

ROCKISLAND

2019 Rock Island Business Plan

Table of Contents

- Executive Summary*..... 3
- Finance*..... 5
- Income Statement Forecast & Lookback* 6
- Cashflow Forecast 2019 – 2024* 7
- Seasonality Redefined*..... 14
- Targets for 2019*..... 15
- Network Management* 16
- The Fiber Pipeline*..... 20
- Support*..... 21

Executive Summary

Through a detailed projection in our business model, Rock Island demonstrates that the business is sound, and that the investment to date and projected future investments are prudent and sustainable. Based on the current trend in customer onboarding and the continued growth of the pipeline, Rock Island calculates the total sustainable debt of the company at \$30M. To aid in the growth and incentivize connections, we see the need to continue the investment to \$27M in year 2022. This allows us to close on our sales goals and leaves us with room for additional borrowings if ever needed for catastrophic instances up to \$3M.

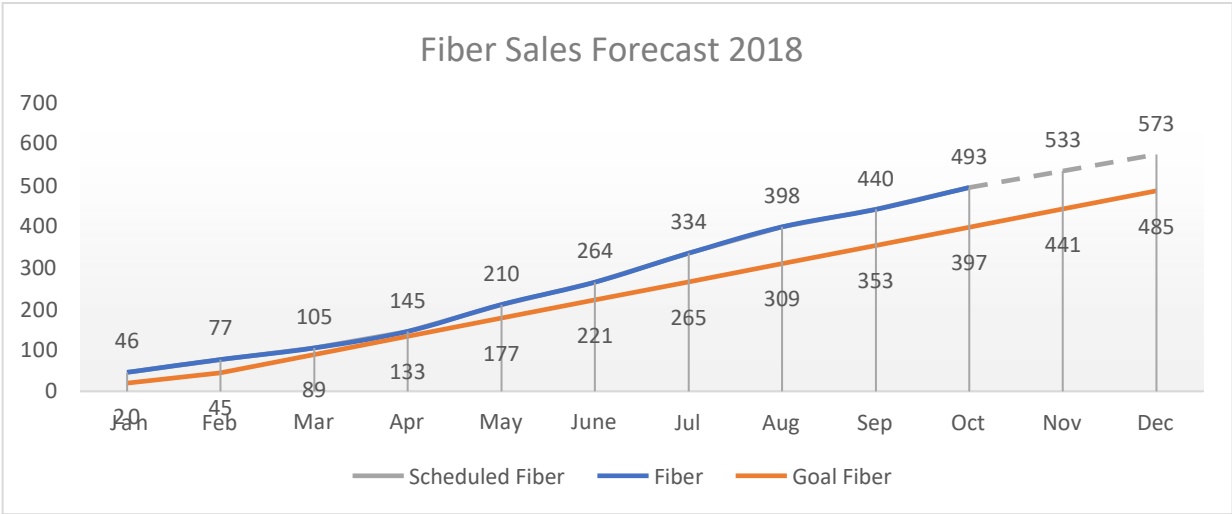
Rock Island rounds the corner on major business milestones and starts to sharpen its focus toward the key to its success for the long run. The business is operationally cash flow positive in Q3 of 2019 and net income positive in Q4 of 2021.

Milestone Checkpoints	Period	Target Subs	Target Revenue
Operational Cashflow Positive	Q4-2019	5170	\$5.5M
Net income Positive (includes depreciation)	YE-2021	6167	\$7M
Revenue Sufficient to Cover Debt Service	YE-2024	7118	\$10M

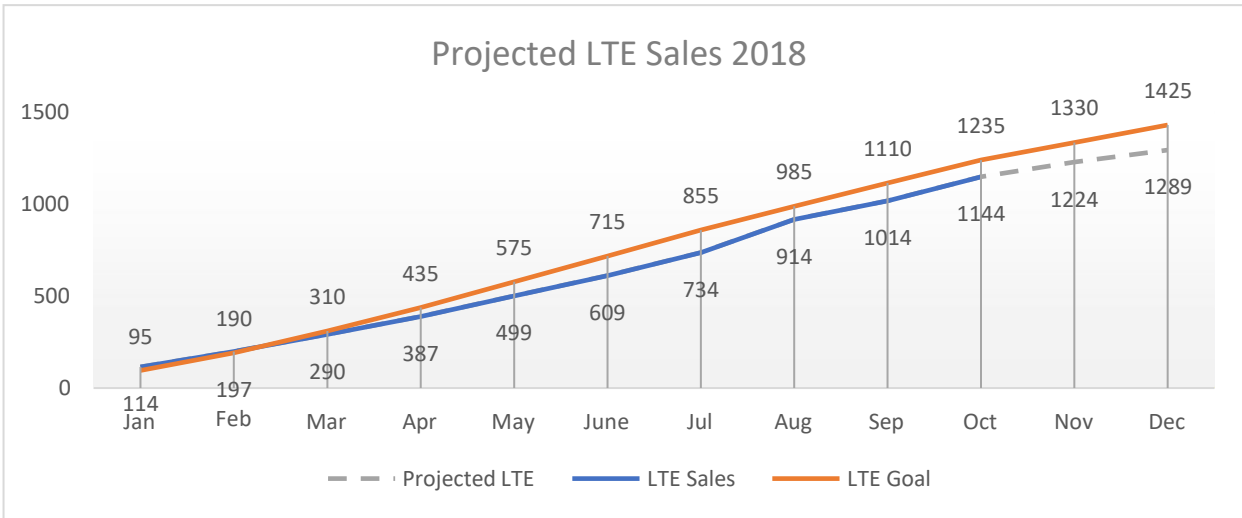
Our Goals In 2019:

