately-held rate of return carriers, like Armstrong Telephone, federal regulations require a "full and complete annual report of the company's financial conditions and operation at the end of the preceding fiscal year" to participate in the High Cost programs. Id.; 47 C.F.R. § 54.313(f)(2).

9. Armstrong Telephone has received tens of millions in federal subsidies under the FCC's High Cost Programs.

10. Payments for ETCs under the High Cost Programs are calculated based on cost reports submitted to USAC. See 47 C.F.R. Parts 32, 36, 51, 54, 64 and 69.

11. The cost reports submitted by ETCs must adhere to mandatory cost reporting regulations for the High Cost Programs including reporting true costs, determining whether a cost is allocated to regulated activities, and categorizing costs even when allocated to regulated activities including accounting for caps on certain cost categories.

12. Mandatory cost reporting regulations include compliance with the Uniform System of Accounts, 47 C.F.R. Part 32, requiring separate accounting for costs incurred by the ETC in FCC-regulated and non-regulated activities, see 47 C.F.R. §§ 32.14 and 32.23, and separate accounting for transactions between affiliated entities. 47 C.F.R. § 32.27. Cost-reporting regulations also mandate proper allocation of costs between regulated and non-regulated entities when a resource or expense is shared. 47 C.F.R. § 64.901.

13. Since at least 2008, Armstrong Telephone has knowingly submitted fraudulent cost reports, grossly inflating its costs by misallocating costs to Armstrong Telephone that were

incurred in support of non-regulated activities conducted by affiliated entities. These misallocated costs include upwards of 80% of salaries and wages that should have been properly allocated to other Armstrong subsidiaries (for example, costs properly allocated to Armstrong Group's Armstrong Utilities or Guardian Protection Services).

14. Through this misallocation of costs, Armstrong knowingly violates FCC regulations on cost reporting and cost allocation. Higher reported costs and costs per line by the ETC generally result in higher federal subsidies. Armstrong Telephone knowingly inflates its reported costs to secure higher High Cost Program subsidies than those to which it is entitled. 47 C.F.R. §§ 32, 64.

15. ETCs also are required, by statute, to use High Cost Program subsidies "only for the provision, maintenance, and upgrading of facilities and services for which the support is intended." 47 U.S.C. § 254(e).

16. Despite this limitation on the use of High Cost program subsidies, Armstrong Telephone knowingly uses High Cost Program subsidies for purposes other than the "intended use," in violation of 47 U.S.C. § 254(e), including for subsidizing the operations of Armstrong's subsidiaries not engaged in rural telephone services.

17. *Qui tam* Plaintiff-Relator James Ranko seeks, through this action, to recover damages and civil penalties arising from the false or fraudulent records, statements and/or claims that Defendants made, or caused to be made, by presenting false or fraudulent claims for payment to the High Cost Programs, USAC, and the FCC.

II. JURISDICTION AND VENUE

18. This Court has jurisdiction over the subject matter of this action pursuant to 28 U.S.C. §§ 1331 and 1367, and 31 U.S.C. § 3732, the latter of which specifically confers jurisdiction on this Court for actions brought pursuant to 31 U.S.C. §§ 3729 and 3730.

19. This Court has personal jurisdiction over Defendants pursuant to 31 U.S.C. § 3732(a), which authorizes nationwide service of process and because Defendants have minimum

contacts with the United States. Moreover, Defendants can be found in and transact business in the Western District of Pennsylvania.

20. Venue is proper in this District pursuant to 28 U.S.C. § 1391(b), 28 U.S.C. § 1395(a), and 31 U.S.C. § 3732(a) because Defendants can be found in, and/or transact or have transacted business in this District.

21. Although it is no longer jurisdictional, the public disclosure bar of the federal False Claims Act does not bar this suit. The Plaintiff-Relator's complaint is not based upon allegations or transactions of fraud that have been publically disclosed within the meaning of the False Claims Act. Even if the allegations or transactions of fraud had been publicly disclosed, the Plaintiff-Relator would qualify an "original source" of the information within the meaning of the FCA. Relator's information is based upon his personal observations, independent of any relevant public disclosure and materially adds to any information that could have been publicly disclosed. Relator, moreover, voluntarily provided the information upon which this action is based to the United States government before filing this case.

III. PARTIES

22. The Armstrong Group of Companies is a family owned and operated corporation, headquartered at 1 Armstrong Place, Butler, PA, 16001. Armstrong's divisions, affiliates, and subsidiaries include Armstrong Utilities, Guardian Protection Services, Armstrong Development, Armstrong Foods, Accuspec, and Armstrong Telephone Company. Annual revenues for the Armstrong Group is approximately $600 million.

23. Armstrong Telephone Company is a wholly-owned subsidiary of the Armstrong Group of Companies, also headquartered at 1 Armstrong Place, Butler, PA, 16001.

24. Officers for Armstrong Telephone also serve as officers in the parent company, Armstrong Group, and as officers for Armstrong Group's other subsidiaries.

25. Armstrong Telephone serves as the parent company for six independent local exchange telephone companies, five of which receive funding under the High Cost Programs as "rate of return" providers. These include:

Armstrong Telephone Company - Pennsylvania
1755 Route 30
Clinton, PA 15026-1709

Armstrong Telephone Company - West Virginia
311 Main Street
Hamlin, WV 25523

Armstrong Telephone Company - Maryland
122 South Queen
Rising Sun, MD 21911

Armstrong Telephone Company (aka Armstrong Northern Division)
600 E. North Street
Harrisville, WV 26362-1224

Armstrong Telephone Company North
817 Main Street
Duke Center, PA 16729

Armstrong Telephone Company – New York
136 Front Street
Addison, NY 14801-1112

26. All but one of the Armstrong Telephone companies – Armstrong North – operate as FCC "rate-of-return" carriers, and are therefore subject to FCC "rate of return" carrier regulations.

27. Collectively, Armstrong Telephone generates approximately $20 million of Armstrong's yearly revenue, and this revenue includes millions of dollars per year in High Cost Program subsidies.

28. Armstrong Utilities Inc. is a corporation also headquartered at 1 Armstrong Place, Butler, PA, 16001. Armstrong Utilities is a subsidiary of Armstrong Group of Companies providing broadband and cable television connection services. Armstrong Utilities has co-located

offices with three of the Armstrong Telephone Companies: Maryland, Northern Division and West Virginia.

29. JUDCO Management Inc. is a corporation also headquartered at 1 Armstrong Place, Butler, PA, 16001. JUDCO provides electrical equipment leasing and related services to Armstrong subsidiaries, including Armstrong Telephone. JUDCO and the Armstrong Group of Companies are under common control: JUDCO's named corporate officers also hold leadership positions in dozens of affiliates within the Armstrong Group of Companies.[1]

30. Relator Mr. James Ranko worked for Armstrong Telephone from 2008-2016. He served as Controller from 2008 to 2014 and as Director of Regulatory Compliance from 2014-2016. Relator is a graduate of Pennsylvania State University with a Bachelors of Science in Finance. Relator has nearly twenty years of experience in corporate financial management and reporting.

IV. BACKGROUND

A. The False Claims Act

31. The False Claims Act was originally enacted during the Civil War. Congress substantially amended the Act in 1986—and, again, in 2009 and 2010—to enhance the ability of the United States Government to recover losses sustained as a result of fraud against it. The Act was amended after Congress found that fraud in federal programs was pervasive and that the Act, which Congress characterized as the primary tool for combating fraud on the Government, needed modernization. Congress intended that the amendments would create incentives for individuals with knowledge of fraud against the Government to disclose the information without fear of reprisals or Government inaction, and to encourage the private bar to commit legal resources to prosecuting fraud on the Government's behalf.

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[1] Related affiliations of JUDCO's named corporate officers include, for example: Jay Sedwick (President, Armstrong Holdings Inc.), William Stewart (Vice-President, Armstrong Holdings Inc.), Dru A. Sedwick (CEO, Armstrong), Bryan Cipoletti (CFO, Armstrong Group).

32. The FCA prohibits, *inter alia*: (a) knowingly presenting (or causing to be presented) to the federal government a false or fraudulent claim for payment or approval; (b) knowingly making or using, or causing to be made or used, a false or fraudulent record or statement material to a false or fraudulent claim; and (c) knowingly making, using, or causing to be made or used, a false record or statement material to an obligation to pay or transmit money or property to the Government, or knowingly concealing or knowingly and improperly avoiding or decreasing an obligation to pay or transmit money or property to the Government. 31 U.S.C. §§ 3729(a)(1)(A)–(B), and (G).

33. Any person who violates the FCA is liable for three times the amount of the damages sustained by the United States. 31 U.S.C. § 3729(a)(1). In addition, he or she is liable for a civil penalty of up to $21,563 for each violation that occurred on or after November 2, 2015, or $11,000 for each violation that occurred prior to November 2, 2015. *Id.*

34. The FCA allows any person having information about an FCA violation to bring an action on behalf of the United States, and to share in any recovery. The FCA requires that the Complaint be filed under seal for a minimum of 60 days (without service on the Defendants during that time) to allow the government the opportunity to conduct its own investigation and to determine whether to join the suit.

B. The FCC's High Cost Programs

1. Overview

35. The federal universal service High Cost Programs provide federal subsidies to Eligible Telecommunication Carriers ("ETCs") to enhance access to modern communication networks throughout rural America. The High Cost Programs support traditional landline phone services, mobile phone service, and broadband expansion. The local exchange telephone industry often requires large, fixed capital investments that represent a high percentage of total costs. In some areas, such as rural or remote regions, local exchange telephone companies cannot recover all of their costs from end user rates.

36. To allow rural residents service rates comparable to urban areas, the FCC's High Cost Programs subsidize ETCs using funds from the federal Universal Service Fund ("USF") to ensure access to telecommunications services for rural residents.

37. The High Cost Programs are administered by the Universal Service Administration Company ("USAC"), under the direction and control of the Federal Communications Commission ("FCC"). 47 CFR §§ 54.701(a), 702(b). USAC is a not-for-profit subsidiary of the National Exchange Carrier Association ("NECA").

