ROCKISLAND

ROCKISLAND

Rock Island Communications
2017 Report

ROCKISLAND

Contents

ROCKISLAND

2017 Full Year Report

2017 was an exciting year at every level for the team at Rock Island. We achieved many milestones and had many successes across our various business lines. Major highlights include 1,300 new LTE customers, 300 over our plan, added over 300 new fiber customers and sold over 1,250 cell-phone plans in six months out of our relaunched Retail Store.

Our Engineering efforts saw continuous demand and committed pipeline throughout 2017 with an average of 373 fiber opportunities in process and 141 active construction projects each month. This presented operational challenges to keep up and maintain expectations. We also kept a keen focus on our redundancy and resiliency in our plant and equipment to ensure long-term viability.

In line with our Engineering team, the Technology effort saw major steps in our goal to have a fully redundant and scalable network to serve our daily needs now and into the future. Significant strides where made in evolving the network from a singularly focused network to a carrier grade platform to serve the wide variety of customers we serve.

Our confidence in both how the network and operations have performed during minor and major events improved immensely during the year. Large scale events are becoming less impactful to the communications network and the Rock Island team has developed a far more efficient response plan to mitigate the impacts of these events as the occur.

Our team has grown and developed into a cohesive operational unit with the ability to adapt and handle a growing number of responsibilities and situations.

ROCKISLAND

Engineering

With the major focus on constructing the hundreds of miles of fiber and LTE sites needed to serve our community, Rock Island has maintained an outstanding level of engagement to see the effort through.

At any given time, there are numerous active construction projects underway way each month. These consist of Last Miles to homes, Middle Miles for Fiberhoods, LTE sites and other capital improvement projects. As you can imagine, the effort and focus needed to keep this many construction projects moving as steadily along as possible is immense. How did we accomplish it?

Fiber Team

Since Rock Island coordinates and manages the entire build effort for each project, we have developed a strategic team internally around that effort. During 2017 we made some adjustments to reporting so that the administrative work for each project and the communication to field supervisors and technicians was made more seamless.

At year end we were fully staffed in the department of Engineering, however, most of the year we averaged a vacant position in the field. This group is the direct reason internally we have turned up well over 1,000 fiber connections since Rock Island's inception. They manage the immense fiber pipeline to onboard new customers. In addition, they mange the majority of in-home/premise onboarding of customers, assist with other construction assignments and small capital projects when needed.

We have a remarkable group of talent on this team that can handle a wide variety of tasks when called upon. They bring a get it done attitude and handle customers with care and consideration.

Field Support Team

In 2017 we made a substantial effort to ramp up the additional business Rock Island does with its customers. This includes some of the IT Services we offer today as well as support and design for small and large-scale businesses. To help ensure the

ROCKISLAND

success we staffed the field support team up with leadership and business development talent.

This team is managing roughly 50+ business opportunities and projects that take the Rock Island Service offering far beyond an internet connection. This is in addition to the projects for fiber onboarding mentioned prior. We are deploying solutions that simplify people's business and propel them into the future of technology. We are excited to grow this area of Rock Island as it sets us apart from all our competition by light years when it comes to the level of engagement and support we are willing and able to provide.

Excavation Contractors

Keeping the dirt flying is the key to the onboarding effort. Over the past 3 years Rock Island has engaged with dozens of contractors to deliver our plan. What is truly remarkable is that we have solicited commitment at such high levels from many of our local companies and even some off-island contractors who have invested with us in this effort. These contractors have also agreed to work at set, fair rates under a unit price agreement that allows us to move faster with more predictability.

Each contract company brings their own expertise and experience to the table. We are fortunate to have built and maintained a relationship at this level. Trust and commitment has been a major factor in the long-term success of our partnership.

Meeting the Strategic Goals

It is critical for the team to remain very proactive in engaging our committed pipeline as well as not lose focus on continue building the fiber pipeline. We have set a healthy target for 2018 and the pipeline is filled with enough capacity to meet this goal.