- Continue our onboarding efforts to increase our fiber customer base, ensuring that we are always future-proofing our business.
- Expand the opportunities for supporting our customers with things beyond an internet connection, developing an array of business solutions and services that support our local business community.
- Fine tune and enhance our existing LTE network. Adding technologies and increasing capacity where needed to maintain customer satisfaction and growing demands.

Last Mile Fiber Construction Cost Per Connection: \$2,935 (Co-funded by Customer)



LTE Construction Cost Per Connection: \$1,375 (Funded by RIC)



Finance

Revenues

	2015	2016	2017	2018	2019
Gross Revenues	\$1,829,000	\$2,286,000	\$3,645,000	\$4,905,000	\$6,048,000
Revenue Growth		25%	59%	35%	23%

We plan to grow gross revenues in 2019 by 23% as compared to 2018. Looking back to previous years we see this target as highly attainable given our committed fiber pipeline as of the report date. Learning from 2018, we have factored in customer churn and construction-based discounts into our revenue model for 2019 that were not present in last year's business plan. In short, we feel confident that the revenue expectations set forth for 2019 have been modeled with a higher level of precision than ever before.

Expenses

Except for interest expense, in 2019, we have budgeted to account for an overall flatlining, with some reductions, in our expenses as compared to years prior. In the table below, you can see our historical operating expense profile by year.

	2015	2016	2017	2018	2019
Operating Expense	\$3,422,000	\$4,592,000	\$5,540,000	\$6,195,000	\$6,469,000
Expense Growth		34%	21%	12%	4%

The most significant shift in expense in 2019 relates to interest on borrowings. Our plan for 2019 will require an additional \$3.5 million of funding and is included in our calculation of interest expense on the income statement for 2019. Of this amount we anticipate needing approximately \$500k for the funding of operations until cashflow is enough to support day-to-day operations. The remaining \$3 million will be spent as the last big push of borrowed funds necessary to fund construction and maintain our current pace of onboarding.

	2019	2020	2021	2022	2023	2024
Avg. Int. Rate	4.67%	4.83%	5.00%	5.3%	5.5%	6.0%

The table above shows our assumptions of interest rates in future periods

Beyond the second quarter of 2019, no borrowed funds will be necessary to support the operational cashflow needs of Rock Island. In 2023 and beyond our construction needs will be met by free cashflow from operations. Please note our model factors in the principal repayments due on outstanding debt and indicates that Rock Island will have surplus cash on hand to meet its obligations.

