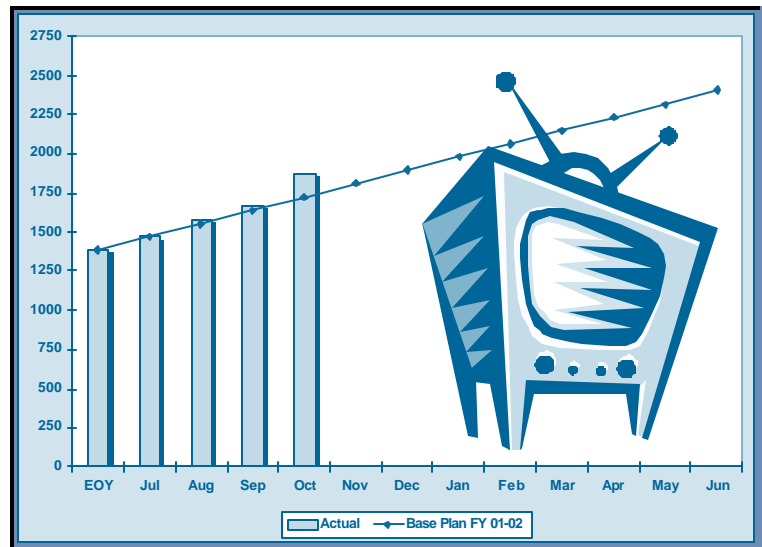


# afn QUARTERLY REPORT

2001-2002  
FIRST QUARTER  
REPORT

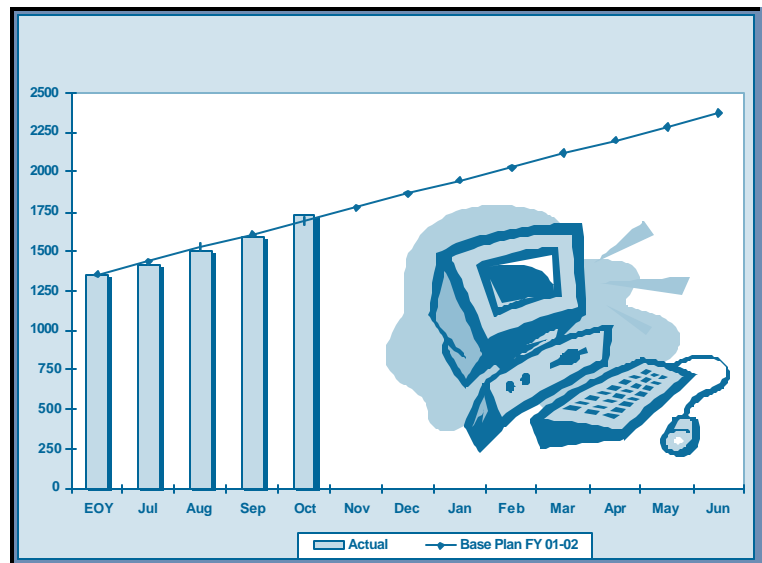
## Active Cable TV Connections

**AFN Cable** connections in the business plan are projected to be 2,404 by July 2002. As of October 31, 2001, there are 1,895 connections, which means AFN needs 539 new net customers to meet this target. AFN has been averaging over 100 net connections per month over the last quarter and needs only 77 net connections per month to meet the target.



## Active Residential Cable Modem Customers

**AFN Residential Cable Modem Service** had been charting slightly below projections, but has shown a steady increase as more neighborhoods become serviceable and as the reputation of the system's reliability grows. As of October 31, 2001, AFN had 1,732 active residential cable modem accounts and the target for July 2002, is 2,373 residential accounts. This means AFN needs 641 new accounts or 92 per month to meet this goal. Additionally, the plan projects 60 business cable modems by July, and AFN currently has 45.