38. The Telecommunications Act of 1996, and implementing regulations (47 C.F.R. Part 54), set forth mandatory requirements for use of funds provided to ETCs under the High Cost Programs, including that high-cost support funds must be used ***"only for the provision, maintenance, and upgrading of facilities and services for which the support is intended."*** 47 U.S.C. § 254(e); see also 47 C.F.R. § 54.7(a) (emphasis added).

39. Five of the Armstrong Telephone subsidiaries – all but Armstrong North – are "incumbent local exchange carriers" ("ILECs") and receive subsidies under the High Cost Programs as rate-of-return providers. 47 C.F.R. § 54.5 (defining rate of return providers as incumbent local exchange carriers not subject to price cap regulation)

40. These five Armstrong Telephone Companies operate under rate-of-return regulation at the federal level, and therefore receive high-cost support based on historical costs as set forth in cost studies submitted by the carrier.

41. Pursuant to federal regulations set forth at 47 C.F.R. Parts 54 and 69, ETCs must submit financial cost data necessary to calculate High Cost Program support payments and must certify the completeness and accuracy of the financial costs data and certify the ETC's compliance with federal FCC regulations.

42. Pursuant to Part 54, an ETC's reported costs – for the purposes of determining the FCC subsidy – must be determined based on the requirements for cost accounting set forth in 47 C.F.R. Parts 32, 36, 51, 54, 64, and 69.

43. The FCC has repeatedly emphasized that compliance with cost accounting rules is material to payments under the federal program: "Compliance with our cost allocation rules is critical for carriers receiving high-cost support based on their reported costs, ***as incorrect allocations will result in support amounts in excess of what a carrier is entitled to.***" In the Matter of Sandwich Isles Commc'ns, Inc., FCC Docket No. 10-90, Dec. 5, 2016 (Order), 31 F.C.C.R. 12999, at 13028 (emphasis added).

44. The purpose of the cost allocation rules is "to protect ratepayers from bearing the costs and risks of nonregulated activities. The rules are intended to deter unreasonable cost shifting both from cost misallocations of joint and common costs and from affiliate transactions." Allocation of Costs Associated with Local Exchange Carrier Provision of Video Programming Services, FCC Docket No. 96-112, May 10, 1996 (Notice of Proposed Rulemaking), 11 F.C.C.R. 17211, at 17216; see also Separation of Costs of Regulated Telephone Service from Costs of Nonregulated Activities, FCC Docket No. 87–305, Oct. 16, 1987, (Order on Reconsideration), 2 F.C.C.R. 6283, at 6283 ("One of the chief goals of Part 64 of the Commission's rules is to "discourage carriers from subsidizing the costs of nonregulated services by shifting nonregulated costs to regulated activities ...")

45. The FCC has noted that "abuse" in the High Cost Programs could include violation of "used and useful principles and [...] cost allocation rules" – through participants including "questionable expenses in their revenue requirement, using support for purposes unrelated to the provision of services, and misallocating expenses among affiliates, or between regulated and non-regulated activities." In the Matter of Connect America Fund: ETC Annual Reports and Certifications Developing a Unified Intercarrier Compensation Regime. FCC Docket No. 10-90, Mar. 23, 2016 (Report and Order), 31 F.C.C. Rcd. 3087 at 3213.

2. FCC Reporting Statutes & Regulations

a. Part 32 (USAO) – Regulated & Non-Regulated Accounts

46. Rate-of-return telecommunications carriers, including Armstrong Telephone, must record their costs, including investments and expenses, into a system of accounts in

accordance with the Uniform System of Accounts ("USOA"), prescribed by Part 32 of the FCC's rules.

47. The USOA sets forth a standard chart of accounts and directs companies how to record certain transactions. An ETC must comply with 47 C.F.R. Part 32 accounting rules as a threshold matter to obtain financial support under the High Cost Programs.

48. The ETC must follow the detailed accounting requirements for accounting for expenses used for regulated and non-regulated activities. 47 CFR §§ 32.14 and 32.23.

49. The USAO specifies how to account for joint or common use of assets and resources in the provisions of regulated and non-regulated products and services (regulated and non-regulated activities). 47 C.F.R. § 32.14(c), 32.23(a)-(c). "[A]ssets and expenses shall be subdivided in subsidiary records among amounts solely assignable to nonregulated activities, amounts solely assignable to regulated activities, and amounts related to assets used and expenses incurred jointly or in common, which will be allocated between regulated and nonregulated activities." Id.

b. Part 32 (USAO) – Affiliate Transactions

50. The USOA also establishes rules for an ETC to account for transactions with affiliated companies.

51. Affiliated companies are defined as companies which "directly or indirectly through one or more intermediaries, control or are controlled by, or are under common control with, the accounting company." 47 C.F.R. § 32.9000. Control may be shown through the existence of common directors, officers, or any other direct or indirect means. Id.

52. Federal regulations require that services purchased by an ETC from an affiliated company be recorded at the lower of fair market value or fully distributed cost. 47 C.F.R. § 32.27. Services provided by an affiliated company that exists solely to provide services to the ETC should be recorded based on fully distributed costs.

53. Similar to the federal regulations governing cost allocation, the USOA's affiliate transaction rules seek to protect ratepayers from subsidizing affiliate activities, and prevent

excessive high-cost support awards. See In the Matter of Sandwich Isles Commc'ns, Inc., FCC Docket No. 10-90, Dec. 5, 2016 (Order), 31 F.C.C.R. 12999, at 13029 ("Because the high-cost program provides support for regulated costs that exceed certain thresholds, failure to comply with the cost allocation rules also will result in inflated high-cost support amounts.")

54. An ETC's payment of above-fair-market-value (or, alternatively, above-fully distributed costs) for services may violate the affiliate transaction rules and may give rise to an excess payment under the High Cost Programs for failure to account properly for payments of "higher amounts for services than what a company of similar size, based on employees and customer lines, would pay." Id. at 13031.

c. Part 64 Cost Allocation Reporting

55. Cost reports submitted by ETCs also must follow cost allocation reporting rules as specified in 47 C.F.R. Part 64; see also 47 U.S.C. § 254(k).

56. Compliance with the cost allocation rules requires, *inter alia*, that carriers "separate their regulated costs from nonregulated costs" and "use the attributable cost method of cost allocation for such purpose." 47 C.F.R. § 64.901. Whenever possible, "costs shall be directly assigned to either regulated or nonregulated activities." 47 C.F.R. §64.901(b)(2).

57. Costs which cannot be directly assigned to either regulated or nonregulated activities, or "common costs," should be allocated into appropriate cost categories, and allocated based on a hierarchy. First, whenever possible, "common cost categories are to be allocated based upon direct analysis of the origin of the cost themselves." 47 C.F.R. § 64.901(b)(3)(i).

58. If direct analysis is not possible, common cost categories "shall be allocated based upon an indirect, cost-causative linkage to another cost category (or group of cost categories) for which a direct assignment or allocation is available." 47 C.F.R. § 64.901(b)(3)(ii). If "neither direct nor indirect measures of cost allocation can be found, the cost category shall be allocated based upon a general allocator computed by using the ratio of all expenses directly assigned or attributed to regulated and nonregulated activities." 47 C.F.R. §64.901(b)(3)(iii).

59. One method of allocating corporate salaries consistent with the cost allocation and cost accounting rules would be to use time or activity logs to determine cost-causative linkage to regulated or non-regulated activities.

60. In the absence of direct or indirect allocation mechanisms, using the ratio of all expenses directly assigned or attributed to regulated and nonregulated activities also would be appropriate.

61. The cost allocation rules are intended, generally, to "protect consumers by ***preventing cross-subsidization*** between regulated and nonregulated activities provided by carriers subject to the cost allocation requirements. These rules ensure that carriers compete fairly in nonregulated markets and that regulated ratepayers do not bear the risks and burdens of the carriers' competitive, or nonregulated, ventures." In the Matter of Sandwich Isles Commc'ns, Inc., FCC Docket No. 10-90, Dec. 5, 2016 (Order), 31 F.C.C.R. 12999, at 13002 (emphasis added).

62. Cost allocation rules are intended to ensure that costs are accurately reported and appropriately allocated between regulated and non-regulated activities and that federal program subsidies not be used to fund non-regulated activities unrelated to subsidization of rural telephone service and infrastructure.

3. Statutory Intended Use Requirement

63. Federal law strictly regulates the use of High Cost Program subsidies.

64. An ETC must use subsidies "only for the provision, maintenance, and upgrading of facilities and services for which the support is intended." 47 C.F.R. § 54.7; see also 47 U.S.C. § 254(e).

65. Knowing use of federal High Cost Program subsidies for purposes other than that for which it was intended – supporting the provision of rural telecommunications access – violates 47 U.S.C. § 254(e).

66. The FCC has reiterated this statutory requirement in public notices, indicating that "expenditure of legacy high-cost or Connect America support for any other purpose is misuse and may subject the recipient to recovery of funding, suspension of funding, enforcement action by the Enforcement Bureau pursuant to the Communications Act of 1934 or our rules, and/or prosecution under the False Claims Act. [...] While ETCs are eligible to receive support to recover a portion of their costs relating to corporate operations, those expenses must fall within the scope of the statutory requirement that support be used for the provision, maintenance, and upgrading of facilities and services for which the support is intended." All Universal Serv. High-Cost Support Recipients Are Reminded That Support Must Be Used for Its Intended Purpose, FCC Docket No. FCC 15-133, Oct. 19, 2015, (Public Notice), 30 F.C.C.R. 11821, at 11821.

4. **FCC's "Used & Useful" Principles**

67. Additional restrictions apply to cost reporting of regulated services.

68. Federal regulations require that reported costs must be "***used and useful***" in the provision of regulated services. Specifically, cost recovery shall only be allowed where the underlying cost is "necessary to the efficient conduct of a utility's business, presently or within a reasonable future period." American Tel. and Tel. Co., FCC Docket No.77-150, Mar. 1, 1977, (Phase II Final Decision and Order), 64 F.C.C.2d 1, at 38, para. 111. This "used and useful" principle operates "as a protection against inefficiencies and abuse." In the Matter of Sandwich Isles Commc'ns, Inc., FCC Docket No. 10-90, Dec. 5, 2016 (Order), 31 F.C.C.R. 12999, at 13019.

69. If a cost is not "used and useful" to the provision of regulated services, it will be excluded from recoverable costs in calculating High Cost Program subsidies.