But we will always keep a strict eye on what is next for 2019, 2020 and so on. Our community and our leadership that got this started deserves to see results for years to come. With a fully staffed and well-equipped onboarding team we look forward to tackling and meeting these goals.

ROCK**ISLAND**

During 2018, Rock Island will spend some time and resources getting our fleet and facilities in order. We want to maintain a good presence in the community and we want our brand to reflect a level of professionalism that sets our business above others. We also anticipate beginning the transition of some of our contractor relationships to in-house, so we are beginning to equip our team with the tools needed to do this over the short to medium-term.

Meet "Ursula" our new 113' Bucket Truck for building and maintaining our LTE Sites

ROCK**ISLAND**

Technology

Operational Restructure

2017 saw the creation of the Technology business unit with the onboarding of Adam Kelly as CTO. Two areas of specialization were created; Network services and Systems engineering. The Network Services and Operations team have responsibility for the buildout and management of all network services – both internal and customer. Systems engineering is tasked with the build and maintenance of Rock Islands compute cluster which hosts a private cloud.

The genesis of Rock Island involved the merging of two networks and their supporting systems which were developed for very different purposes. While this was adequate for the purpose of servicing the existing RockIsland customer base, the lack of integration between both infrastructures presented a major barrier to scaling-up capabilities to meet demand.

In early 2017, we performed a comprehensive review of the entire RockIsland technology stack, as-built networks and human resources to discover what changes were needed to support the mission in the following areas:

Team structure / skill development

At the beginning of 2017, team structure in the Technology unit was still largely divided along the lines of Rock Island focused on ISP services, Island Network focused on network design and build. In the middle was the development effort operating under senior management guidance. All three groups were based in different geographical locations, which reinforces an inward-looking view and creates a barrier to ad-hoc communication.

Additionally, the layout of the Friday Harbor office had operations, support and field tech staff in different rooms - limiting communication osmosis and skill pickup between teams.

Drawing on ten+ years' experience of working with globally distributed cross-functional teams, Rock Islands new CTO initiated a number of changes to foster

higher levels of communication and promote closer working relationships between all members on the Technology team.

For the Friday Harbor office, we redesigned the office to combine network operations, support and field techs into the same room, and rotated staff between Friday Harbor and Eastsound offices for two days a week. This had the effect of rapidly building a greater understanding between individuals and teams of who was working on what, and why. This lead to a far greater level of mutual assistance between teams and eliminated the tendency to throw tasks 'over the wall'.

For the development effort, we held a two week workshop bringing all development resources together, and created a development roadmap for the year in conjunction with stakeholders, which provided a clear understanding of priorities between all – resulting in the dev team being able to focus on a given project instead of trying to manage competing priorities.

Commissioning of New Core

The 4-node all-SSD cluster replaces the entirety of RockIsland and Island Networks 50+ legacy servers, with the ability to incrementally add capacity over the projected system lifetime of 5 years.

NOC creation

The creation of highly-integrated Network Operations Center (NOC) systems. Rock Island's NOC is based upon a range of best-of-breed network management systems, device polling engines, alerting systems, and customized data dashboards. These systems constantly acquire configuration, performance and health data from every device in the network down to port level.

The alerting engine is highly configurable and extensible, allowing us to create dependency chains and granulated thresholds for alerts which allows us to quickly identify network issues without needing to interrogate devices.

These systems are also integrated with our CRM platform, which allows us to instantly see what customers are affected, and allows our level 1 & 2 support staff to

immediately respond to inbound calls with information relevant to the customer, without having to escalate to the NOC team for details.

One of the challenges with operating across a range of islands is that we need to have staff in different physical locations with limited ability to travel between them. As a result, our in-house systems and communications are highly virtualized, allowing team members to operate anywhere, anytime.

Physical Network Build

The amalgamated network was enough to provide county-wide connectivity, and allow the rollout of fiber connections and support the provisioning of LTE towers and microwave radio links, but the evolved (as opposed to designed) nature of the network was approaching scale issues in early 2017.

