



Rock Island Communications

Monthly Report

May 2017

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Q1 2017 Financial Summary

Q1 Executive Summary

Overall, our on-boarding and revenue targets are in line with plan and our pipeline remains full. LTE deployment is on schedule and will continue to accelerate as more keys poles are activated. Our overall Net Loss variance was \$183k concerning plan to actual performance for Rock island for the first quarter. Of this variance, 80% (\$91k + \$25k + \$30k = \$146k) of this shortfall was caused by items that were one-time non-recurring items that were not included in our original 2017 planning.

Revenues:

In the first quarter actual revenues for Fiber and LTE services were ahead of plan (approximately 1% each) while DSL service revenues were slightly behind (approximately 2.6%). Overall revenues were behind plan (approximately 4.7%) primarily due to slower than expected IT Service revenues. However, of the costs incurred to generate our IT Services revenue for the quarter were significantly lower than planned resulting in a favorable variance of approximately \$42k (\$74k plan vs. \$32k actual). Furthermore, on a net profit basis the IT services segment of our business is approximately \$4k more profitable than we anticipated in our original business plan.

Expenses:

Regarding expenses, three areas of our business impacted our overall net loss for the quarter:

Depreciation

- Additional depreciation expense incurred above planned levels stemming from plant adjustments made at the end of 2016. In totality, our variance above planned levels was approximately \$91k.

Please note, depreciation expense is a non-cash expense and will not impact future loan draws.

Labor

- A one-time payment to an employee who left the company at the end of January resulted in additional unanticipated compensation expenses.
- Contractor costs were higher than planned for the quarter due to an assumption that Rock Island would transition one employee into an FTE at the beginning of the year. Additionally, Rock Island completed the transition of bringing the administration of our network infrastructure from an outside contractor in-house. This transition resulted in one-time costs that impacted January and February and will not continue the remainder of the year.

Please note that most of the labor variances noted above will end up being capitalized during the second quarter of this year as construction projects that were in process as of the first quarter are closed out.

Software

- Following the transition of network operations for Rock Island from Rick Lysen to our new CTO, Adam Kelly, additional software infrastructure necessary to facilitate this transition accelerated our costs beyond planned levels.



2. Summary Financial Statements

Income Statement		A.	B.	C.
		Business Plan Period End YTD Q1	Actual Period End YTD Q1	Variance (B-A)
1	I OPERATING REVENUES	\$ 778,738	\$ 741,874	\$ (36,864)
2				
3	II OPERATING EXPENSES			
4	COST OF GOODS SOLD	200,474	191,500	(8,974)
5	GENERAL AND ADMINISTRATIVE	1,068,881	1,236,185	167,304
6	SELLING AND MARKETING	15,000	12,765	(2,235)
7	TOTAL OPERATING EXPENSES	1,284,355	1,440,449	156,095
8	TOTAL NET OPERATING MARGINS	(505,617)	(698,576)	(192,959)
9				
10	III OTHER INCOME (EXPENSE)	(141,424)	(131,125)	10,298
11				
12	GRAND TOTAL NET (LOSS) MARGIN DETAIL BREAKOUT	\$ (647,040)	\$ (829,701)	\$ (182,661)



Balance Sheet

	Actual
	<u>3/31/2017</u>
1 CURRENT ASSETS	\$ 1,481,958
2 PROPERTY, PLANT, AND EQUIPMENT	8,155,921
3 OTHER NONCURRENT ASSETS	249,877
4 Total assets	<u>\$ 9,887,755</u>
5	
6 CURRENT LIABILITIES	887,000
7 NONCURRENT LIABILITIES	14,348,404
8 Total Liabilities	<u>15,235,404</u>
9	
10 EQUITIES AND MARGINS	(5,347,649)
11 Total Liabilities and Equity	<u>\$ 9,887,755</u>



