

Financial Qualifications

I. SCOPE OF REVIEW

We have reviewed selected financial information provided by MetroCast Communications of Mississippi, LLC, a Delaware limited liability company (“MetroCast”); and BCI Mississippi Broadband, LLC, an Ohio limited liability company and Block Communications, Inc., an Ohio corporation (collectively “Block”), in conjunction with MetroCast’s request for approval of the sale of certain assets to Block, which includes the system (the “System”) serving the City of Oxford, Mississippi (the “City”).

The financial information that was provided or available through other public sources and to which our review has been limited, consists solely of the following financial information (hereinafter referred to collectively as the “Financial Statements”):

1. FCC Form 394 “Application for Franchise Authority Consent to Assignment or Transfer of Control of Cable Television Franchise” dated July 10, 2014 provided by MetroCast and Block, along with such other Exhibits as provided therewith (the “Application”);
2. The audited financial statements of Block Communications, Inc. and its subsidiaries as of December 31, 2013, 2012 and 2011, including Consolidated Balance Sheets as of December 31, 2013 and 2012; Consolidated Statements of Operations, Comprehensive Income and Cash Flows for the years ended December 31, 2013, 2012 and 2011; and the Independent Auditors’ Report of Ernst & Young, LLP dated March 26, 2014; all of the foregoing having been supplied on a confidential basis for review by the City’s consultants;
3. Asset Purchase Agreement by and among Harron Communications, L.P.; BCI Mississippi Broadband, LLC; Block Communications, Inc.; and MetroCast Communications of Mississippi, LLC dated July 1, 2014 (the “Purchase Agreement”);
4. Debt Commitment Letter to Block Communications, Inc. dated July 1, 2014 from certain nationally recognized large financial institutions providing for that certain Term Loan Facility to be used by Block to complete the Transaction (as defined herein); also supplied to the City’s consultants on a confidential basis;
5. Other information as provided by Mr. Christopher C. Cinnamon, Esq., legal counsel for MetroCast Communications of Mississippi, LLC, relating to the transfer; and
6. Such other information as we found publicly available.

Our procedure is limited to providing a summary of our analysis of the Financial Statements in order to facilitate the City's assessment of the financial capabilities of Block to obtain, maintain and operate the System in the City.

II. OVERVIEW OF TRANSACTION

MetroCast and Block entered into an Asset Purchase Agreement that provides for Block's acquisition of certain of MetroCast's assets including the System that serves the City (the "Transaction").¹ The Purchase Agreement provides for the payment of the purchase price in cash at closing subject to an escrow (that appears to be customary and standard in transactions of this type) and the assumption of certain liabilities.² The purchase price appears to be based upon Equivalent Basic Subscribers and/or other criteria with certain adjustments for the acquired assets as defined in the Purchase Agreement.³ According to published reports, the Transaction covers approximately 45,000 subscribers and has a base purchase price of \$200 million.⁴ We have not independently verified these amounts. According to the published reports, closing is expected to occur in the fourth quarter of 2014 after certain conditions as set forth in the Purchase Agreement have been achieved.⁵

Block has obtained financing for the Transaction through the new term loan facility.⁶ Block has provided us with a copy of its confidential debt commitment letter that provides for its lenders' funding commitments. Based upon the purchase price as stated above, the term loan facility is sufficient to cover Block's purchase price under the Purchase Agreement.

III. OVERVIEW OF BLOCK

BCI Mississippi Broadband, LLC is an Ohio limited liability company ("BCI") that was formed on June 26, 2014.⁷ BCI is a wholly owned subsidiary of Block Communications, Inc., an Ohio corporation ("BC").⁸ BC is a privately held diversified media company with operations in cable television, commercial telecommunications, newspaper publishing and television broadcasting.⁹ BC was founded in 1900.¹⁰ BC owns and operates Buckeye CableSystem, its cable system

¹ Asset Purchase Agreement by and among Harron Communications, L.P.; BCI Mississippi Broadband, LLC; Block Communications, Inc.; and MetroCast Communications of Mississippi, LLC dated July 1, 2014 (the "Purchase Agreement") at p. 13.

² *Id.* at pp. 13-16.

³ *Id.* at pp. 14-15.