A complication was the lack of available cable connectivity between San Juan and the rest of the county, and the limited bandwidth from the two OPALCO radios between San Juan and Lopez Islands.

A significant difficulty prior to the commissioning of the sub cable was the effort required to keep the network operational while in the above state. With no core redundancy, any device maintenance would result in a major outage – including the LTE towers. Because of the situation, the tendency was to leave devices unmaintained to minimize service interruptions - resulting in some dangerously long uptimes (> 7 years) on some critical network devices.

Early in 2017 we identified this as a significant operational risk, and undertook the long and delicate task to bring all critical network components up to current firmware releases. To do this required a major amount of work between 1am and 5am, often requiring team members to be present at mainland locations as well as all major islands in the event any issues – and then reassembling the team on-islands to cover any customer issues.

ROCKISLAND

Through 2017 as the fiber backbone buildout progressed, we were able to first introduce path redundancy between Orcas and Lopez Islands, and with the commissioning of the new sub cable – redundancy between the three major Islands. Further progress was made upgrading core switches with high-speed long-range lasers to prepare for the rollout of the new network core in 2018.

Upgrade to Internet Backhaul

At the beginning of 2017, our total internet bandwidth consisted of 2 x 1Gb circuits to one network provider, running on a combination of legacy RockIsland Island Network devices, some of which were pushing 10 years in age. Due to not possessing any 10Gb-capable devices with the ability to perform wire-speed internet routing, we had no option to perform incremental upgrades, which required the entire replacement of the internet edge. We commissioned four new carrier-grade routers which have the ability to handle an aggregated 80Gb of internet bandwidth.

The efforts of 2017 have resulted in a network that is almost unrecognizable from a year ago – and we look forward to delivering on our promise of building a true carrier-grade, multi-service, self-healing network – with the ability to scale to 20 times current bandwidth – during 2018.

ROCK**ISLAND**

Sales & Marketing

Onboarding and Sales

On the year we achieved the sales and revenue goals we set out to make in late 2016. We are pleased to report gross revenues from all revenue centers exceeded our planned expectations.

Fiber

Our fiber revenues for the year ended up coming in 4% lower than planned. While being so close to meeting our number, it's important to note that the way we got to this number was much different than planned. Specifically, our month-over-month home connection rate was lower than target in general, but a higher rate of commercial and business circuits were connected. On an individual subscriber basis, we ended the year with 27 connections behind at year end.

LTE Fixed Wireless

Our decision to focus on LTE Fixed Wireless onboarding in 2017 brought more subscribers online, and earlier in the year than planned. As a result, our revenues from LTE came in ahead of plan by approximately 7% offsetting any losses in Fiber. On the customer side we were able to capture a significant segment of the market and continue to see strong growth.

IT Services

We made some significant structural changes in this category during 2017. As the new Friday Harbor Retail Store became closer to a reality in the second quarter of 2017 we decided to cease operations in Retail/Computer Repair. Exiting the Retail/Computer repair business resulted in a 30% decline in revenue over our planned target.

The NEW Rock Island Retail Store

We re-opened our Friday Harbor retail store with a full-service retail presence in May 2017, ultimately delivering over 1,250 brand new T-Mobile phone lines in San Juan County by year end.

ROCK**ISLAND**

We dominated the sales rankings within our distribution cohort of 90 stores every week in 2017. Our monthly activation numbers were in the 200s almost instantly, and our Distributer, QDI International, had never had a store hit numbers that high, especially that quickly in such a small market.

The revamped store is a significant upgrade from its previous incarnation, it's an important source of revenue for the company.

Fiber Build: Phase 2

In November 2017 we sent our Monthly Fiber Newsletter with the idea of focusing solely on fiber. The top story introduced our campaign to start completion of our original plan goals (Phase 1) of our fiber build and set the stage for Phase 2. In it, we talked about our market share gain, customer testimonials, data usage, and more.