Income Statement Forecast & Lookback

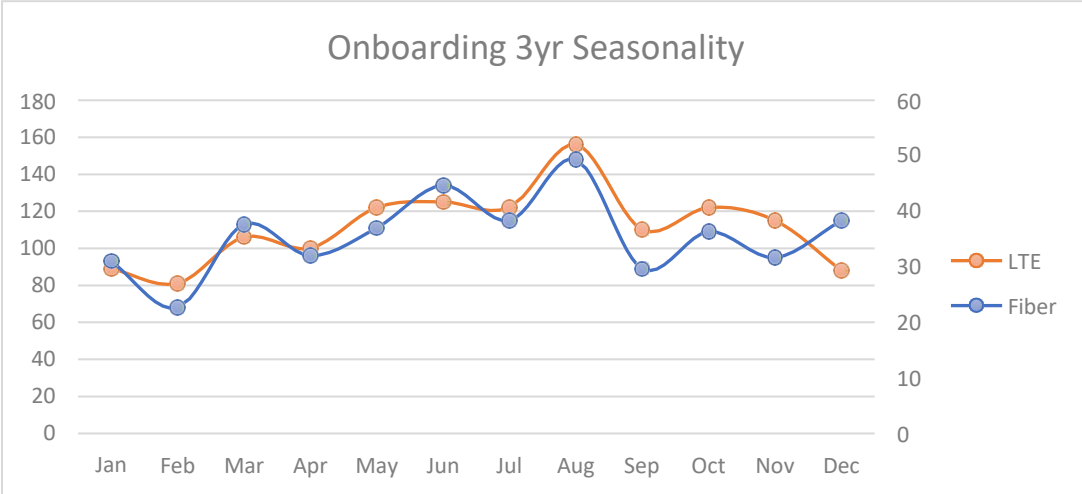
	Actuals			Projected		2019	2020	2021	2022	2023	2024
	2015	2016	2017	2018	2018						
I OPERATING REVENUES											
Broadband Services	1,551,041	2,005,394	3,160,389	4,243,990	5,326,190	6,003,566	6,921,508	7,609,007	8,381,864	9,276,824	
IT Services	208,373	196,527	224,810	267,640	277,835	288,099	299,388	311,807	325,468	340,495	
Other	69,935	84,345	259,423	393,203	444,000	462,120	468,546	427,293	410,378	369,817	
TOTAL OPERATING REVENUES	1,829,349	2,286,266	3,644,622	4,904,833	6,048,025	6,753,785	7,689,442	8,348,107	9,117,709	9,987,135	
II OPERATING EXPENSES											
Cost of Services											
Broadband Services	704,457	529,371	632,550	669,455	631,334	594,426	558,784	586,724	616,060	646,863	
IT Services	2,540	162,743	111,756	118,103	113,770	114,355	118,320	128,901	140,507	153,239	
Other	19,745	67,502	114,157	127,094	171,900	180,495	189,520	198,996	208,946	219,393	
Total Cost of Services	726,742	759,616	858,463	914,652	917,004	889,276	866,624	914,620	965,512	1,019,495	
Labor											
Total Labor Expenses	1,355,165	1,913,251	2,605,763	2,950,346	3,069,775	3,113,411	3,113,831	3,114,260	3,114,697	3,115,143	
General & Administrative											
Total G&A	1,283,507	1,850,879	2,001,816	2,253,224	2,417,591	2,477,548	2,538,389	2,585,731	2,607,071	2,616,412	
Selling & Marketing											
Total Selling & Advertising	57,297	69,032	74,417	77,650	64,340	65,000	65,000	65,000	65,000	65,000	
TOTAL OPERATING EXPENSES	3,422,711	4,592,778	5,540,459	6,195,872	6,468,710	6,545,234	6,583,844	6,679,611	6,752,280	6,816,050	
III NON-OPERATING EXPENSE											
TOTAL NON-OPERATING EXPENSES	186,751	431,322	656,168	964,712	1,308,957	1,405,941	1,456,098	1,488,541	1,484,844	1,514,339	
IV TOTAL NET PROFIT (LOSS)	(1,780,113)	(2,737,834)	(2,552,005)	(2,255,751)	(1,729,642)	(1,197,391)	(350,500)	179,956	880,585	1,656,747	
EBITDA	(1,466,833)	(1,721,952)	(810,097)	(80,978)	892,154	1,547,646	2,471,475	3,048,033	3,731,170	4,509,511	

Cashflow Forecast 2019 – 2024

	2019	2020	2021	2022	2023	2024
OPERATING ACTIVITIES						
Net income (loss)	(1,729,642)	(1,197,391)	(350,500)	179,956	880,585	1,656,747
Adjustments to reconcile Net Income to Net Cash provided by operations:	1,535,092	1,561,349	1,588,131	1,601,790	1,587,994	1,560,680
Net cash provided by (used in) operating activities	(194,550)	363,959	1,237,631	1,781,746	2,468,580	3,217,426
INVESTING ACTIVITIES						
Net cash provided by (used in) investing activities	(1,799,813)	(1,000,000)	(1,000,000)	(1,000,000)	(1,000,000)	(1,000,000)
FINANCING ACTIVITIES						
Net cash provided by (used in) financing activities	1,967,071	780,457	452,393	212,970	(1,031,984)	(1,261,449)
Net cash increase (decrease) for period	-	144,416	690,024	994,715	436,596	955,977
Cash at beginning of period	-	-	144,416	834,440	1,829,155	2,265,751
Cash at end of period	-	144,416	834,440	1,829,155	2,265,751	3,221,728

Seasonality Redefined

A new piece of information we are incorporating into our business plan is an update to the actual seasonality for onboarding using a historical 3 year dataset. The results are intriguing.