⁴ Pittsburgh Post-Gazette July 8, 2014 Article entitled "BCI acquires rural Cable System in Mississippi" and Moody's Investor Services - Global Credit Research dated July 9, 2014 "Moody's says Block's acquisition of MetroCast and LSI has no immediate impact on credit rating" ("Moody's Report").

⁵ Moody's Report and Purchase Agreement at pp. 16-17.

⁶ Debt Commitment Letter to Block Communications, Inc. dated July 1, 2014 from certain nationally recognized financial institutions (the institutions names have been omitted due to Block's request for confidentiality) providing for a commitment for a new Term Loan Facility ("Commitment").

⁷ FCC Form 394 "Application for Franchise Authority Consent to Assignment or Transfer of Control of Cable Television Franchise" dated July 10, 2014 provided by MetroCast and Block, along with such other Exhibits as provided therewith (the "Application").

⁸ Application at Exhibit 4.

⁹ Block Communications, Inc. July 7, 2014 Press Release ("Press Release").

¹⁰ Moody's Report.

serving Toledo and Erie County, Ohio, and communities in Southeast Michigan, and Buckeye Telesystem, its facilities-based commercial telecommunications business serving commercial customers primarily in Northwest Ohio and Southeast Michigan.¹¹ In addition, BC publishes two daily metropolitan newspapers, the *Pittsburgh Post-Gazette* in Pittsburgh, Pennsylvania, and *The Blade* in Toledo, Ohio, each of which is the dominant newspaper publication in its market.¹² BC also owns and operates television broadcast stations in Louisville, Kentucky, Decatur, Illinois; Lima, Ohio; and Boise, Idaho.¹³ Block's cable system provides services to approximately 130,000 subscribers in the Ohio and Michigan region.¹⁴ Block is a privately owned company whose ownership interests are held by the Block Family.¹⁵

Block operates in a competitive environment and the financial performance of cable television operators, like Block, is subject to many factors, including, but not limited to, the general business conditions, technology advancements, employment issues, interest rate fluctuations, and customer preferences, as well as competition from multiple sources, which provide and distribute programming, information, news, entertainment and other telecommunication services. Each of these factors could have a significant financial impact on Block and BCI's ability to acquire and continue to operate the System. The cable business is inherently capital intensive, requiring capital for the construction and maintenance of its communications systems.

IV. FINDINGS

Since BCI is a newly formed entity without current operations, we have analyzed its parent entity's (BC's) present financial condition as of December 31, 2013 in providing the information in this Section. We note that although Block did not provide us with projected balance sheets, income statements or capital outlay/expenditures for the City's System that we commonly use to evaluate future cash flow in a review, Block did provide us with its debt commitment letter that has sufficient committed debt to fund the acquisition and initial operations of the System.

Due to the confidential nature of the financial information included with the Application and BC's specific request to maintain its confidentiality; we have not provided specific numeric references in the information below.

1. **Analysis of Block's Financial Statements.** Neither federal law nor FCC regulations provide franchising authorities with any guidance concerning the evaluation of the financial qualifications of an applicant for a cable franchise. In certain circumstances, it is appropriate to consider the performance of an applicant based on the applicant's historical performance in relation to recognized industry standards. Given the fact that BCI does not have any historical financial information, but that BC has operated over 100 years, such statistical information with respect to BC's operations may provide some insight with respect to the Application.

¹¹ Press Release.

¹² *Id.*

¹³ *Id.*

¹⁴ Moody's Report.

¹⁵ Application at Exhibit 4.