70. Excessive salaries or bonuses may be inappropriate under the "used and useful" standard. See In the Matter of Sandwich Isles Commc'ns, Inc., FCC Docket No. 10-90, Dec. 5, 2016 (Order), 31 F.C.C.R. 12999, at 13038 (declaring certain bonuses, employee activity, and affiliate management fees ineligible as part of high cost support cost reporting).

5. Carrier Certifications (FCC Form 481)

71. Since 2014, all ETCs receiving support under the High Cost Programs must complete two sets of certifications: Section 54.314 certification and 54.313 certification (FCC Form 481).

72. Section 54.314 requires that the ETC certify that High Cost Program support was used "during the preceding calendar year and will only [be used] . . . in the coming calendar year for the provision, maintenance, and upgrading of facilities and services for which support is intended."

73. Beneficiaries must also certify, through their 54.313 Certification (FCC Form 481), that "privately held carriers [ensure] compliance with the financial reporting requirements set forth in 47 CFR § 54.313(f)(2)," and that the signee "certify that the information reported on this form and in the documents attached below is accurate." See Exhibit A, Sample FCC Form 481 at 12.

74. Compliance with the FCC's cost accounting regulations, statutory "intended use" requirements and the FCC's "used and useful" principles are material to the determination of High Cost Support funding.

75. Inflated cost reports, including those that increase costs through violation of the cost accounting and cost allocation rules, directly and proportionally increase funding support from USAC.

76. The FCC has emphasized repeatedly that these rules are vital to protecting ratepayers from cross-subsidizing activities unrelated to the aims of broadening telecommunications access in rural and underserved areas.

V. ARMSTRONG TELEPHONE 'S FRAUDULENT SCHEME TO OBTAIN EXCESSIVE HIGH COST PROGRAM SUBSIDIES

A. Overview

77. Since 2010, Armstrong Telephone has received approximately $36 million in funding from USAC via the High Cost Program. Public information shows that Armstrong has

received the following amounts since 2010 in five of the High Cost Program support mechanisms:

PROGRAM	HCL	ICLS	LSS	SNA	ICC
2010-Present	$7,529,749	$19,924,016	$3,400,898	$153,785	$5,011,674

78. During the course of his employment, Mr. Ranko learned that for many years Armstrong Telephone had knowingly misreported and misallocated costs reported to USAC to fraudulently increase its High Cost Program subsidy payments.

79. Armstrong Group executives who directed this fraudulent scheme included Executive Vice President, Finance, Christopher King, Chief Financial Officer, Bryan Cipoletti; and Chief Executive Officer, Dru Sedwick.

80. Armstrong executives concealed misallocation of costs from the company's auditors, state regulatory commissions, and from USAC and the FCC.

81. Armstrong executives know that federal law requires appropriate reporting and allocation of costs.

82. For Armstrong Telephone, allocation of costs could have been based on appropriate allocation measures such as a proportional share of expenses, a proportional share of assets, or a proportional share of total employees. By these measures, ***less than 5%*** of costs should have been appropriately allocated to Armstrong Telephone in cost reports submitted for High Cost Program subsidies.

83. Instead, for many years and on an ongoing basis, Armstrong has fraudulently misallocated up to ***100%*** of costs to Armstrong Telephone. As a result, Armstrong Telephone reports millions of dollars in excessive costs to USAC and the FCC each year. These inflated cost reports, in turn, wrongfully increase Armstrong's High Cost Program support payments. Armstrong also engages in inappropriate affiliate transactions to increase its costs on cost reports submitted for High Cost Program support.

84. For example, Armstrong Utilities and JUDCO Management Inc. charge Armstrong Telephone millions of dollars per year in DSL cable engineering fees, legal retainer costs, corporate facility costs, IT costs, equipment leasing costs, and Board of Director fees. Those misallocated costs from affiliate transactions are reported by Armstrong on cost reports submitted for High Cost Program support.

85. Through this misallocation of costs, Armstrong knowingly violates FCC regulations on cost reporting and cost allocation to secure higher High Cost Program subsidies. 47 C.F.R. Parts 32, 64.

86. Armstrong knowingly presents USAC with express false certifications to obtain High Cost Program subsidies, including by certifying that Armstrong will use federal program funds for intended purposes, and by certifying the accuracy of its cost reports.

B. Armstrong knowingly submitted inflated cost reports to USAC, in order to receive higher High Cost Program subsidies.

87. Armstrong Telephone inflates its regulated costs and costs per line – the basis on which its High Cost Program funding is calculated – by including in its cost reports a disproportionate amount of costs that should have been properly allocated to other Armstrong subsidiaries.

88. Misallocated and improperly accounted costs include most significantly reporting *75%* or more of salaries as regulated costs, when an appropriate accounting and allocation would be under 5%. Misallocated and improperly accounted costs also include reporting non-documented, and non-supportable, costs for the Armstrong Group company airplane on cost reports for High Cost Program support.

89. Armstrong Telephone also reports millions of dollars per year in excessive costs for services provided by affiliates, in violation of FCC regulations, resulting in tens of millions of excessive payments from the High Cost Programs.

1. Background – Armstrong's Cost Reports

90. Relator Mr. Ranko became aware of the fraud as Controller for Armstrong Telephone.

91. Mr. Ranko was directed by Armstrong executives to prepare cost reports that reflected these improperly allocated costs between regulated and non-regulated activities or improperly accounted for services provided by Armstrong affiliates. Allocations for costs shared by Armstrong affiliates, such as salaries, were set on a monthly basis by Armstrong executives.

92. During Mr. Ranko's employment, allocations were set by Executive VP Christopher King and CFO Bryan Cipoletti, and ultimately approved by CEO Dru Sedwick.

93. Armstrong executives also directed Mr. Ranko to prepare for their review an internal, confidential "cash flow per access line analysis" and "cash flow per access line normalization adjustment report" on a quarterly basis. Armstrong did not provide these reports to the FCC, USAC, or even Armstrong's auditors. Mr. King told Mr. Ranko that these reports were created so that Armstrong executives could review their true normalized pre-tax operating cash flow (OCF) for Armstrong Telephone.

94. To prepare the "cash flow per access line normalization adjustment report," Mr. Ranko and his associates were directed to "normalize" costs by correcting the misallocation of corporate expenses as reported on Armstrong's cost reports submitted for High Cost Programs.

95. Typically, "normalization" adjustments are used by accountants to remove the effect of non-recurring expenses or revenue from a company's financial statements to project ongoing revenue or expenses. The aim is to develop a model for a company's future earnings capacity and overall value.

96. For Armstrong's "cash flow per access line normalization adjustment report," however, Mr. Ranko and associates were instructed by Armstrong executives to recalculate net subsidy from the High Cost Programs as if costs had been properly accounted for and properly allocated as required by federal regulations. The normalization adjustments were simply

"subtracting out" misallocated costs as a means to evaluate the benefits received from the misallocation of costs.

97. Mr. Ranko became aware of the fraud when he began to notice significant and consistent "normalization" adjustments to Armstrong Telephone's reported costs particularly with salaries and wages. By evaluating these trends, Mr. Ranko realized that Armstrong used the normalization process to analyze a true, normalized pre-tax operating cash flow to Armstrong based on how specific costs were allocated and in what percentages.

98. The cash-flow-per access line report allows Armstrong executives to analyze the financial benefits to Armstrong of its misallocation of corporate costs and affiliate transactions and to quantify true operating income for Armstrong Telephone. It also allows Armstrong Telephone to assess any risks for audit, before submitting future cost reports to USAC, the National Exchange Carrier Association ("NECA") and the FCC.

99. Since Relator's resignation from Armstrong, Armstrong has continued the practice of preparing the cash flow per access line report and has sought employees to serve in the role of Controller who will prepare this report for Armstrong executives.

2. Knowing Misaccounting and Misallocations of Costs; Ignoring Auditor Warnings

100. During his employment, Relator witnessed discussions among Armstrong executives emphasizing the importance of maximizing cost allocations and affiliate charges to Armstrong Telephone to maximize subsidies under the High Cost Programs.

101. In doing so, Armstrong Executives ignored concerns about allocations and affiliate charges expressed by external auditors, Moss Adams LLP.

102. In multiple years, auditors at Moss Adams expressed concern about the allocation of company costs to Armstrong Telephone. Auditors at Moss Adams requested the Armstrong Group company airplane's charter to confirm airplane use and cost allocation but Armstrong would not provide that information to Moss Adams.

103. At one meeting attended by Relator, Armstrong executives King and Cipoletti discussed how to adjust accounting for corporate airplane costs in light of questions raised by Moss Adams. These Armstrong executives decided to increase the salary costs allocated to Armstrong Telephone, to recover the loss of the benefit from the previously misallocated corporate airplane costs. Mr. Ranko later received e-mail confirmation from the executives, directing staff to increase allocations of salary costs to Armstrong Telephone to offset reduced allocations for company airplane costs.

104. Knowing decisions to increase cost allocations to Armstrong Telephone by Armstrong executives occurred during Relator's employment. For example, at one point, Armstrong executives King and Cipoletti discussed concern that declining costs from Armstrong Telephone could affect High Cost Program funding and decided to increase charges for services from affiliate, Armstrong Utilities. Subsequently, Armstrong Utilities increased charges to Armstrong Telephone for engineering and maintenance fees for customers with both landline and DSL cable services, on a per line basis from $15 per line to $20 per line. The purpose of these increased charges was to allow for the higher allocation of costs for services charged by affiliate Armstrong Utilities to Armstrong Telephone for purposes of cost reporting under the FCC High Cost Programs.

105. Armstrong executives knowingly disregarded any concerns expressed to them about the propriety of the cost accounting or cost allocation methods for Armstrong Telephone. For example, in FY 2016, Armstrong's auditors, Moss Adams, noted concern about the high allocation of salaries to Armstrong Telephone and recorded their concerns in an exit memo provided to Armstrong executives. The Auditors' memorandum was not shared, however, with the FCC, NECA or USAC.

106. Similarly, Relator expressed concern with Armstrong's allocation and cost reporting practices to Armstrong executives and colleagues, but no action was taken to address his concerns.