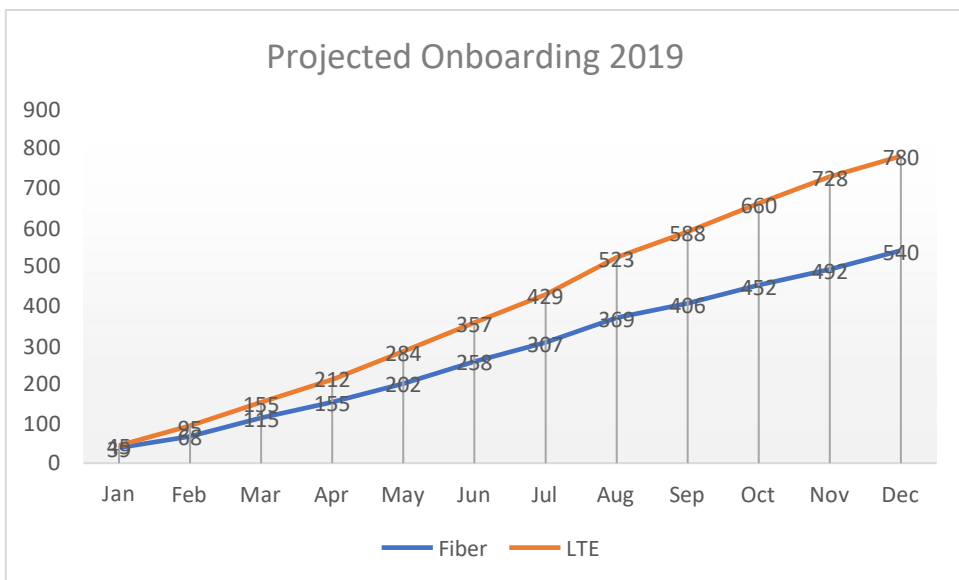
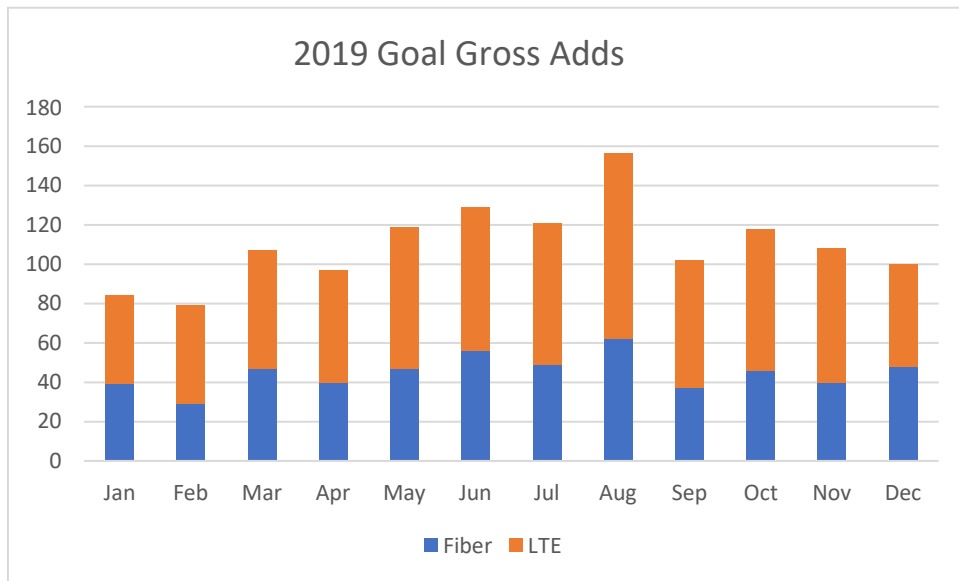


By overlaying the actual numbers for onboarding over the past 3 years, we can clearly see that both the LTE and Fiber onboarding rates match in seasonality. We expect that for the most part our onboarding will follow this pattern. Given that information, we are structuring our gross adds as follows:

Targets for 2019

Our Fiber goal for 2019 is 540 additional connections, 55 more than our 2018 plan. Our actual for 2018 is scheduled to hit 570 connections, 2 months or over 80 subs ahead of plan.

Mainly due to the observations made during 2018 of the ability to onboard and our need for the business as it relates to our other lines of service and resource focus, we have set the goal of 780 Gross LTE connections.

