

MI-Connection Board of Directors Meeting
Davidson Town Hall
216 South Main Street
Davidson, NC 28036

4/30/15
7/1/15
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January 22, 2015

MINUTES

Board of Director's Meeting

Present: Larson Jaenicke, Brett Ellis, Leamon Brice, Erskine Smith, Steve Miller, Howard Kosofsky, David Auger and Bill Sykes. Absent: Brad Davis

Other attendees: Alan Hall, Sarah Muller, Rick Kline, Nola Perkins, Cristina Shaul, David Boraks (media), David Krueger (consultant), John Duke & Allison Philips from Mitchell Community College students and two unnamed citizens

1. Call to Order/Quorum

Mr. Jaenicke called the roll, determined that a quorum of the Board was present and called the meeting of the Board to order at 6:30pm.

2. 2nd Quarter 2015 Financial & Operational Update

Mr. Auger provided the Board with a financial and operational update of MI-Connection for the second quarter 2015 which ended on December 31, 2014. He opened by stating that MI-Connection had a great quarter and presented a slide which compared the financial results of the current quarter (Q2/2015) to the same quarter in fiscal 2014. Mr. Auger told the Board that the Company had very strong revenue growth in the period driven almost exclusively by customer growth. Revenue exceeded the same period in 2014 by \$356,212 or 7.83%, total expenses for the quarter increased by 4.02%, higher year over year by \$147,592. This was driven primarily by cost of goods sold (programming, internet fees as well as telephone switching costs), which increased by \$153,167 or 8.25% unfavorable when compared to last year. The categories of facility, marketing and administration, which make up the Company's overall operating expenses, were favorable by \$5,575 year over year. Mr. Auger stated that this result was driven by continued attention to cost savings efficiencies. EBIDA (Earnings before interest, depreciation and amortization), which according to Mr. Auger is the key metric to reflect the health of MI-Connection, increased by \$208,620 or growth over the prior year of 23.63%. EBIDA as a percentage of revenue increased from 19.40% to 23.63%. Mr. Auger declared that it is his goal to get this figure to 29-30%. He believes that this is a reasonable goal and that achieving and maintaining it should make a huge impact to the financial health of MI-Connection. Net Income was virtually the same as it was up \$8,044 when compared to the same quarter in 2014. He explained that this was because of a \$243,234 negative variance to depreciation & amortization which was a result of an accounting change made at the beginning of this year which effectively reduced the life of a set top box/converter from 15 to 7 years. This change had been discussed in past meetings and was decided on the advice of MI-Connection's outside auditors. This is a non-cash issue and simply reflects a onetime accounting procedural charge. Interest expense was favorable by \$42,658 resulting in a Net Income increase of \$8,044 as previously stated. Gross margin as defined as revenue less cost of goods sold was basically flat coming in at 59.03%, only off by -0.16% from last year. ARPU (average revenue per customer) increased by \$5.02 to \$101.57, breaking \$100 for the first time.

Mr. Auger explained that one of the key points to the quarter was RGU and customer relationship growth. Comparing the Company to this same period last year, the Company has gained 1,768 RGU's, a growth of 6.33%,

and 393 customers, a growth of 2.5%. Mr. Auger confirmed this data by presenting several slides showing the year to date and quarter over quarter growth. At this point he opened the meeting to questions about the financials. There were several questions which centered on the definitions of customer growth and RGU's as well as past business changes and the impact they have made on the Company's bottom line. Mr. Auger closed this section of his presentation by drawing some comparisons between MI-Connection and the industry, showing that the Company was growing at a greater rate across most areas of its business than its peers.

Mr. Auger continued his presentation by providing an overview of the Company's 2nd quarter highlights. They included:

- Activity levels back to normal after billing system and technical support conversions.
- Telephone conversion from BVU to Momentum has begun. Approximately 200 customers had been ported to-date and larger groups of FTTH and commercial customers will be ported in the next 2.5 weeks. The final 1400 residential customers should be ported by February 11th.
- All programming contracts and retransmission consent agreements were completed before expiration.
- Langtree's development at the end of 2014 was at 231 occupants, a 77% occupancy rate, and MI-Connection has gained 221 customers there, which is a 96% penetration rate.
- Numerous other large commercial and residential deals are in the pipeline.
- The Company has embraced the concept of safety rolling out an organization wide safety education and training program.
- MI-Connection has begun the process of developing a disaster recovery program.

Mr. Auger next spoke about retransmission consent agreements. He explained that these contracts run in 3 year cycles and they are coterminous. Due to these new contracts, effective 1/1/15, MI-Connection will incur an additional \$1.63/month per video customer in retransmission consent fees. Mr. Auger stated that based on feedback from Cinnamon Mueller, MI-Connection's attorney for retransmission contracts, MI-Connection's 2015 increases were at or below other independent operators. He told the Board that he did not want to do a rate increase this year; however, because of this increase in local programming cost, he has no choice but to pass through a portion of this cost. So effective 3/1/15, MI-Connection will pass through to video customers only, an increase of \$1.50 in the "Local Broadcast Fee" line. He added that if you follow the industry, MI-Connection's increase is far less than Time Warner and other MVPD's. The Board briefly debated that the cost increase may not be enough; however, it was determined that this was an issue best decided by Mr. Auger.

3. Questions

Mr. Jaenicke then asked Board members for questions and or comments. There were several questions about future competition, industry mergers and the FCC's anticipated ruling on Net neutrality and the impact on the Company. After discussion on these issues concluded, Mr. Jaenicke conveyed the Board's gratitude to Mr. Auger and the MI-Connection employees for their hard work and contributions towards a good quarter and the Company's continued progress.

7. Adjournment

Having no other business, Mr. Brice made a motion to adjourn; it was seconded by Mr. Auger and passed unanimously. The meeting was adjourned at approximately 7:20 PM.