2. **Specific Financial Statement Data and Analysis.**

- (a) **Assets.** As of December 31, 2013 and 2012, BC had positive working capital.¹⁶ Working capital, which is the excess of current assets over current liabilities, is a short-term analytical tool used to assess the ability of a particular entity to meet its current financial obligations in the ordinary course of business. BC's current ratio (current assets divided by current liabilities) as of December 31, 2013 is greater than 1:1, which exceeds the generally recognized standard of 1:1 for a sustainable business operation.¹⁷ Based upon BC's December 31, 2013 audited balance sheet, BC does not have sufficient cash and investments on hand to fund the purchase of the System.¹⁸ BCI will be required to obtain financing to (x) purchase the System, (y) operate the System, and (z) maintain its operations. Evidence of such financing has been provided to us on a confidential basis.
- (b) **Liabilities and Net Equity.** BC had significant long-term debt and other long-term obligations as of December 31, 2013 and 2012.¹⁹ In addition, according to published reports, BC will be making other acquisitions in 2014 that will require, in total, about \$250 million of new funding.²⁰ Moody's Investor Services states that the new acquisitions will not result in an immediate decrease in Block's credit rating.²¹ BC provided us with its confidential debt commitment letter for a new term loan facility that will provide funding for the Transaction.²² BC has obtained financing to cover its operating expenses in the past.²³ BC's long-term debt does not mature for more than five (5) years.²⁴ In addition to the new term loan facility, BC obtained a revolving credit facility as part of a recent refinancing that BC may use to fund its other acquisitions and ongoing operations.
- (c) **Income and Expense.** BC generated net income from operations in the years ending December 31, 2011, 2012 and 2013.²⁵ Based upon the provided financial statements, BC had significant interest expense in 2011, 2012 and 2013.²⁶ In 2013, BC's operational cash flow covered its debt

¹⁶ Application at Exhibit 5, at pp. 2-3.

¹⁷ *Id.*

¹⁸ *Id.*

¹⁹ *Id.* at p. 3.

²⁰ *Moody's Report.*

²¹ *Id.*

²² Commitment.

²³ *Id.*

²⁴ *Id.* at p. 25.

²⁵ *Id.* at p. 4.

²⁶ *Id.*

service obligations.²⁷ The acquisition of the System will increase BC's debt load and interest expense.

V. SUMMARY

Using the FCC Form 394 to establish an absolute minimum standard of financial qualifications that a proposed applicant must demonstrate in order to be qualified as the successor operator of the System, BCI has the burden of demonstrating to the City's satisfaction that BCI has "sufficient net liquid assets on hand or available from committed resources" to consummate the Purchase Agreement and operate the System acquired thereunder, together with its existing operations, for three (3) months. This minimum standard is not easy to apply to BCI, a newly formed entity without historical operations. However, we have reviewed BCI's parent entity's financial information in conjunction with this review and in light of its parent-subsidary relationship.

Based solely on the Financial Statements we reviewed, BCI's parent entity, BC, has sufficient commitments to consummate the Transaction and operate the System. In addition, BC has demonstrated in the past that it has had sufficient net liquid assets on hand from operations or debt to fund its operations. Accordingly, if BC provides BCI with funding for the Transaction and guaranties BCI's obligations under the Franchise, based on the foregoing and limited strictly to the financial information analyzed in conducting this review, we do not believe that Metrocast's request for transfer of the System can reasonably be denied based solely on a lack of financial qualifications of Block if the financing committed under the debt commitment letter, confidentially provided to us, is obtained (the failure to obtain the debt committed to Block would certainly result in the termination of the Purchase Agreement and proposed System transfer).

If the City approves the transfer, subject to the limitations noted herein, we recommend that in order to ensure BCI's compliance with its obligations to operate the System and in light of the parent-subsidary relationship between BCI and BC, that the City condition any approval of the sale of the System on the delivery of a guaranty from BC in a form reasonably acceptable to the City, pursuant to which BC will guaranty the payment and performance of BCI's obligations to the City pursuant to the franchise.

The sufficiency of the procedures used in making an assessment of BCI's financial qualifications and capability to become the successor operator of the System is solely the responsibility of the City. Consequently, we make no representation regarding the sufficiency of the procedures used either for the purpose for which this analysis of financial capabilities and qualifications was requested or for any other purpose.

In the event the City elects to approve the transfer of the franchise, the assessment of BCI's financial qualifications should not be construed in any way to constitute an opinion as to the financial capability or stability of BCI or its parent entity to (i) operate its existing cable franchise operations or other operations, (ii) to operate the System, or (iii) successfully integrate the transferred System into its current base.