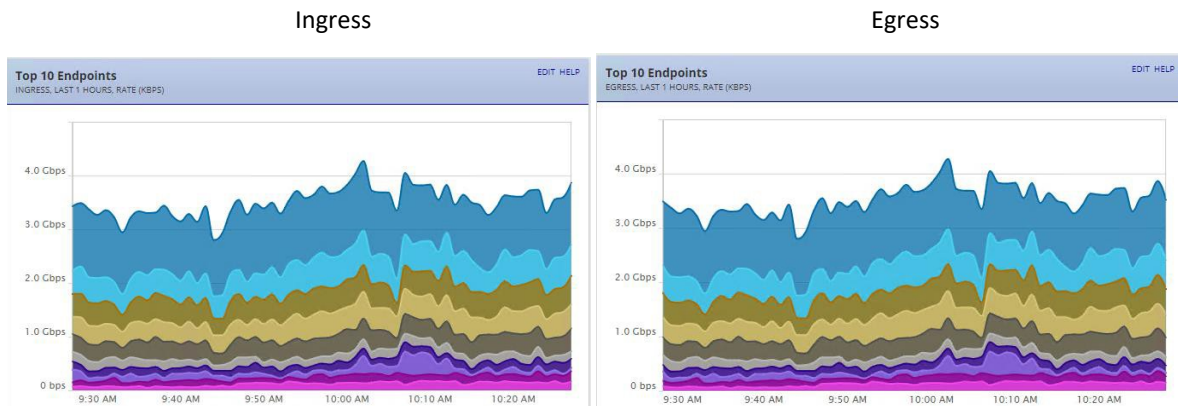


Network Management

Capacity and Usage

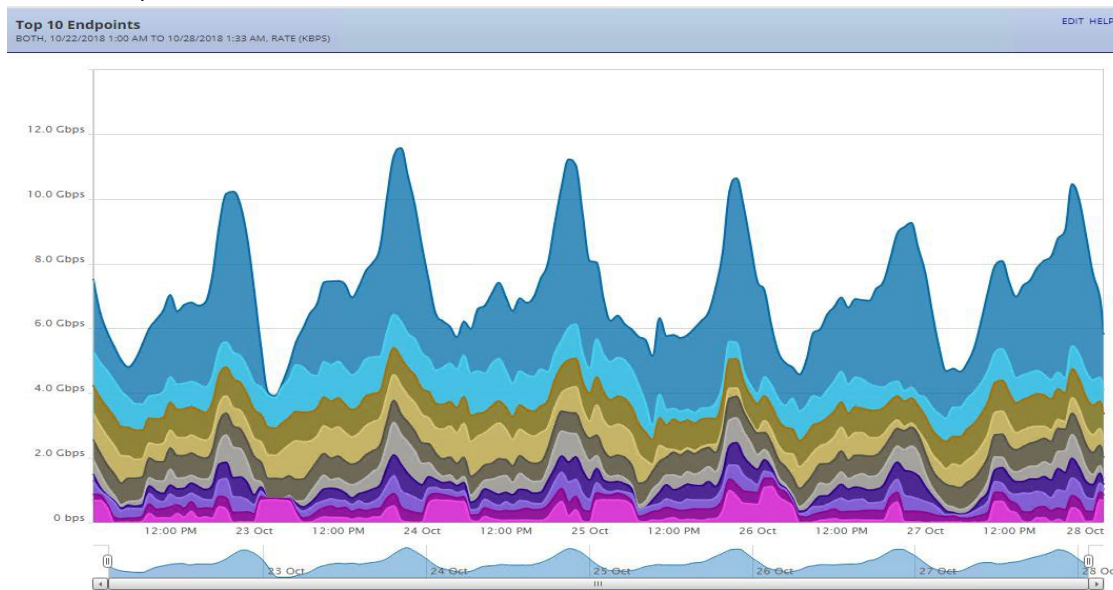
The overall use and reliance on our platform is growing above national averages to date. The year over year national growth rates of internet traffic is 27%. We are seeing 100% growth rates due to two factors:

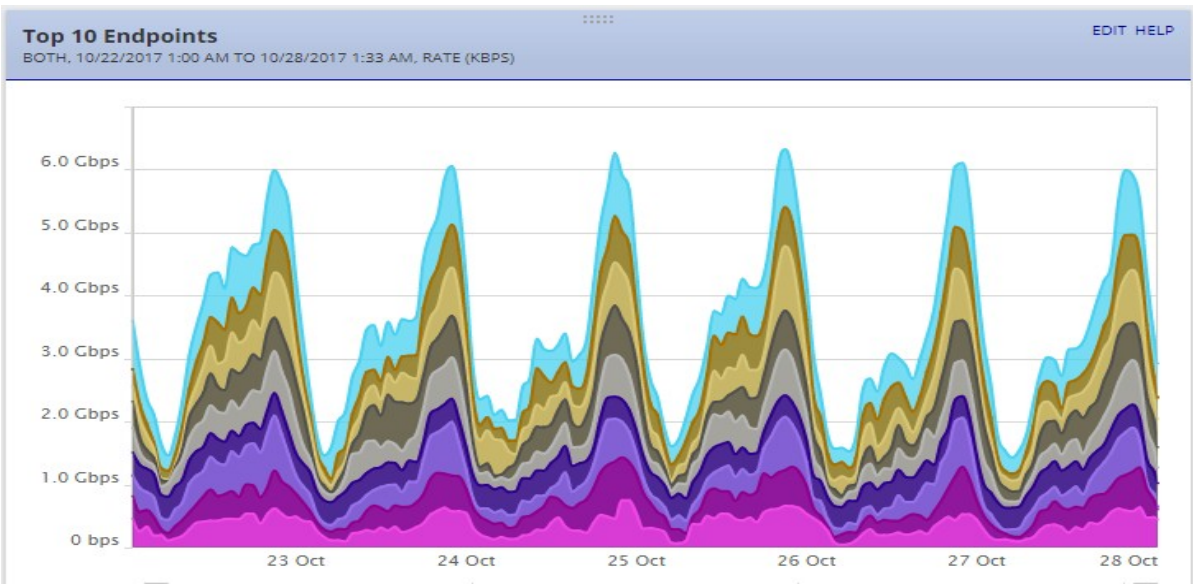
- Multiplier effect of onboarding
- Growing usage by existing customers



The data rates are also not just because of the Netflix affect in peak evening hours as we see a growing and consistent level of usage throughout the day and even overnight with the current typical bandwidth on various circuits ranging from 4.0Gbps to 11.5Gbps compared to 1.5Gbps to 6Gbps over the same time frame in 2017.

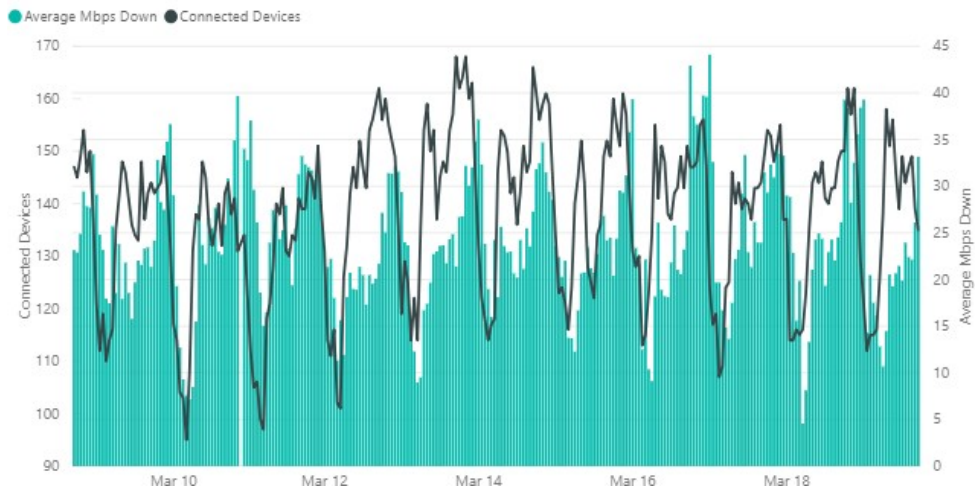
2018 -4.0Gbps to 11.5Gbps





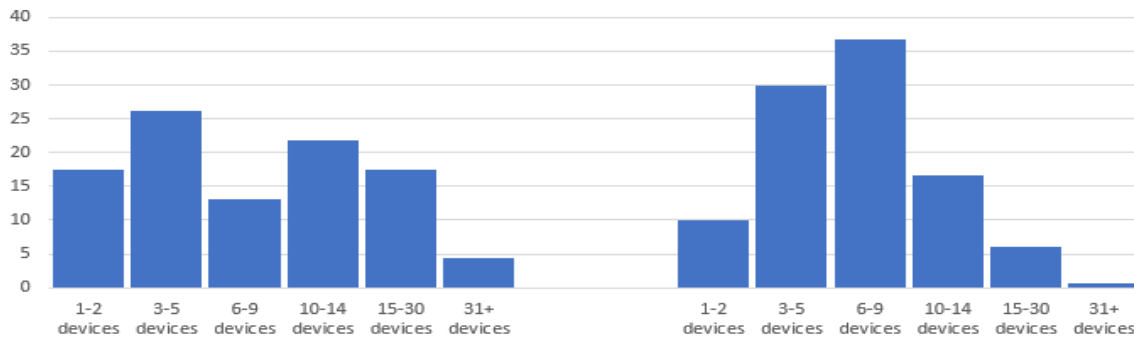
LTE usage growth and trends of certain sites do not favor unbound use of the LTE network. As mentioned above we still need to be proactive on towers like Jensen, FH town, and Rum Runner by leveraging our traffic management capabilities, rebalancing sectors, and offloading on to technologies such as fiber and fixed wireless.