107. On multiple occasions, Relator and others proposed developing a cost allocation manual to ensure that the Armstrong Telephone's cost accounting procedures were accurate and complied with FCC regulations. Armstrong executives King and Cipoletti rejected Relator's proposal to create a cost allocation manual and acknowledged that the practice of misallocating costs would make creating an allocation manual difficult, if not impossible.

3. **Inappropriate Allocation; Cross-Subsidizing Armstrong's Other Ventures**

a. *Salaries & Wages*

108. The most significant portion of Armstrong's inappropriately allocated expenses is Salaries & Wages. All Armstrong executives serve multiple roles across the regulated Armstrong Telephone, as well as non-regulated Armstrong subsidiaries. Christopher King, for example, supervised the Controllers for *all* Armstrong subsidiaries: yet 100% of his salary was allocated to Armstrong Telephone. Similarly, where Armstrong Telephone and Armstrong Utilities shared offices (Maryland, West Virginia and Northern Division), Armstrong Group General Managers performed duties for both Armstrong subsidiaries, yet 100% of their salaries were allocated to Armstrong Telephone. Other high-level executives with substantially misallocated salaries include Dru Sedwick, Jay Sedwick, Kirby Campbell, Bill Stewart, and Bryan Cipoletti.

109. Based on the FCC's cost allocation regulations, salaries which cover duties in both regulated and non-regulated activities should be allocated based on cost-causative allocations. 47 C.F.R. § 64.901(b)(3).

110. One way of determining appropriate allocations may have been Armstrong Telephone's proportionate costs as compared to Armstrong Group as a whole. Based on this measure, appropriate allocations of salaries to Armstrong may be 5% or less, which is nowhere near Armstrong Telephone's allocation of 75% to 100% of salaries.

111. For Armstrong Telephone's FY 2016 budget, it estimated that it had reported $11,705,038 USD in misallocated costs for its six carriers. Of this, $6,151,061 USD – or 52.6%

of the entire Armstrong Telephone budget – was comprised of Salaries & Wages and $3,122,100 were Executive Salaries & Wages.

112. Based on these numbers, and assuming Armstrong's total salaries for Armstrong executives working across subsidiaries were $4,162,800, an appropriate allocation to reported expenses for Armstrong Telephone should have been approximately $124,884 (3%).

113. Armstrong has used excessive and inappropriate allocation of Salaries & Wages to increase costs reported on its cost reports – and therefore, its FCC High Cost Program subsidies – for many years, including many years predating Relator's employment with Armstrong. Accounting templates reflecting excessive salary allocations to Armstrong Telephone had been used for years before Relator began his employment in 2008.

b. *Corporate Airplane & Local Operating Expenses*

114. Armstrong also inappropriately allocates other costs to Armstrong Telephone.

115. In FY2016, for purposes of cost reporting to the High Cost Programs, Armstrong allocated hundreds of thousands of dollars in company airplane costs to Armstrong Telephone. In its FY2016 normalization adjustments, Armstrong reallocated the company airplane costs for its internal analyses, acknowledging that these costs were not reflective of the true costs for Armstrong Telephone. On information and belief, an even greater proportion of airplane costs were allocated to Armstrong Telephone Companies before 2012.

.116. Since 2012, Armstrong has wrongfully allocated at least $180,000 per year in company airplane costs to Armstrong Telephone.

117. In FY2016, for purposes of cost reporting to the High Cost Programs, Armstrong allocated 100% of operating expenses to Armstrong Telephone for offices jointly used by Armstrong Telephone (Maryland, Northern Division and West Virginia) with Armstrong Utilities Inc. In its FY2016 normalization adjustments, Armstrong reduced the cost charged to Armstrong Telephone for local operating expenses by half for its internal analyses, acknowledging that these costs were not reflective of the true costs for Armstrong Telephone and that the true cost attributable to Armstrong Telephone was ~$400,000.

118. Since 2011, Armstrong has wrongfully allocated between $350,000 - $445,000 per year in joint facility operating expenses to Armstrong Telephone.

119. By fraudulently over-allocating shared expenses to Armstrong Telephone, Armstrong uses federal funds to effectively subsidize its more profitable, non-regulated business ventures. In doing so, it violates FCC regulations on cost accounting and cost allocation.

120. By using funding designated to support rural telecommunications service for other purposes, Armstrong also violates statutory prohibitions restricting High Cost Program funding to its intended purpose. Armstrong's actual capital expenditures – the costs of maintaining, developing, and running rural telephone lines – are minimal, representing a fraction of the costs it reports for corporate salaries and other expenses.

4. Affiliate Transactions

121. Armstrong also engages in a number of improperly priced and recorded affiliate transactions for the purposes of inflating costs attributable to Armstrong Telephone in cost reporting to the High Cost Programs.

122. Armstrong Telephone reported millions of dollars in costs for leases with affiliate JUDCO Management, Inc.

123. Federal regulations require that services purchased by a carrier from an affiliate be recorded at the lower of fair market value or fully distributed cost. 47 C.F.R. § 32.27.

124. Affiliate JUDCO charges millions in costs to Armstrong Telephone, including legal retainer costs, corporate facility costs, IT costs, equipment leasing costs, and Board of Director fees so that these costs will then be reported by Armstrong Telephone in cost reports for the High Cost Programs.

125. JUDCO charges Armstrong Telephone over $22,900 USD ***per month*** in legal retainer fees. In FY 2016, Armstrong executives directed Mr. Ranko to remove 85% of these fees in the normalization process: in other words, 85% of the fees were not in fact reflective of Armstrong Telephone's costs. These "legal retainer fees" support in-house counsel shared across

all of Armstrong's subsidiaries. Since 2011, JUDCO has charged Armstrong Telephone ~$219,000-$234,000 per year in excessive legal retainer fees.

126. JUDCO also charges Armstrong Telephone excessive "corporate facility costs." These costs are for office supplies, utilities, postage, and building rent. In FY 2016, during the process of normalizing and adjusting costs, Armstrong executives directed Relator to remove 90% of these fees from allocation to Armstrong Telephone. Since 2011, JUDCO has charged Armstrong Telephone ~$256,000-$323,000 per year in excessive "corporate facility costs."

127. JUDCO also charges Armstrong Telephone for excessive miscellaneous IT services including end user billing (Commsoft), carrier billing (CABS), and document imaging services. In FY 2016, during the process of normalizing and adjusting costs, Armstrong executives directed Relator to remove 70% of end user and carrier billing fees, and 100% of document imaging fees. Since 2011, JUDCO has charged Armstrong Telephone ~$877,000-$1 million in these excessive miscellaneous charges per year.

128. JUDCO also charges Armstrong Telephone for equipment leases. In FY 2016, during the process of normalizing and adjusting costs, Armstrong executives directed Relator to remove 37% of these equipment lease fees. Since 2011, these fees represented approximately $292,000-390,000 in excessive charges per year.

129. JUDCO also charges the Armstrong Telephone for "Board of Director Fees." In FY 2016, during the process of normalizing and adjusting costs, Armstrong executives directed Relator to remove 100% of Board of Director fees in the normalization process. Since 2011, these Board of Director fees represented approximately $51,000 in excessive charges per year.

130. Armstrong Utilities also charges Armstrong Telephone for DSL engineering costs that are not properly allocated under federal regulations. These charges ranged from $1.2-1.4 million USD per year, each year since at least FY 2011. For internal reporting purposes, Armstrong normalized 100% of these charges, suggesting that *none* of the DSL engineering costs should have been properly allocated to Armstrong Telephone.

131. In addition to these excessive routine service fees, Armstrong affiliates and JUDCO also charged the Armstrong Telephone companies other misallocated costs.

132. High Cost Programs have caps for certain funding mechanisms on the eligible corporate and operating expenditures a rate-of-return provider may claim for High Cost Program support. See, e.g., In the Matter of Connect Am. Fund, FCC Docket No. 10-90, Apr. 25, 2012 (Order), 27 F.C.C. R. 4648.

133. If Armstrong Telephone's costs in any given category did not meet caps, executives Cipoletti and King would direct the fabrication of invoices from JUDCO so that Armstrong Telephone's reported costs would be as close to the cap as possible.

C. By submitting inflated cost statements, Armstrong and its agents presented false claims for inflated payments under the High Cost Programs

134. Five of Armstrong Telephone Company's subsidiaries are "incumbent local exchange carriers" (ILECs). These ILECs operate under rate-of-return regulation at the federal level, and receive high-cost support based on historical costs. Reporting higher costs resulted in a higher High Cost Program subsidy from the FCC.[2]

135. Overall, Armstrong's suspect normalization adjustments in 2016 formed the basis for ***41.9%*** of its USAC interstate subsidy recovery. Since 2011, Armstrong has internally calculated ~$8.1-8.9 million in normalization adjustments per year to account for misallocated costs and assess the value of the fraudulent scheme to Armstrong. Misallocated costs, in actuality, may be much higher than those calculated by Armstrong in its normalization adjustments.

136. Armstrong's own internal analysis would, therefore, demonstrate that Armstrong knowingly received millions in High Cost Program funding per year to which it was not entitled and has not repaid. By knowingly submitting inflated cost reports to the FCC, Armstrong

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[2] As noted above, Armstrong Telephone Company North operates as an average schedule company is not subject to FCC Part 64 allocation rules. Armstrong Telephone Company North collects only a small portion of the Armstrong Telephone's' High Cost Program subsidy.

violated statutory requirements and FCC regulations governing the High Cost Program, as well as the False Claims Act.

137. The fraudulently excessive allocation of expenses to Armstrong's regulated entities – the Armstrong Telephone Companies – constitute a violation of 47 U.S.C. § 254(e), which requires that High Cost Support be used "only for the provision, maintenance, and upgrading of facilities and services for which the support is intended." 47 C.F.R. § 54.7; see also 47 U.S.C. § 254(e).

138. By using High Cost Support to reimburse Armstrong Telephone for Salaries & Wages incurred in support of Armstrong non-regulated affiliates, Armstrong has knowingly failed to use the subsidies for their intended use.

139. The inappropriate allocations similarly violate FCC requirements that recovery be based on "used and useful" costs.

140. The reporting of inappropriate costs also violates the FCC's cost accounting regulations. These include a violation of Part 32 requirements regarding accounting for regulated and non-regulated accounts, violations of Part 32 requirements regarding affiliate transactions, and violations of Part 64 requirements on cost allocation.