²⁷ *Id.*

A RESOLUTION APPROVING THE ASSIGNMENT OF A
CABLE TELEVISION FRANCHISE TO BCI MISSISSIPPI BROADBAND, LLC

WHEREAS, MetroCast Communications of Mississippi, LLC (“**Grantee**”) owns, operates, and maintains a cable television system (“**System**”) serving the City of Oxford, Mississippi (“**City**”) pursuant to the cable television franchise held by Grantee (the “**Franchise**”); and

WHEREAS, Grantee entered into an Asset Purchase Agreement dated July 1, 2014 (the “**Agreement**”) with BCI Mississippi Broadband, LLC (“**BCI Mississippi**”) and other parties in which, among other things, the Grantee proposed to sell and assign to BCI Mississippi certain of the assets, including the Franchise, held by Grantee in the operation of the System (the “**Transaction**”); and

WHEREAS, On or about July 11, 2014, Grantee filed with the City FCC Form 394-Application for Franchise Authority Consent to Assignment or Transfer of Control of Cable Television Franchise; and

WHEREAS, Grantee and BCI Mississippi reasonably anticipate the Transaction to close during the fourth quarter of 2014; and

WHEREAS, BCI Mississippi was formed on June 26, 2014 and is a wholly owned subsidiary of Block Communications, Inc., an Ohio corporation founded in 1900 (“**BC**”); and

WHEREAS, BC’s Officers and senior managers have significant operational experience and expertise in the cable television business and BCI Mississippi will rely upon BC’s experience and expertise in the cable industry; and

WHEREAS, BC owns and operates Buckeye CableSystem, serving subscribers in the Ohio and Michigan region; and

WHEREAS, City is willing to consent to the transfer of the Franchise to BCI Mississippi effective upon the satisfaction of all terms and conditions set forth herein.

NOW, THEREFORE, BE IT RESOLVED, that in consideration of the foregoing and the promises set forth herein, City resolves as follows:

1. Each of the foregoing recitals is hereby incorporated by reference.
2. The City confirms that the Franchise was properly granted or assigned to Grantee and is in full force and effect.
3. Upon the satisfaction of the terms and conditions specified in paragraph 5 below, the City consents to and approves the pledge or grant of a security interest to any

lender(s) in BCI Mississippi's assets, including, but not limited to, the Franchise, or of interests in BCI Mississippi, for purposes of securing any indebtedness.

4. The City releases Grantee, effective upon the closing date of the Transaction ("Closing Date"), from all obligations and liabilities under the Franchise relating to the period after the Closing Date; and BCI Mississippi shall be responsible for any obligations and liabilities under the Franchise relating to the period on and after the Closing Date.
5. Effective upon the date the following conditions are satisfied, the City consents to and approves of the assignment of the Franchise to BCI Mississippi:
 - a. Within ten (10) days after the adoption of this Resolution by the City, BCI Mississippi shall fully reimburse the City for all the City's reasonable costs and expenses in connection with the City's review of the proposed Transaction, including without limitation, all costs incurred by the City for experts and attorneys retained by City to assist in the review as well as any notice and publication costs ("Reimbursement"). The Reimbursement shall not be deemed to be "Franchise Fees" within the meaning of Section 622 of the Cable Act (47 U.S.C. §542), nor shall the Reimbursement be deemed to be (i) "payments in kind" or any involuntary payments chargeable against the franchise fees to be paid to the City by Grantee or BCI Mississippi pursuant to the Franchise. The Reimbursement shall be considered a requirement or charge incidental to the awarding or enforcing of the Franchise.
 - b. Within ten (10) days after adoption of this Resolution by the City, BCI Mississippi shall deliver to the City: 1) a signed acceptance of this Resolution in the form attached hereto as Exhibit A and incorporated by reference; and 2) a signed guaranty from Block Communications, Inc. in a form reasonably acceptable to the City and pursuant to which Block Communications, Inc. guarantees the payment and performance of BCI Mississippi's obligations pursuant to the Franchise.
6. In the event the Transaction contemplated by this Resolution is not completed for any reason, or in the event the conditions specified herein are not satisfied, the City's consent shall not be effective.

This Resolution shall take effect as provided herein and, continue and remain in effect, from and after the date of its passage, approval, and adoption.

A motion to approve the foregoing Resolution No. ____ was made by City Alderman _____ and duly seconded by Alderman _____.

The following City Aldermen voted in the affirmative:

The following City Aldermen voted in the negative:

Passed and adopted by the City of Oxford, Mississippi this ____ day of October 2014.