On the heels of that in December, three articles came out in county media touting similar messages. One of them was done in collaboration with the Journal on Net Neutrality while the other two were done in partnership with Victoria Compton at the San Juan County Economic Development Council and the Journal. Here are the articles for your reference:

http://www.sanjuanjournal.com/news/san-juan-countys-broadband-option-sets-state-example/

http://www.sanjuanjournal.com/opinion/equitable-internet-access-for-all-americans-reporters-notebook/

http://www.sanjuanjournal.com/opinion/san-juan-county-broadband-accomplishments-acknowledged-guest-column/

We are now setting the stage for continuing our success by bringing more fiber to homes and businesses in the county for years to come. Our most recent funding approval will allow us to achieve our long-term goal of bringing a fiber connection to every home or business in San Juan County who wants it.

ROCKISLAND

Finance

In 2017 The Finance Department grew significantly with regards to our technological sophistication. At the beginning of the year we transitioned our legacy accounting system, a locally hosted database to a cloud-based accounting system. This move enabled us to reorganize our general ledger and automate previously mundane data entry tasks resulting in enhanced financial reporting capabilities and efficiencies.
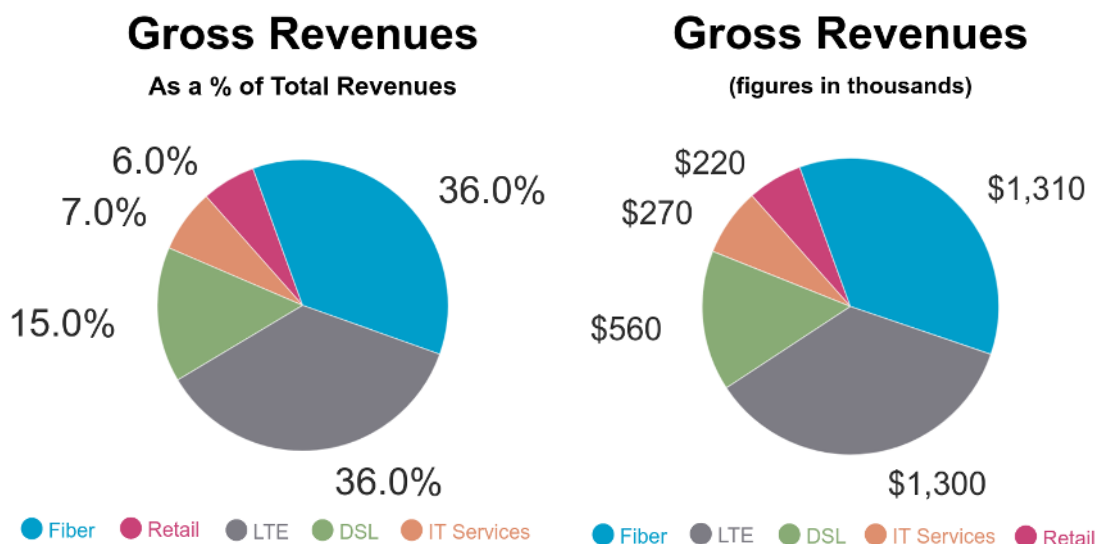
Our move to the cloud places Rock Island one step closer to being able to report the financial health and condition of the Company in real-time across all revenue centers. The focus on automation and improved financial reporting will continue in 2018 as we seek to integrate inventory, sales, and construction work into one unified platform.

We are excited to report on several key pieces of information that we are particularly proud of for fiscal year 2017.

1. On the construction side of our business members of the cooperative contributed nearly a million dollars toward our buildout efforts. This outpouring of support by the community solidifies our business model and mission to deliver broadband to San Juan County.
2. Our headcount grew to 34 FTEs by the end of 2017. We take pride in this number as represents our continuing commitment to the county by providing a livable wage with great benefits to our employees.
3. Gross revenues from all revenue centers generated approximately $3.64 million dollars in 2017. This growth represents a 59% increase from the prior year. A trend that continues into 2018.
4. Our weighted average interest rate (the blended rate at which we borrow funds from the bank) remains low at 3.59% as of year-end. The historically low interest rate environment we have access to through our relationship with CoBank has allowed us to make our investments in our infrastructure at precisely the right moment to avoid excessive interest expense in the future. Rock Island continues to operate as a financially separate entity from OPALCO.