141. Armstrong furthermore submitted false records and certifications to the FCC, in order to recover High Cost Program support it was not entitled to receive.

142. In FCC Forms 481, Armstrong or its agents have certified that accounting cost reports submitted to the FCC were "accurate."

143. In 47 C.F.R. §54.314 certification forms, Armstrong or its agents have certified that they only used High Cost Program "support during the preceding calendar year and will only use support in the coming calendar year for the provision, maintenance, and upgrading of facilities and services for which support is intended."

144. In reality, Armstrong used High Cost Program support to subsidize its non-regulated business enterprises in violation of federal law.

145. Armstrong Telephone's false claims for payments, false statements made to support false claims, and failure to remit overpayments, constitute material violations of the federal False Claims Act. Armstrong is liable for payment of damages and civil penalties attributable to its violations of the federal False Claims Act and other remedies.

Count I
False Claims Act
31 U.S.C. §§ 3729(a)(1)(A)(B)(C) & (G)

146. Relator realleges and incorporates by reference the allegations contained in paragraphs 1 through 145 above as though fully set forth herein.

147. This is a claim for treble damages and penalties under the False Claims Act, 31 U.S.C. § 3729 *et seq.*, as amended.

148. By virtue of the acts described above, Defendants knowingly presented or caused to be presented, false or fraudulent claims to the United States Government for payment or approval.

149. By virtue of the acts described above, Defendants knowingly made or used, or caused to be made or used, false or fraudulent records or statements material to false or fraudulent claims.

150. By virtue of the acts described above, Defendants knowingly concealed overpayments from the United States Government and failed to remit such overpayments.

151. The Government, unaware of the falsity of the records, statements and claims made or caused to be made by Defendants, paid and continues to pay the claims that would not be paid but for Defendants' illegal conduct.

152. By reason of Defendants' acts, the United States has been damaged, and continues to be damaged, in a substantial amount to be determined at trial.

153. Additionally, the United States is entitled to the maximum penalty of $21,563 for each and every violation alleged herein that occurred on or after November 2, 2015, and $11,000 for every violation prior to November 2, 2015.

VI. PRAYER

WHEREFORE, Relator prays for judgment against Defendants as follows:

1. That Defendants cease and desist from violating 31 U.S.C. § 3729 et seq.;

2. That this Court enter judgment against Defendants in an amount equal to three times the amount of damages the United States has sustained because of Defendants' actions, plus a civil penalty of not less than $10,781 and not more than $21,563 for each violation of 31 U.S.C. § 3729 occurring on or after November 2, 2015, and a civil penalty of not less than $5,500 and not more than $11,000 for each violation occurring prior to November 2, 2015;

3. That Plaintiff-Relator Mr. Ranko be awarded the maximum amount allowed pursuant to § 3730(d) of the False Claims Act;

4. That Plaintiff-Relator Mr. Ranko be awarded all costs of this action, including attorneys' fees and expenses; and

5. That Plaintiff-Relator Mr. Ranko recover such other relief as the Court deems just and proper.

DEMAND FOR JURY TRIAL

Pursuant to Rule 38 of the Federal Rules of Civil Procedure, Relator hereby demands a trial by jury.

Dated 8/11/2017

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Attorneys for Plaintiff-Relator

James Ranko

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[3] Ms. Chang is a member in good standing of the State Bar of New York, and is practicing in Washington D.C. under the supervision of Colette G. Matzzie pursuant to Rule 49(c)(8) of the District of Columbia Court of Appeals.

EXHIBIT
A

DOCKET FILE COPY ORIGINAL

Received & Inspected

OCT 2 3 2013

FCC Mail Room

ARMSTRONG®
TELEPHONE COMPANY - WEST VIRGINIA

ONE ARMSTRONG PLACE • BUTLER, PA 16001 • 724-283-0925 • Fax 283-9655

October 11, 2013

VIA OVERNIGHT DELIVERY

Marlene H. Dortch, Secretary
Federal Communications Commission
Office of the Secretary
445 12th Street, S.W.
Washington, DC 20554

RE: **WC Docket No 10-90, GN 09-51, WC Docket 07-135, WC Docket 05-337, CC Docket No. 01-92, CC Docket 96-45, WC Docket No. 03-109 and WT Docket No. 10-208, ETC Federal High Cost Support and Life Line Program Support, FCC Form 481 Submission**

Dear Ms. Dortch:

Armstrong Telephone Company - West Virginia ("NAME"), a privately-held rate of return carrier receiving high cost support, respectfully submits its FCC Form 481 to the Commission in compliance with 47 C.F.R. §§ 54.313 and 54.422. This information has also been supplied to the Public Service Commission of West Virginia and USAC as outlined in the above referenced Docket Numbers.

Please feel free to contact me with any questions regarding this particular matter.

Sincerely,

James W. Ranko

Enclosures

.cc Public Service Commission of West Virginia

No. of Copies rec'd 0+1
List ABCDE

FCC Form 481 - Carrier Annual Reporting Data Collection Form

FCC Form 481
OMB Control No. 3060-0986/OMB Control No. 3060-0819
July 2013

<010> Study Area Code 200256

<015> Study Area Name ARMSTRONG OF WV

<020> Program Year 2014

<030> Contact Name: Person USAC should contact with questions about this data James W Ranko

<035> Contact Telephone Number: Number of the person identified in data line <030> 724-283-0925

<039> Contact Email Address: Email of the person identified in data line <030> jranko@agoc.com

ANNUAL REPORTING FOR ALL CARRIERS

				54.313 Completion Required	54.422 Completion Required
				(check box when complete)	
<100>	Service Quality Improvement Reporting		*(complete attached worksheet)*	✓	▨
<200>	Outage Reporting (voice)		*(complete attached worksheet)*	✓	✓
<210>		✓ <-- check box if no outages to report			
<300>	Unfulfilled Service Requests (voice)	0		✓	▨
<310>	Detail on Attempts (voice)		*(attach descriptive document)*	☐	▨
<320>	Unfulfilled Service Requests (broadband)	0		✓	▨
<330>	Detail on Attempts (broadband)		*(attach descriptive document)*	☐	▨
<400>	Number of Complaints per 1,000 customers (voice)			✓	✓
<410>	Fixed	0.51			
<420>	Mobile	0.0			
<430>	Number of Complaints per 1,000 customers (broadband)			✓	▨
<440>	Fixed	0.0			
<450>	Mobile	0.0			
<500>	Service Quality Standards & Consumer Protection Rules Compliance		*(check to indicate certification)*	✓	✓
<510>		200256wv510	*(attached descriptive document)*	✓	✓
<600>	Functionality in Emergency Situations		*(check to indicate certification)*	✓	✓
<610>		200256wv610	*(attached descriptive document)*	✓	✓
<700>	Company Price Offerings (voice)		*(complete attached worksheet)*	☐	▨
<710>	Company Price Offerings (broadband)		*(complete attached worksheet)*	☐	▨
<800>	Operating Companies and Affiliates		*(complete attached worksheet)*	✓	✓
<900>	Tribal Land Offerings (Y/N)?	○ ●	*(if yes, complete attached worksheet)*	✓	▨
<1000>	Voice Services Rate Comparability		*(check to indicate certification)*	☐	▨
<1010>			*(attach descriptive document)*	☐	▨
<1100>	Terrestrial Backhaul (Y/N)?	● ○	*(if not, check to indicate certification)*	✓	▨
<1110>			*(complete attached worksheet)*	☐	▨
<1200>	Terms and Condition for Lifeline Customers		*(complete attached worksheet)*	▨	✓

Price Cap Carriers, Proceed to Price Cap Additional Documentation Worksheet
Including Rate-of-Return Carriers affiliated with Price Cap Local Exchange Carriers

<2000>	*(check to indicate certification)*	☐	▨
<2005>	*(complete attached worksheet)*	☐	▨

Rate of Return Carriers, Proceed to ROR Additional Documentation Worksheet

<3000>	*(check to indicate certification)*	✓	▨
<3005>	*(complete attached worksheet)*	✓	▨

(100) Service Quality Improvement Reporting
Data Collection Form

FCC Form 481
OMB Control No. 3060-0986/OMB Control No. 3060-0819
July 2013

<010> Study Area Code 200256

<015> Study Area Name ARMSTRONG OF WV

<020> Program Year 2014

<030> Contact Name - Person USAC should contact regarding this data James W Ranko

<035> Contact Telephone Number - Number of person identified in data line <030> 724-283-0925

<039> Contact Email Address - Email Address of person identified in data line <030> jranko@agoc.com

<110> Has your company received its ETC certification from the FCC? (yes / no) ○ ●

<111> If your answer to Line <110> is yes, do you have an existing §54.202(a) "5 year plan" filed with the FCC? (yes / no) ○ ○

If your answer to Line <111> is yes, then you are required to file a progress report, on line <112> delineating the status of your company's existing § 54.202(a) "5 year plan" on file with the FCC, as it relates to your provision of voice telephony service.

<112> Attach Five-Year Service Quality Improvement Plan or, in subsequent years, your annual progress report filed pursuant to 47 C.F.R. § 54.313(a)(1). If your company is a CETC which only receives frozen support, your progress report is only required to address voice telephony service.

Name of Attached Document (.pdf)

Please check these boxes below to confirm that the attached PDF, on line 112, contains a progress report on its five-year service quality improvement plan pursuant to § 54.202(a). The information shall be submitted at the wire center level or census block as appropriate.