Mbps down vs GB Downloaded (1hr)



Driving LTE usage is the number of devices individuals are connecting to the network. National averages are currently 7.7 connected devices with growth to 12.6 devices per user by 2021. We are seeing device connection rates in line with national numbers currently averaging 9 on fiber modems and 7 on LTE Modems.

Number of connected devices on Fiber and LTE modems



RECORD TYPE	DEVICE COUNT	ACTIVE DEVICE COUNT (RICO) Sum	Avg	WEIGHTED %
Fiber Modem	1-2 devices	430	2	17.39%
	3-5 devices	1288	4	26.08%
	6-9 devices	1288	8	13.04%
	10-14 devices	2690	10	21.74%
	15-30 devices	233	18	17.39%
	31+ devices	88	35	4.34%
Subtotal		6017	9	
LTE Modem	1-2 devices	514	2	10%
	3-5 devices	3088	4	30%
	6-9 devices	6601	7	36.66%
	10-14 devices	4708	11	16.66%
	15-30 devices	3140	20	6.10%
	31+ devices	608	32	0.75%
Subtotal		18659	7	
GRAND TOTAL		24676		

Backhaul

As data usage increases, we require additional off island transport capacity to carry this traffic to upstream providers, including the internet as a whole. In Q1 2019, we will be adding an additional circuit to provide increased capacity from the islands to our main handoff point, the Westin Building in Seattle. Due to the turn down of legacy circuits in Q4 of 2018, the addition of this circuit will not result in an increase of MRC. With the addition of new technologies such as Layer 3 TV, 4K and 8K video, and other bandwidth intensive applications, we are

planning our next transport capacity increase in Q2 of 2020.

For our internet customers, including Fiber and Fixed Public Wireless, we provide connectivity directly to the public internet. We currently have ample capacity at our Edge, thanks to the addition of 2 peering connections to the Seattle internet Exchange (SIX). The SIX ports are a one-time purchase/setup fee, with no MRC. We can use these ports to establish settlement free peering (no cost) with large companies such as Amazon, Google, Netflix, Facebook, Limelight and Akamai. Incidentally, these are the source of most of the content our customers access. Currently we are receiving ~60% (1.5Gbps) of our internet traffic from our SIX peers. The other ~40% (1Gbps) is carried through our paid internet transit circuits. The SIX connections were a total \$4000 NRC but provide a monthly MRC savings of \$1500.

In Q3 of 2020, we will add a new POP in Vancouver, BC. This will provide a redundant connectivity point for our internet customers, should there be a service affecting issue with the Westin Building. We will acquire internet transit at this location, as well as connect to the Vancouver internet Exchange (VANIX). This is like the SIX, but with a minimal MRC. In addition to providing a redundant connection, the addition of this location will also provide an increase in bandwidth capacity.