ROCKISLAND

2017 Financial Summary

The year was marked with breakout success on all fronts for Rock Island. Despite extremely aggressive sales targets our team managed to surpass all expectations ending the year 2% ($80k) ahead of our business plan for gross revenues. As shown below, you can see revenues from both Fiber and LTE are essentially tied as a proportion of total revenue as of the end of the year.

Gross Revenues
As a % of Total Revenues

- 36.0%
- 36.0%
- 15.0%
- 7.0%
- 6.0%

Legend: ● Fiber ● Retail ● LTE ● DSL ● IT Services

Gross Revenues
(figures in thousands)

- $1,310
- $1,300
- $560
- $270
- $220

Legend: ● Fiber ● LTE ● DSL ● IT Services ● Retail

'17 Key Figures

Total Investment in Infrastructure & Plant During 2017	Net Loss	Total Debt (as of year-end)
$4,130,000	($2,552,000)	$15,900,000

Looking ahead to 2018 Rock Island is tracking in-line according to our business plan in both income and expense. We have great confidence that 2018 will be a milestone year for the organization.

ROCKISLAND

2017 Financial Statements

Balance Sheet

		Actual	Actual
		12/31/2016	12/31/2017
1	CURRENT ASSETS	$ 1,873,828	$ 2,622,954
2	PROPERTY, PLANT, AND EQUIPMENT	7,245,385	10,237,739
3	OTHER NONCURRENT ASSETS	254,867	226,571
4	Total assets	$ 9,374,080	$ 13,087,264
5			
6	CURRENT LIABILITIES	899,338	1,709,068
7	NONCURRENT LIABILITIES	12,992,689	18,448,148
8	Total Liabilities	13,892,027	20,157,216
9			
10	EQUITIES AND MARGINS	(4,517,947)	(7,069,952)
11	Total Liabilities and Equity	$ 9,374,080	$ 13,087,264

Income Statement

		Actual	Actual
		12/31/2016	12/31/2017
1	I OPERATING REVENUES	$ 2,286,266	$ 3,644,987
2			
3	II OPERATING EXPENSES		
4	COST OF GOODS SOLD	759,616	858,462
5	GENERAL AND ADMINISTRATIVE	3,764,131	4,607,930
6	SELLING AND MARKETING	69,032	74,417
7	TOTAL OPERATING EXPENSES	4,592,779	5,540,809
8	TOTAL NET OPERATING MARGINS	(2,306,513)	(1,895,822)
9			
10	III OTHER INCOME (EXPENSE)	(431,321)	(656,183)
11			
12	GRAND TOTAL NET (LOSS) MARGIN DETAIL BREAKOUT	$ (2,737,834)	$ (2,552,005)

ROCK**ISLAND**

Statement of Cash Flows

		YTD Ended 12/31/2016	YTD Ended 12/31/2017
	Cash Flows from Operating Activities:		
1	Net income (loss)	$ (2,737,834)	$ (2,552,005)
2	Adjustments to reconcile net income (loss) to net cash	643,885	1,037,516
3	Net cash provided by (used in) operations:	(2,093,949)	(1,514,489)
4			
5	Cash Flows from Investing Activities:	(4,435,712)	(4,129,418)
6			
7	Cash Flows from Financing Activities:	6,398,109	5,583,034
8			
9	Net change in cash	(131,552)	(60,873)
10			
11	Cash and cash equivalents, beginning of period	225,976	94,424
12	Cash and cash equivalents, end of period	94,424	33,551
13			
14	SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
15	Cash paid during the year for interest	$ 372,426	$ 544,877