<113> Maps detailing progress towards meeting plan targets ☐
<114> Report how much universal service (USF) support was received ☐
<115> How (USF) was used to improve service quality ☐
<116> How (USF)was used to improve service coverage ☐
<117> How (USF) was used to improve service capacity ☐
<118> Provide an explanation of network improvement targets not met in the prior calendar year. ☐

(200) Service Outage Reporting (Voice)
Data Collection Form

FCC Form 481
OMB Control No. 3060-0986/OMB Control No. 3060-0819
July 2013

<010> Study Area Code 200256
<015> Study Area Name ARMSTRONG OF WV
<020> Program Year 2014
<030> Contact Name - Person USAC should contact regarding this data James W Ranko
<035> Contact Telephone Number - Number of person identified in data line <030> 724-283-0925
<039> Contact Email Address - Email Address of person identified in data line <030> jranko@agoc.com

<220>

<a>	<b1>	<b2>	<b3>	<b4>	<c1>	<c2>	<d>	<e>	<f>	<g>	<h>
NORS Reference Number	Outage Start Date	Outage Start Time	Outage End Date	Outage End Time	Number of Customers Affected	Total Number of Customers	911 Facilities Affected (Yes / No)	Service Outage Description (Check all that apply)	Did This Outage Affect Multiple Study Areas (Yes / No)	Service Outage Resolution	Preventative Procedures

-- See attached worksheet --

(700) Price Offerings including Voice Rate Data
Data Collection Form

FCC Form 481
OMB Control No. 3060-0986/OMB Control No. 3060-0819
July 2013

<010> Study Area Code 200256
<015> Study Area Name ARMSTRONG OF WV
<020> Program Year 2014
<030> Contact Name - Person USAC should contact regarding this data James W Ranko
<035> Contact Telephone Number - Number of person identified in data line <030> 724-283-0925
<039> Contact Email Address - Email Address of person identified in data line <030> jranko@agoc.com

<701> Residential Local Service Charge Effective Date 1/1/2013
<702> Single State-wide Residential Local Service Charge

<703>

<a1>	<a2>	<a3>	<b1>	<b2>	<b3>	<b4>	<b5>	<c>
State	Exchange (ILEC)	SAC (CETC)	Rate Type	Residential Local Service Rate	State Subscriber Line Charge	State Universal Service Fee	Mandatory Extended Area Service Charge	Total per line Rates and Fee
				– See attached worksheet				
				–				

(710) Broadband Price Offerings
Data Collection Form

FCC Form 481
OMB Control No. 3060-0986/OMB Control No. 3060-0819
July 2013

<010> Study Area Code 200256
<015> Study Area Name ARMSTRONG OF WV
<020> Program Year 2014
<030> Contact Name - Person USAC should contact regarding this data James W Ranko
<035> Contact Telephone Number - Number of person identified in data line <030> 724-283-0925
<039> Contact Email Address - Email Address of person identified in data line <030> jranko@agoc.com

<711>

<a1>	<a2>	<b1>	<b2>	<c>	<d1>	<d2>	<d3>	<d4>
State	Exchange (ILEC)	Residential Rate	State Regulated Fees	Total Rate and Fees	Broadband Service - Download Speed (Mbps)	Broadband Service - Upload Speed (Mbps)	Usage Allowance (GB)	Usage Allowance Action Taken When Limit Reached (select)

-- See attached worksheet --

(800) Operating Companies
Data Collection Form

FCC Form 481
OMB Control No. 3060-0986/OMB Control No. 3060-0819
July 2013

<010> Study Area Code 200256

<015> Study Area Name ARMSTRONG OF WV

<020> Program Year 2014

<030> Contact Name - Person USAC should contact regarding this data James W Ranko

<035> Contact Telephone Number - Number of person identified in data line <030> 724-283-0925

<039> Contact Email Address - Email Address of person identified in data line <030> jranko@agoc.com

<810> Reporting Carrier Armstrong of WV

<811> Holding Company Armstrong Group of Companies

<812> Operating Company Armstrong of WV

<813>

<a1> Affiliates	<a2> SAC	<a3> Doing Business As Company or Brand Designation

-- See attached worksheet --

(900) Tribal Lands Reporting
Data Collection Form

FCC Form 481
OMB Control No. 3060-0986/OMB Control No. 3060-0819
July 2013

<010> Study Area Code 200256

<015> Study Area Name ARMSTRONG OF WV

<020> Program Year 2014

<030> Contact Name - Person USAC should contact regarding this data James W Ranko

<035> Contact Telephone Number - Number of person identified in data line <030> 724-263-0925

<039> Contact Email Address - Email Address of person identified in data line <030> jranko@agoc.com

<910> Tribal Land(s) on which ETC Serves

<920> Tribal Government Engagement Obligation

Name of Attached Document (.pdf)

If your company serves Tribal lands, please select (Yes,No, NA) for each these boxes to confirm the status described on the attached PDF, on line 920, demonstrates coordination with the Tribal government pursuant to § 54.313(a)(9) includes:

		Select (Yes,No, NA)
<921>	Needs assessment and deployment planning with a focus on Tribal community anchor institutions;	
		▨
<922>	Feasibility and sustainability planning;	
<923>	Marketing services in a culturally sensitive manner;	
<924>	Compliance with Rights of way processes	
<925>	Compliance with Land Use permitting requirements	
<926>	Compliance with Facilities Siting rules	
<927>	Compliance with Environmental Review processes	
<928>	Compliance with Cultural Preservation review processes	
<929>	Compliance with Tribal Business and Licensing requirements.	

(1100) No Terrestrial Backhaul Reporting **Data Collection Form**	**FCC Form 481** **OMB Control No. 3060-0986/OMB Control No. 3060-0819** **July 2013**

<010>	Study Area Code	200256
<015>	Study Area Name	ARMSTRONG OF WV
<020>	Program Year	2014
<030>	Contact Name - Person USAC should contact regarding this data	James W Ranko
<035>	Contact Telephone Number - Number of person identified in data line <030>	724-283-0925
<039>	Contact Email Address - Email Address of person identified in data line <030>	jranko@agoc.com

<1120> Please check this box to confirm no terrestrial backhaul options exist within the supported area pursuant to § 54.313(G) ☐

<1130> Please check this box to confirm the reporting carrier offers broadband service of at least 1 Mbps downstream and 256 kbps upstream within the supported area pursuant to § 54.313(G) ☑

(1200) Terms and Condition for Lifeline Customers
Lifeline
Data Collection Form

FCC Form 481
OMB Control No. 3060-0986/OMB Control No. 3060-0819
July 2013

<010>	Study Area Code	200256
<015>	Study Area Name	ARMSTRONG OF WV
<020>	Program Year	2014
<030>	Contact Name - Person USAC should contact regarding this data	James W Ranko
<035>	Contact Telephone Number - Number of person identified in data line <030>	724-283-0925
<039>	Contact Email Address - Email Address of person identified in data line <030>	jranko@agoc.com

<1210> Terms & Conditions of Voice Telephony Lifeline Plans 200256wv1210
Name of attached document (.pdf)

<1220> Link to Public Website HTTP__________

"Please check these boxes below to confirm that the attached PDF, on line 1210, or the website listed, on line 1220, contains the required information pursuant to § 54.422(a)(2) annual reporting for ETCs receiving low-income support, carriers must annually report:

<1221> Information describing the terms and conditions of any voice telephony service plans offered to Lifeline subscribers, ☑

<1222> Details on the number of minutes provided as part of the plan, ☑

<1223> Additional charges for toll calls, and rates for each such plan. ☑

(2000) Price Cap Carrier Additional Documentation	FCC Form 481
Data Collection Form	OMB Control No. 3060-0986/OMB Control No. 3060-0819
Including Rate-of-Return Carriers affiliated with Price Cap Local Exchange Carriers	July 2013

<010>	Study Area Code	200256
<015>	Study Area Name	ARMSTRONG OF WV
<020>	Program Year	2014
<030>	Contact Name - Person USAC should contact regarding this data	James W Ranko
<035>	Contact Telephone Number - Number of person identified in data line <030>	724-283-0925
<039>	Contact Email Address - Email Address of person identified in data line <030>	jranko@agoc.com

CHECK the boxes below to note compliance as a recipient of Incremental Connect America Phase I support, frozen High Cost support, High Cost support to offset access charge reductions, and Connect America Phase II support as set forth in 47 CFR § 54.313(b),(c),(d),(e) the information reported on this form and in the documents attached below is accurate.

Incremental Connect America Phase I reporting

<2010> 2nd Year Certification (47 CFR § 54.313(b)(1)) ☐
<2011> 3rd Year Certification (47 CFR § 54.313(b)(2)) ☐

Price Cap Carrier Receiving Frozen Support Certification (47 CFR § 54.312(a))

<2012> 2013 Frozen Support Certification ☐
<2013> 2014 Frozen Support Certification ☐
<2014> 2015 Frozen Support Certification ☐
<2015> 2016 and future Frozen Support Certification ☐

Price Cap Carrier Connect America ICC Support (47 CFR § 54.313(d))

<2016> Certification Support Used to Build Broadband ☐

Connect America Phase II Reporting (47 CFR § 54.313(e))

<2017> 3rd year Broadband Service Certification ☐
<2018> 5th year Broadband Service Certification ☐
<2019> Interim Progress Certification ☐
<2020> Please check the box to confirm that the attached PDF , on line 2021, contains the required information pursuant to § 54.313 (e)(3)(ii), as a recipient of CAF Phase II support shall provide the number, names, and addresses of community anchor institutions to which began providing access to broadband service in the preceding calendar year. ☐
<2021> Interim Progress Community Anchor Institutions — Name of Attached Document Listing Required Information ____________

(3000) Rate Of Return Carrier Additional Documentation

Data Collection Form

FCC Form 481

OMB Control No. 3060-0986/OMB Control No. 3060-0819

July 2013

<010> Study Area Code 200256

<015> Study Area Name ARMSTRONG OF WV

<020> Program Year 2014

<030> Contact Name - Person USAC should contact regarding this data James W Ranko

<035> Contact Telephone Number - Number of person identified in data line <030> 724-283-0925

<039> Contact Email Address - Email Address of person identified in data line <030> jranko@agoc.com

CHECK the boxes below to note compliance on its five year service quality plan (pursuant to 47 CFR § 54.202(a)) and, for privately held carriers, ensuring compliance with the financial reporting requirements set forth in 47 CFR § 54.313(f)(2). I further certify that the information reported on this form and in the documents attached below is accurate.

Progress Report on 5 Year Plan

(3010) Milestone Certification (47 CFR § 54.313(f)(1)(i)) Name of Attached Document Listing Required Information ☐
Please check this box to confirm that the attached PDF , on line 3012,

(3011) contains the required information pursuant to § 54.313 (f)(1)(ii), as a recipient of CAF Phase II support shall provide the number, names, and addresses of community anchor institutions to which began providing access to broadband service in the preceding calendar year.