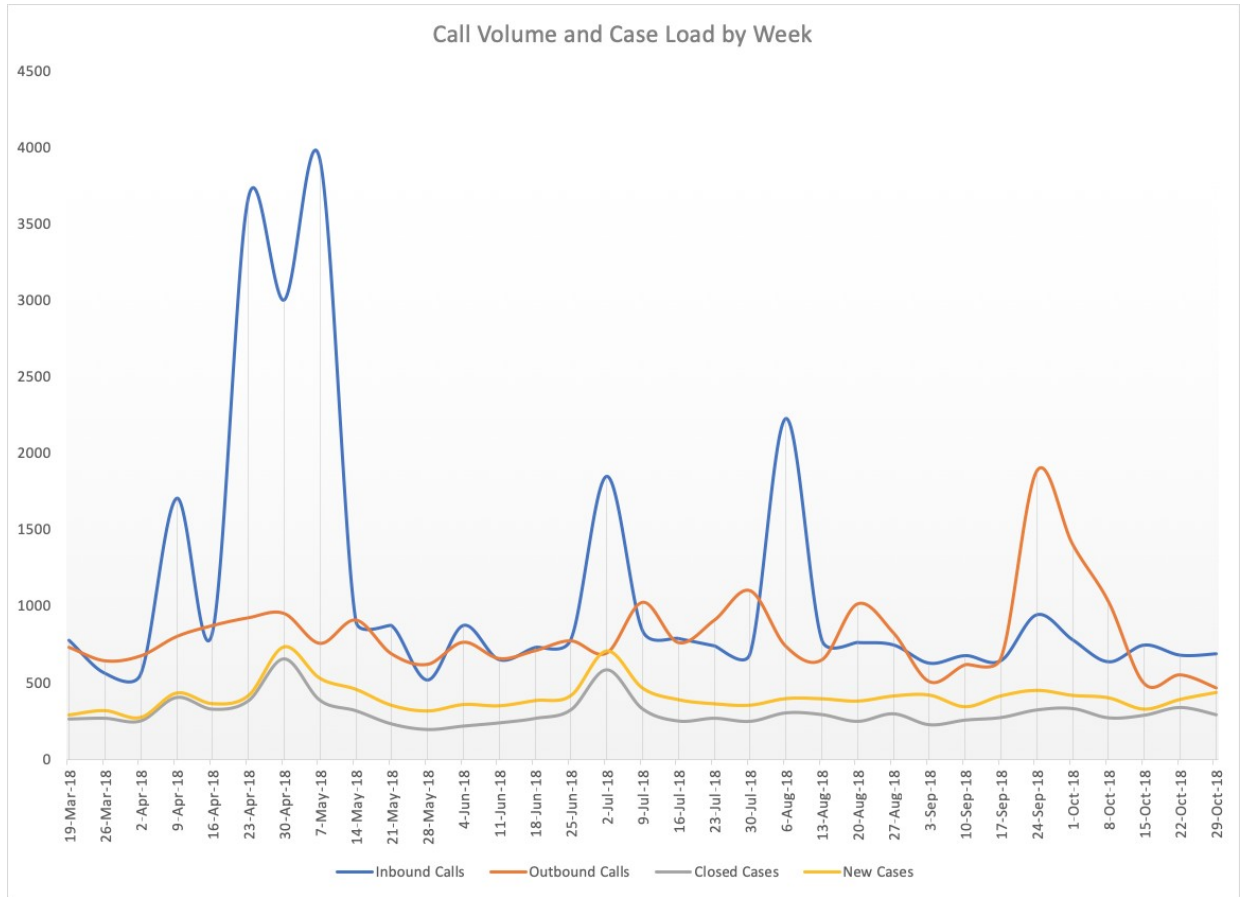
The Fiber Pipeline

Fiber

Over the past few years of aggressive fiber expansion, a large amount of non-organized, individual connections have been realized and connected due to the availability of the newly built facilities. We forecasted that over 800 connections could be made feasible just by the installation of the backbone back in 2015. Since then we have quintupled our fiber plant and have grown that potential into the thousands. Granted, the growth was driven by connections, so a good amount of these have been realized. We still, however, see a bucket of low hanging fruit for individual connections in the realm of 800-1100. But individual connections are not the only opportunity that has been opened due to this expansion.

Support

2018 was arguably one of the hardest years to date for the Support Team. We learned about LTE site congestion, and the myriad nuances of supporting email customers. We had several mainland fiber and power outages planned and otherwise. We were down one staff member most of the year and had an aggressive LTE Fixed Wireless sales goal that we needed to realize. When combining all these factors together it made for a tough year filled with a lot of lessons learned.



85% of our customer contact comes from inbound phone calls. We average about 160 inbound support calls a day across the business (about 35-40 calls per rep per day). On days when we have events, we can get up to 1,600 calls like we did in April when our email service went down (300-400 calls per agent a day). During the period above our Support team fielded 9,000 calls each.

15% of our customer contact that comes electronically is represented as new cases in our system (gold line in the chart above). We average 400 new cases a week and usually close them all in a timely manner. The gray line at the bottom represents how many cases we close in the system every week.

Onboarding and Support Improvements

We have taken the lessons learned and turned them into assets. In 2019 we are re-inventing ourselves, and our customers will have a different experience when dealing with Rock Island in the future – from how we greet you when you call – to the uniformity of our support protocol; a new era for the Rock Island Support team has arrived and we are ecstatic about it. Some of the major changes we will be making include:

- Professional training in key areas of communication and dealing with specific user groups
- Better CPE devices deployed to mitigate customers experience
- Improved escalation protocol for getting cases to the right internal groups faster
- Better case management workflows and transparency of each case's lifecycle
- Better use of call and case statistic to insure we meet customer SLAs
- Increased communication within the Support group and within the company
- A physical support presence in our Friday Harbor retail store and cross training with our T-Mobile reps
- Better tools in our CRM that will allow us to give customer a clear understanding of their connectivity options and their associated connection costs
- A fantastic, can-do attitude centered around helping and educating our customers each time they reach out to us