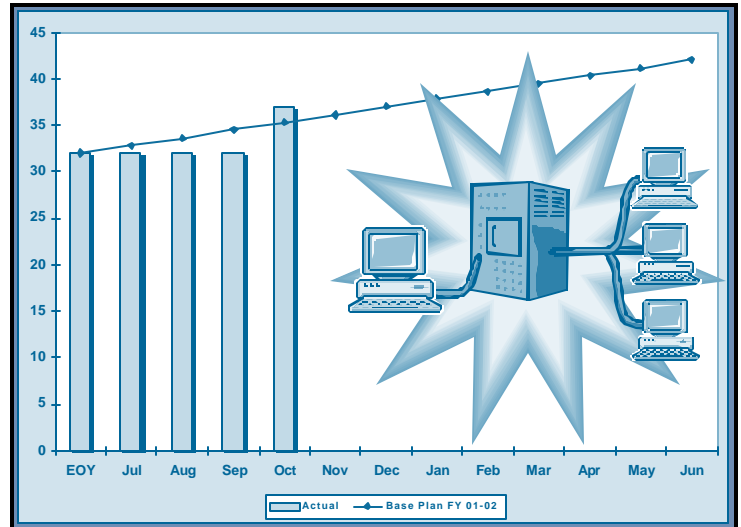


ashland fiber network

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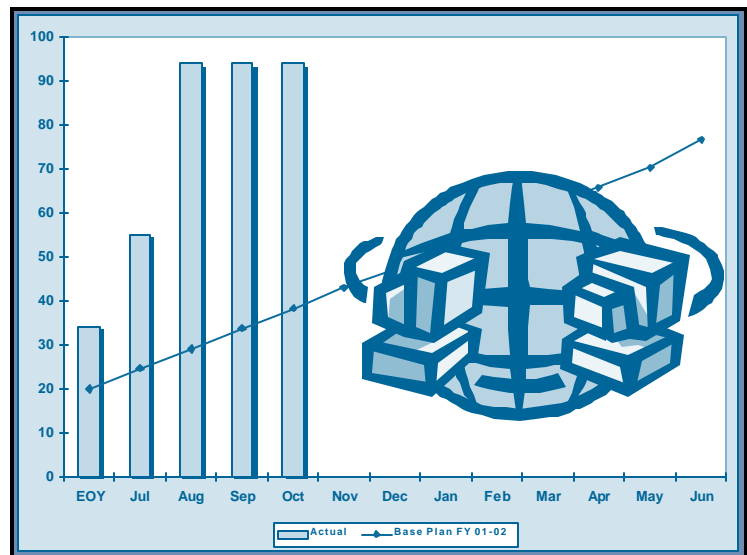
**AFN High Speed Data** accounts in the Business Plan are projected to be 42 data equivalents by July 2002. At the end of October, AFN had 37 data equivalents. It should be noted that 5 additional equivalents have signed up in November, and these will be included in the next Quarterly Report.

## Active High Speed Data Equivalents



**AFN Bulk Service Contracts** (hotels and motels) are projected by the plan to be at 75 equivalents by July 2002. With seven months remaining to acquire new customers, AFN is currently at 93 bulk service equivalents, which already exceeds the July target.

## Active Bulk Service Equivalents

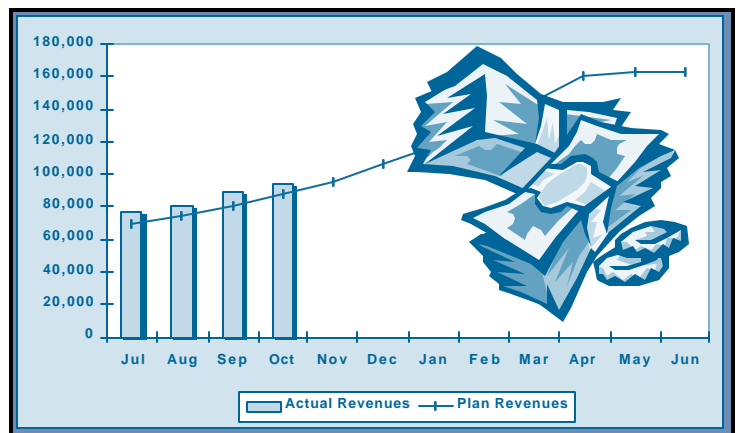


# afn QUARTERLY REPORT

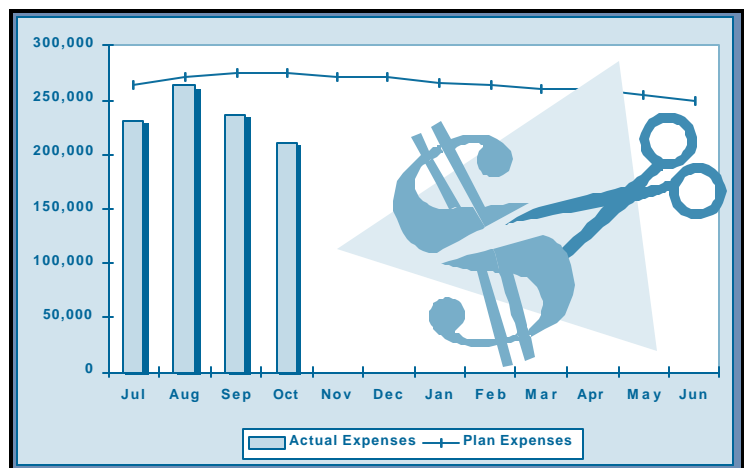
## Business Plan Revenues and expenses.

This graphic presents estimated **monthly revenues** totaling to the annual amount included in the base plan. The projected revenue potential for each month is compared to actual revenues posted. The projection reflects growth in revenue potential related to increases in "passings" and connections due to continued expansion of the system. A leveling of income is anticipated in the last quarter when potential customers tend to focus more on outside activities. AFN has kept pace with projected revenue growth through the first quarter.