(3012) Community Anchor Institutions (47 CFR § 54.313(f)(1)(ii)) Name of Attached Document Listing Required Information

(3013) Is your company a Privately Held ROR Carrier (47 CFR § 54.313(f)(2)) ☑ (Yes/No)

(3014) If yes, does your company file the RUS annual report ☐ (Yes/No)

Please check these boxes to confirm that the attached PDF, on line 3017, contains the required information pursuant to § 54.313(f)(2) compliance requires:

(3015) Electronic copy of their annual RUS reports (Operating Report for Telecommunications Borrowers) ☐

(3016) PDF of Balance Sheet, Income Statement and Statement of Cash Flows ☑

(3017) If the response is yes on line 3014, attach your company's RUS annual report and all required documentation Name of Attached Document Listing Required Information

(3018) If the response is no on line 3014, is your company audited? ☑ (Yes/No)

If the response is yes on line 3018, please check the boxes below to confirm your submission, on line 3026 pursuant to § 54.313(f)(2), contains :

(3019) Either a copy of their audited financial statement; or (2) a financial report in a format comparable to RUS Operating Report for Telecommunications ☑

(3020) PDF of Balance Sheet, Income Statement and Statement of Cash Flows ☑

(3021) Management letter issued by the independent certified public accountant that performed the company's financial audit. ☑

If the response is no on line 3018, please check the boxes below to confirm your submission, on line 3026 pursuant to § 54.313(f)(2), contains:

(3022) Copy of their financial statement which has been subject to review by an independent certified public accountant; or 2) a financial report in a format comparable to RUS Operating Report for Telecommunications Borrowers, ☐

(3023) Underlying information subjected to a review by an independent certified public accountant ☐

(3024) Underlying information subjected to an officer certification. ☐

(3025) PDF of Balance Sheet, Income Statement and Statement of Cash Flows ☐

(3026) Attach the worksheet listing required information Name of Attached Document Listing Required Information 200256wv3026

Certification - Reporting Carrier Data Collection Form	FCC Form 481 OMB Control No. 3060-0986/OMB Control No. 3060-0819 July 2013

<010> Study Area Code 200256

<015> Study Area Name ARMSTRONG OF WV

<020> Program Year 2014

<030> Contact Name - Person USAC should contact regarding this data James W Ranko

<035> Contact Telephone Number - Number of person identified in data line <030> 724-283-0925

<039> Contact Email Address - Email Address of person identified in data line <030> jranko@agoc.com

TO BE COMPLETED BY THE REPORTING CARRIER, IF THE REPORTING CARRIER IS FILING ANNUAL REPORTING ON ITS OWN BEHALF:

Certification of Officer as to the Accuracy of the Data Reported for the Annual Reporting for CAF or U Recipients

I certify that I am an officer of the reporting carrier; my responsibilities include ensuring the accuracy of the annual reporting requirements for universal service support recipients; and, to the best of my knowledge, the information reported on this form and in any attachments is accurate.

Name of Reporting Carrier: ARMSTRONG OF WV

Signature of Authorized Officer: CERTIFIED ONLINE Date 10/10/2013

Printed name of Authorized Officer: Christopher King

Title or position of Authorized Officer: EVP-Finance

Telephone number of Authorized Officer: 724-283-0925

Study Area Code of Reporting Carrier: 200256 Filing Due Date for this form: 10/15/2013

Persons willfully making false statements on this form can be punished by fine or forfeiture under the Communications Act of 1934, 47 U.S.C. §§ 502, 503(b), or fine or imprisonment under Title 18 of the United States Code, 18 U.S.C. § 1001.

Certification - Agent / Carrier
Data Collection Form

FCC Form 481
OMB Control No. 3060-0986/OMB Control No. 3060-0819
July 2013

<010>	Study Area Code	200256
<015>	Study Area Name	ARMSTRONG OF WV
<020>	Program Year	2014
<030>	Contact Name - Person USAC should contact regarding this data	James W Ranko
<035>	Contact Telephone Number - Number of person identified in data line <030>	724-283-0925
<039>	Contact Email Address - Email Address of person identified in data line <030>	jranko@agoc.com

TO BE COMPLETED BY THE REPORTING CARRIER, IF AN AGENT IS FILING ANNUAL REPORTS ON THE CARRIER'S BEHALF:

Certification of Officer to Authorize an Agent to File Annual Reports for CAF or LI Recipients on Behalf of Reporting Carrier

I certify that (Name of Agent)____________________ is authorized to submit the information reported on behalf of the reporting carrier. I also certify that I am an officer of the reporting carrier; my responsibilities include ensuring the accuracy of the annual data reporting requirements provided to the authorized agent; and, to the best of my knowledge, the reports and data provided to the authorized agent is accurate.

Name of Authorized Agent:
Name of Reporting Carrier:
Signature of Authorized Officer: Date:
Printed name of Authorized Officer:
Title or position of Authorized Officer:
Telephone number of Authorized Officer:
Study Area Code of Reporting Carrier: Filing Due Date for this form:

Persons willfully making false statements on this form can be punished by fine or forfeiture under the Communications Act of 1934, 47 U.S.C. §§ 502, 503(b), or fine or imprisonment under Title 18 of the United States Code, 18 U.S.C. § 1001.

TO BE COMPLETED BY THE AUTHORIZED AGENT:

Certification of Agent Authorized to File Annual Reports for CAF or LI Recipients on Behalf of Reporting Carrier

I, as agent for the reporting carrier, certify that I am authorized to submit the annual reports for universal service support recipients on behalf of the reporting carrier; I have provided the data reported herein based on data provided by the reporting carrier; and, to the best of my knowledge, the information reported herein is accurate.

Name of Reporting Carrier:
Name of Authorized Agent or Employee of Agent:
Signature of Authorized Agent or Employee of Agent: Date:
Printed name of Authorized Agent or Employee of Agent:
Title or position of Authorized Agent or Employee of Agent
Telephone number of Authorized Agent or Employee of Agent:
Study Area Code of Reporting Carrier: Filing Due Date for this form:

Persons willfully making false statements on this form can be punished by fine or forfeiture under the Communications Act of 1934, 47 U.S.C. §§ 502, 503(b), or fine or imprisonment under Title 18 of the United States Code, 18 U.S.C. § 1001.

Attachments

10/10/2013

(800) Operating Companies
Data Collection Form

FCC Form 481
OMB Control No. 3060-0986/OMB Control No. 3060-0819
July 2013

<010> Study Area Code 200256

<015> Study Area Name ARMSTRONG OF WV

<020> Program Year 2014

<030> Contact Name - Person USAC should contact regarding this data James W Ranko

<035> Contact Telephone Number - Number of person identified in data line <030> 724-283-0925

<039> Contact Email Address - Email Address of person identified in data line <030> jranko@agoc.com

<810> Reporting Carrier Armstrong of WV

<811> Holding Company Armstrong Group of Companies

<812> Operating Company Armstrong of WV

<813>

<a1>	<a2>	<a3>
Affiliates	SAC	Doing Business As Company or Brand Designation
Armstrong Tel of MD	180216	Armstrong Telephone Company-Maryland
Armstrong Tel Co-NY	150071	Armstrong Telephone Company-New York
Armstrong Tel Co-PA	170189	Armstrong Telephone Company-Pennsylvania
Armstrong Tel. Co.	200267	Armstrong Telephone Company-Northern Division
Armstrong Tel Co-NO	170195	Armstrong Telephone Company-North
Armstrong Telecommunications, Inc.		Armstrong Telecommunications, Inc.
Armstrong Digital Services, Inc.		Armstrong Digital Services, Inc.

ARMSTRONG®
TELEPHONE COMPANY - WEST VIRGINIA

ONE ARMSTRONG PLACE • BUTLER, PA 16001 • 724-283-0925 • Fax 283-9655

§54.313(a)(5) – COMPLIANCE WITH SERVICE QUALITY STANDARDS AND CONSUMER PROTECTION

Pursuant to 47 C.F.R. § 54.313(a)(5) and or 47 C.F.R. § 54.422(b)(3)Armstrong Telephone Company – West Virginia ("the Company") is in compliance with appropriate FCC Service Quality Standards and Consumer Protection Rules. The Company provides CPNI training to all of its new employees and in addition trains all of its existing employees on an annual basis. The Company also conducts subscriber outreach regarding CPNI by periodically placing CPNI explanation messages into subscriber's bills and also has signage in its business office regarding CPNI rules and regulations. In addition the Company trains staff on Red Flag issues on an annual basis. All company employees are required to sign and acknowledge that they have completed CPNI and Red Flag training and understand obligations to adherence of applicable rules.

Name of Officer (Print) James D. Mitchell

Title: Vice President

Signature

Date: 10/7/13

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ONE ARMSTRONG PLACE • BUTLER, PA 16001 • 724-283-0925 • Fax 283-9655

§54.313(a)(6) – ABILITY TO FUNCTION IN EMERGENCY SITUATIONS

I am authorized to provide this certification on behalf of Armstrong Telephone Company-West Virginia (the "Company"). I hereby certify that, to the best of my knowledge, the Company is capable of functioning in emergency situations. The Company has a reasonable amount of back-up power to ensure functionality of voice services without a commercial power source. The company's specific back-up power sources are, lead calcium batteries, gel cell batteries, fixed AC and DC natural/LP gas generators, fixed AC and DC gasoline/diesel generators and portable gasoline generators. The Company is able to reroute voice traffic around damaged facilities, and is capable of managing traffic spikes resulting from emergency situations. If there is a failure of the Company's main route, voice traffic is automatically rerouted to the back-up route.

Name of Officer (Print) James D. Mitchell

Title: Vice President

Signature

Date: 10/1/13

LIFELINE SERVICE

C. LIFELINE SERVICE DIAL TONE LINE MONTHLY RATE

1. Applicable Residence Dial Tone monthly rate minus $1.75 (1)

2. Lifeline Service customers will be billed the applicable Subscriber Line Charge monthly rate and will be given credit for the same amount of the Subscriber Line Charge as prescribed by the Federal Communications Commission at Docket Nos. 00-256, 96-45, 98-77, 98-166, and 00-193. (C) (C)

3. Lifeline Service is subject to all applicable state, local and federal taxes, and Surcharges, and to all applicable tariff rates, charges, surcharges and regulations

NOTE:

(1) The Dial Tone Line and Subscriber Line Charge monthly rate discounts will be reduced to the extent that application of the full discount would not result in rates that are less than zero.