ATTEST:

CITY OF OXFORD, MISSISSIPPI

By: _____

By: _____

Its: _____

EXHIBIT A

ACCEPTANCE AGREEMENT

BCI Mississippi Broadband, LLC (“BCI Mississippi”) hereby acknowledges the City of Oxford, Mississippi Resolution No. _____ (“Resolution”) and hereby accepts each and every term, provision and recital of the Resolution and its attachments, and agrees that upon closing of the Transaction, BCI Mississippi shall be bound by the terms and provisions of the Franchise in accordance with the Resolution.

Dated: _____, 2014

BCI MISSISSIPPI BROADBAND, LLC

By: _____

Its: _____

SWORN TO BEFORE ME this

_____ day of _____, 2014

NOTARY PUBLIC

GUARANTY

THIS AGREEMENT is made this ____ day of _____, 2014 between Block Communications, Inc., an Ohio corporation (“Guarantor”), the City of Oxford, Mississippi (“Franchising Authority”), and BCI Mississippi Broadband, LLC, an Ohio limited liability company (“Company”).

RECITALS

WHEREAS, the Franchising Authority by action of its governing body on October _____, 2014 adopted Resolution No. _____ (“Resolution”) approving transfer of the cable television franchise (“Franchise”) from MetroCast Communications of Mississippi, LLC to the Company; and

WHEREAS, Guarantor is the direct parent of the Company; and

WHEREAS, the Resolution requires the Company to furnish a guaranty to ensure the faithful payment and performance by Company of the obligations under the Franchise; and

WHEREAS, the Guarantor desires to provide its unconditional guaranty that Company will fulfill its obligations and requirements under the Franchise.

AGREEMENT

NOW, THEREFORE, in consideration of the foregoing premises and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Guarantor hereby unconditionally guarantees Company’s due and punctual payment and performance of all of the debts, liabilities and obligations contained in the Franchise (“Indebtedness”).

This Agreement, unless terminated, substituted, or canceled, as provided herein, shall remain in full force and effect for the duration of the term of the Franchise and during any period in which the Company has outstanding obligations to the Franchising Authority, except as expressly provided otherwise in the Franchise.

Upon substitution of another Guarantor reasonably satisfactory to the Franchising Authority or upon transfer of the Franchise to another entity not under common control of Guarantor, this Agreement shall be terminated, substituted, or canceled by Guarantor upon thirty (30) days prior written notice from Guarantor to the Franchising Authority and the Company.

Such termination shall not affect liability incurred or accrued under this Agreement prior to the effective date of such termination or cancellation.

The Guarantor’s obligation to promptly and fully pay and discharge the Indebtedness shall not be contingent upon or delayed because of the Guarantor’s right, if any, to contribution, reimbursement, recourse or subrogation available to the Guarantor against the Company or any other person liable for payment of the Indebtedness or any collateral security therefor.

The Recitals are incorporated herein by reference.

The Guarantor will pay or reimburse the Franchising Authority for all reasonable costs and expenses (including reasonable attorneys' fees and legal expenses) incurred by the Franchising Authority in connection with the enforcement of this guaranty in any arbitration, litigation or bankruptcy or insolvency proceedings.

The Guarantor will not assert, plead or enforce against the Franchising Authority any defense of discharge in bankruptcy of the Company, statute of frauds, or unenforceability of this Guaranty which may be available to the Company.

Any notices given pursuant to this Agreement shall be addressed to the Guarantor and Company at 5566 Southwyck Blvd, Toledo, Ohio 43614, Attn: Vice President Business & Legal Affairs, with a copy to David Waterman, Esq., 1000 Jackson, Toledo, Ohio 43604 and to the Franchising Authority at 107 Courthouse Square, Oxford, Mississippi, 38655 Attn: Mayor.

IN WITNESS WHEREOF, the Company, Franchising Authority, and Guarantor have executed this Guaranty as of the day, month and year first above written.

GUARANTOR:

Block Communications, Inc.

By: _____

Its: _____

COMPANY:

BCI Mississippi Broadband, LLC

By: _____

Its: _____

FRANCHISING AUTHORITY:

City of Oxford, Mississippi