Actual AFN to Projected Monthly Revenues



AFN Actual to Projected Monthly Expenses



**Actual expenses** (excluding capital outlay and other capitalized costs) are slightly below the projected monthly expenses, which were extrapolated from the annual amount, projected in the plan. The rise and fall of the line is consistent with anticipated monthly expenses related to projected operational activities. The reduction in expenses in last quarter relates to the potential for diminished activities during the summer months.



# *afn* QUARTERLY REPORT

## ***Construction Update***

The Ashland Fiber Network's construction build out is now focused solely on the few underground areas remaining in the City. Since July there has been one full time Hunter crew and three AFN laborers working on the underground construction. From July through October a total of 16,217 feet of underground plant was completed and services made available in these areas. There are three large subdivisions remaining to be constructed as the next priority. There are also 14 smaller areas that have been identified and work will be completed there next. In addition, there is also another list of much smaller areas that comprise the final construction necessary to complete the build out. The last part of the construction is clearly the most difficult, time consuming and expensive to complete. At the end of October AFN was available to about 85% of all Ashland citizens and with completion of the three large subdivisions service should be available to about 90% of Ashland.

## ***Competition***

The competition for Cable TV services in Ashland is extremely fierce. Charter, AFN's competitor is a national Multi-System Operator ("MSO") with over 7 million subscribers. Two years ago Charter was buying up systems paying as high as \$4,000 per subscriber. Needless to say Charter does not want to lose any subscribers to AFN and has focused many resources in Ashland.

Recently Charter has used 14 Direct Sales Contractors to combat AFN's efforts. These contractors have been able to provide numerous "transactional incentives" to our residents.

In spite of this "local" vs. "national" competition here in Ashland, AFN has been very successful in acquiring and retaining subscribers to both cable TV and High Speed Internet services. Equally as important, AFN has had a disconnect or "churn" rate below that of the electric service. This means that approximately 15% of AFN subscribers disconnect due to moving, financial reasons, and/or aggressive competitive tactics. For comparison purposes it should be noted that the electric disconnect rate is higher and electric is a non-competitive, necessity service, further magnifying AFN's retention success.



## **Competitive Analysis**

There is no doubt that competition is great in Ashland for cable TV and residential internet customers. On a daily basis, newly constructed AFN competes with a mature company that has a large staff, established programs and financial resources beyond the city. However, AFN has advantages of its own that provide daily success. Some of these are:

- **AFN** has local service and a walk-in Customer Service Counter, while Charter moved their Call Center out of the area
- **AFN** has a new Director with local roots, Charter is a national corporation and has a new regional System General Manager from out of the area
- **AFN** is owned and controlled by the people of Ashland, Charter has a new corporate CEO with limited cable experience
- **AFN** programming is determined by a citizen committee, while Charter makes programming decisions at a corporate level.
- **AFN** configures modems locally, Charter temporarily stopped configuring @Home modems
- **AFN** has 9 Certified ISP's ready to sell, Charter's @Home is having corporate financial problems
- **AFN** uses real customer testimonials in advertising, Charter is now using meaningless celebrity endorsement ads



# afn QUARTERLY REPORT

October, 2001

## AFN Plan Comparison

ASSUMPTION	BUDGET	BASE
	04/05/2001	10/21/2001
<b>Financial</b>		
Positive Net Income		
First Plan Year	Year 6	Year 9
Fiscal Year	2003-2004	2006-2007
10 Year Cumulative Gain/(Loss)	\$ 3,806,606	\$ (6,985,671)
15 Year Cumulative Gain/(Loss)	N/A	\$ 1,133,810
Advertising Revenue - Total		
Years 1 - 10	\$ 998,460	\$ 293,407
Years 1 - 15	N/A	\$ 738,424
Telephony Revenue - Total		
Years 1 - 10	\$ 507,821	N/A
Years 1 - 15	N/A	N/A
Peak Internal Borrowing		
Plan Year	\$ 4,900,000	\$ 8,900,000
Fiscal Year	Year 5 2002-2003	Year 9 2006-2007
<b>Operational</b>		
Cable Rate Increases - Annual %	3.50%	3.00%
Frequency	Each year	Each year
Starting Plan Year	Year 3	Year 5
Fiscal Year	2000-2001	2002-2003
Cable Market Share		
Year 5	40%	30%
Year 10	40%	30%
Year 15	N/A	30%
Cable/Modem Monthly Rate Increases	0.00%	\$2/Account
Frequency	N/A	Every other year
Starting Plan Year	N/A	Year 4
Fiscal Year	N/A	2001-2002
Include Franchise Fee	N/A	2001-2002
ISP - Residential Market Share		
Year 5	52%	33%
Year 10	52%	33%
Year 15	N/A	33%

The detailed proforma plans used for this comparison are available upon request.



ashland fiber network