* * * (C)

(C) Indicates Change

LOCAL EXCHANGE RATES AND REGULATIONS

4. LOW-INCOME PROGRAMS

The Company, as part of its obligations as an Eligible Telecommunications Carrier, offers two (2) low-income assistance programs. This program, Lifeline Assistance, is offered under the terms and conditions provided below: (C)

A. Lifeline Assistance

1. General

Lifeline Assistance is a retail service offering available to qualifying low-income subscribers, as provided for below. Lifeline Assistance enables eligible subscribers to pay reduced charges for the following package of services: voice-grade access to the public switched network; voice grade access to the public switched network or its functional equivalent; minutes of use for local service provided at no additional charge to end users; access to the emergency services provided by local government or other public safety organizations, such as 911 and enhanced 911, to the extent the local government in an eligible carrier's service area has implemented 911 or enhanced 911 systems; and toll limitation services to qualifying low-income consumers. (C) (C)

2. Regulations

a) Unless other eligibility requirements are established by the Commission, Lifeline Assistance is available to all subscribers who participate in one of the following programs: Medicaid; Supplemental Nutrition Assistance Program (SNAP), formerly known as food stamps; Supplemental Security Income (SSI); Federal Public Housing Assistance; Low-Income Home Energy Assistance Program (LIHEAP); National School Lunch Program's free lunch program; Temporary Assistance for Needy Families (TANF), or whose household income is below 135% of the Federal Poverty Guidelines for a household of that size. (C) (C)

b) Each subscriber to Lifeline Assistance must certify in writing to the Company, under penalty of perjury, that she/he receives benefits under a program outlined in sub-paragraph (b) (1), above, and must, on that same document, agree to notify the Company if she/he ceases to participate in the program. The certification form shall conform to the requirements described herein, and shall be made available upon request to any subscriber. The Company shall retain all such subscriber certifications in order to furnish proof of subscriber eligibility as may be required from time to time by Universal Service administrators. (C)

LOCAL EXCHANGE RATES AND REGULATIONS

4. LOW-INCOME PROGRAMS (CONT'D)

A. Lifeline Assistance (Cont'd)

2. Regulations (Cont'd)

c) (D)
(D)
(D)

d) A subscriber may elect at the time of subscription or later to Lifeline Assistance to receive toll limitation as part of Lifeline Assistance. "Toll limitation" is a service that allows a subscriber to elect not to allow the completion of outgoing toll calls from the subscriber's residence.

e) Lifeline Assistance will not be disconnected for non-payment of toll charges, unless the Company first obtains a waiver from the Commission by demonstrating to the Commission that the Company would otherwise incur substantial costs, that the Company offers toll limitation without charge, and that telephone subscribership among low-income consumers. For purposes of this paragraph, a "low-income consumer" is one with an income below the poverty level for a family of four residing in West Virginia. The Company shall follow all applicable notice provisions as established, from time to time, by the Commission, as part of using a waiver, if granted. The Company may apply for waivers as necessary.

f) The Company may not collect a service deposit in order to initiate Lifeline Assistance if the qualifying low-income subscriber voluntarily elects toll limitation from the Company.

3. Lifeline Assistance provides a Federal credit of $9.25 on the subscriber's monthly service bill. (C)

(C)

Issued by authority of an Order of the Public Service Commission of West Virginia in Case No. 12-0918-T-T dated July 30, 2012, effective August 1, 2012.

LOCAL EXCHANGE RATES AND REGULATIONS

4. LOW-INCOME PROGRAMS (CONT'D)

A. Lifeline Assistance (Cont'd)

4. The Company shall apply the baseline payments received by the administrator of the federal Lifeline Assistance program to waive the qualifying customers' federal End-User Common Line Charge. The Company shall apply any additional federal support amount to the qualifying customer's basic local exchange service rate.

5. To be eligible for Lifeline Assistance, qualifying customers must subscribe to the lowest priced, basic local exchange service offering that is made available at the subscriber's domicile.

6. Partial payments that are received from Lifeline customers shall first be applied to local service charges and then to any outstanding toll charges.

B. Link Up

1. General

The Link Up program has been eliminated by the Federal Communications Commission (C)
effective April 1, 2012. (C)
(D)

(D)

LOCAL EXCHANGE RATES AND REGULATIONS

4. LOW-INCOME PROGRAMS (CONT'D)

(D)

(D)

C. All aspects of the Lifeline Assistance program shall be subject to the interpretation of applicable Federal regulations and any directives which may from time to time be prescribed by the Universal Service Administrative Company. These rules are separate and apart from any rules prescribed as part of a state Universal Service program. (C)

Issued by authority of an Order of the Public Service Commission of West Virginia in Case No. 12-0423-T-T dated April 17, 2012, effective May 6, 2012.

MOSS ADAMS LLP

WWW.MOSSADAMS.COM

REPORT OF INDEPENDENT AUDITORS

Board of Directors
Armstrong Telephone Company – West Virginia, Inc.

We have audited the accompanying balance sheets of Armstrong Telephone Company – West Virginia, Inc. (Company) as of September 30, 2012 and 2011, and the related statements of operations, stockholder's equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Armstrong Telephone Company – West Virginia, Inc. as of September 30, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Moss Adams LLP

Spokane, Washington
January 4, 2013

ARMSTRONG TELEPHONE COMPANY - WEST VIRGINIA, INC.

BALANCE SHEETS

ASSETS

	September 30,	
	2012	2011
CURRENT ASSETS		
Cash and cash equivalents	$ 273,734	$ 481,908
Subscriber accounts receivable, net of allowance of $5,328 in 2012 and $5,852 in 2011	178,038	186,863
Income tax receivable, parent company	121,488	-
Other accounts receivable, net of allowance of $874 in 2012 and $11,408 in 2011	260,366	329,823
Material and supplies	83,888	79,985
Other current assets	58,484	39,246
Total current assets	975,998	1,117,825
PROPERTY, PLANT, AND EQUIPMENT		
Telecommunications plant in service	9,637,931	9,654,669
Nonregulated plant in service	293,715	293,715
Telecommunications plant under construction	28,916	5,875
	9,960,562	9,954,259
Less accumulated depreciation	7,749,909	7,310,004
	2,210,653	2,644,255
	$ 3,186,651	$ 3,762,080

ARMSTRONG TELEPHONE COMPANY - WEST VIRGINIA, INC.

BALANCE SHEETS

LIABILITIES AND STOCKHOLDER'S EQUITY

	September 30, 2012	September 30, 2011
CURRENT LIABILITIES		
Accounts payable	$ 127,847	$ 236,069
Advance billing	95,092	102,213
Related party note payable	2,010,000	1,925,000
Income tax payable, parent company	-	14,615
Other accrued taxes	22,380	23,280
Accrued interest payable	2,440	6,477
Other accrued liabilities	163,211	181,655
Total current liabilities	2,420,970	2,489,309
OTHER LIABILITIES AND DEFERRED CREDITS		
Deferred income taxes	119,587	230,455
STOCKHOLDER'S EQUITY		
Preferred stock ($100 par and liquidation value; 5% cumulative; 325 shares authorized, issued, and outstanding)	32,500	32,500
Common stock ($100 par value; 825 shares authorized, issued, and outstanding)	82,500	82,500
Retained earnings	531,094	927,316
	646,094	1,042,316
	$ 3,186,651	$ 3,762,080

See accompanying notes.

ARMSTRONG TELEPHONE COMPANY – WEST VIRGINIA, INC.
STATEMENTS OF OPERATIONS

	Years Ended September 30,	
	2012	2011
Operating revenues		
Wireline		
Customer	$ 1,272,827	$ 1,320,711
Intercarrier		
Interstate	420,529	547,423
Intrastate	255,568	271,054
Universal service support - federal	636,362	626,842
	2,585,286	2,766,030
Internet	73,741	68,552
Miscellaneous		
Equipment	103,175	108,421
Carrier billing and collection	6,096	7,453
Other	8,020	8,693
Directory	49,542	55,740
Uncollectible	(4,391)	(24,024)
	162,442	156,283
Total operating revenue	2,821,469	2,990,865
Operating expenses		
Plant specific operations	659,004	706,783
Plant nonspecific operations	416,365	308,605
Depreciation	509,626	538,456
Customer operations	414,222	417,271
Corporate operations	1,138,004	1,216,693
Other operating taxes	128,191	123,080
Nonregulated	54,901	63,671
Total operating expenses	3,320,313	3,374,559
Net operating loss	(498,844)	(383,694)
Nonoperating income (expense)		
Interest and dividend income	138	320
Interest expense	(2,948)	(7,848)
Other nonoperating income	(354)	1,990
	(3,164)	(5,538)
Loss before income taxes	(502,008)	(389,232)
Income tax benefit	105,786	143,094
Net loss	$ (396,222)	$ (246,138)

See accompanying notes.

ARMSTRONG TELEPHONE COMPANY - WEST VIRGINIA, INC.
STATEMENTS OF CASH FLOWS

	Years Ended September 30, 2012	Years Ended September 30, 2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (396,222)	$ (246,138)
Adjustments to reconcile net loss to net cash from operating activities		
Depreciation	509,626	538,456
Deferred income taxes	(110,868)	(62,354)
Change in assets and liabilities		
Receivables	(43,206)	129,938
Material and supplies	(3,903)	13,374
Other assets	(19,237)	(3,475)
Accounts and taxes payable	(122,837)	108,399
Advance billing	(7,121)	(3,182)
Other accrued liabilities	(23,381)	(84,419)
Net cash from operating activities	(217,149)	390,599
CASH FLOWS FROM INVESTING ACTIVITIES		
Net acquisition of property, plant, and equipment	(76,025)	(121,677)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from related party note payable	275,000	-
Payments on related party note payable	(190,000)	(75,000)
Net cash from financing activities	85,000	(75,000)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(208,174)	193,922
CASH AND CASH EQUIVALENTS at beginning of year	481,908	287,986
CASH AND CASH EQUIVALENTS at end of year	$ 273,734	$ 481,908
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION		
Cash paid during the year for		
Interest	$ 6,986	$ 12,011
Income taxes	$ 64,900	$ 16,900