Statement of Cash Flows

YTD Ended
3/31/2017

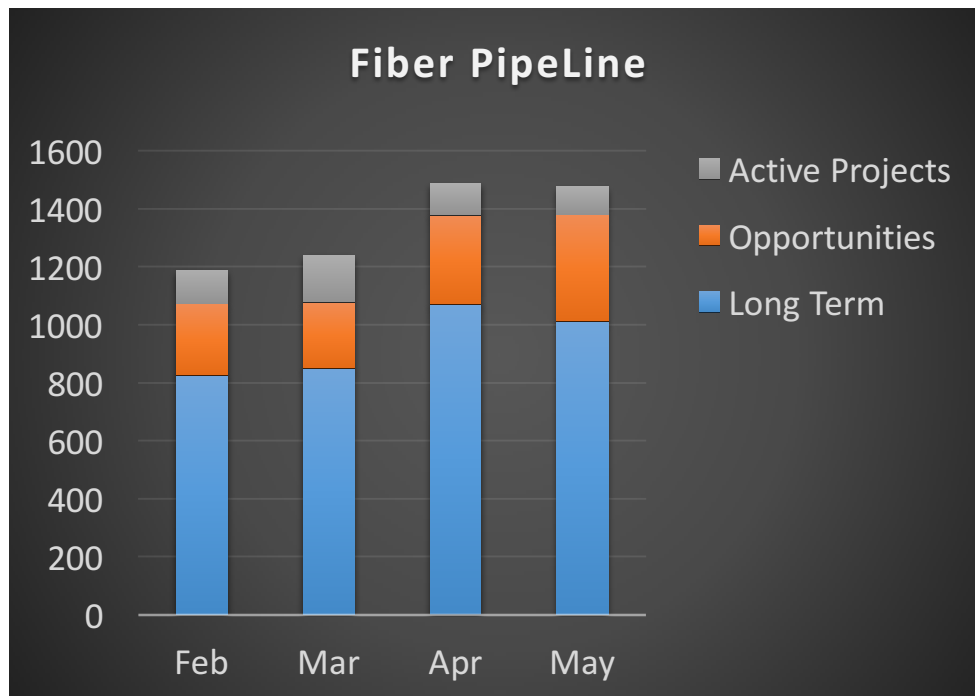
	Cash Flows from Operating Activities:	
1	Net income (loss)	\$ (829,701)
2	Adjustments to reconcile net income (loss) to net cash	(683,255)
3	Net cash provided by (used in) operations:	<u>(1,512,956)</u>
4		
5	Cash Flows from Investing Activities:	(79,116)
6		
7	Cash Flows from Financing Activities:	1,561,378
8		
9	Net change in cash	<u>(30,694)</u>
10		
11	Cash and cash equivalents, beginning of period	<u>94,424</u>
12	Cash and cash equivalents, end of period	<u><u>63,730</u></u>
13		
14	SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION	
15	Cash paid during the year for interest	<u><u>\$ 104,429</u></u>

4. YTD Update

Overall April was a more normal month on an LTE front as we didn't have any major new sites to go after low hanging fruit alongside Easter holidays etc. Fiber was another consistent month in terms of daily connections as we continue construction work on a host of middle mile efforts.

Regarding CenturyLink, they appear to have completed most of their planned effort (trenching, conduit and fiber) on Lopez and part of San Juan (trenching, conduit) from what we can tell. From the conversations we have had with their contractors and project management staff, they are not planning any additional work on Orcas in 2017. The upside is they are clearly less of a distraction in day to day conversations with potential customers. However, the downside is we won't joint trench important costly segments of fiber work we most likely will be doing alone. We have seen no evidence that any of their work on Lopez or San Juan as impacted our on-boarding efforts or pipeline.

The Fiber pipeline continues to move along as we process a wide variety of groups and individuals throughout the county. As we have been capturing the data in its current form we can see the overall trends.





LTE Network Build

By Island	Planned	Online	In Process
Blakely/Decatur	2	2	0
Lopez	8	8	0
Orcas	13	10	3
San Juan	11	6	5
Shaw	2	2	0
Unassigned	1	0	1
TOTAL	38	28	10