



March 30, 2015

Mr. William A. Gaines
Director / CEO
Tacoma Public Utilities
3628 South 35th Street
Tacoma, WA 98409

Re: Proposed Public-Private Partnership to Enhance Competition in the Communications Services Market

Dear Mr. Gaines:

This letter will confirm WaveDivision Holdings, LLC's ("Wave") intent to enter into a proposed transaction by which Wave would partner with the City of Tacoma ("City") Department of Public Utilities ("Tacoma Public Utilities") to preserve and enhance the robust competitive communications services market environment envisioned by the leaders of the City and Tacoma Public Utilities and to do so in a financially-sustainable manner for the long term. In the proposed transaction, Wave would obtain the exclusive indefeasible right to use ("IRU") and operate the hybrid fiber coaxial system that today the Department of Public Utilities, Light Division ("Tacoma Power") d/b/a Click! Network ("Click!") operates to provide wholesale and retail cable TV and broadband products and services to residents and businesses in the City of Tacoma and in the other jurisdictions in which Click! is franchised to operate. In exchange Wave would commit to upgrade and improve the system, offer new and expanded cable TV, high-speed broadband internet and telephone services as well as new and expanded services to residents and businesses served by the system, and pay other financial consideration to Tacoma Public Utilities.

Wave is confident that its local market knowledge and competitive experience will ensure this partnership can succeed. Wave is a cable and broadband services company headquartered in Kirkland, Washington and provides advanced cable TV, high-speed broadband Internet and telephone services to over 435,000 residential and business customers in the communities, and surrounding suburbs, of the Seattle, Portland, San Francisco and Sacramento markets. Today, Wave is the largest provider of residential Gigabit Ethernet services in Washington state. Owned and operated by local industry leaders, Wave supports its customers with decades of cable know-how. Wave is the largest wireline competitor to Comcast on the west coast and has built the company on a very simple proposition: By providing high quality products and services coupled with exceptional customer service the business will thrive. More background information about Wave and its principal investors is set forth on Attachment B.

A non-binding term sheet outlining the key terms of the proposed transaction is set forth on Attachment A. Some highlights of the proposed transaction are set out below:

- Tacoma Public Utilities would retain title to the system and be compensated by Wave for its use through a combination of annual cash payments, capital expenditure commitments to upgrade and improve the system, and maintenance obligations. The baseline amount of the annual cash payments and capital expenditures commitments would be approximately \$140 million over the 40 year term of the IRU agreement prior to recurring annual CPI adjustments. Wave would maintain the whole system, including those fibers

retained by Tacoma Power for its utility operations. Wave has raised over \$1.2 billion in capital over the past two years and has had a 14-year relationship with its senior secured lender, Wells Fargo National Bank. Wave has immediate access to all the funds needed to finance the proposed transaction. Indefeasible rights of use or "IRUs" are commonly used in the telecommunications industry to convey all of the attributes of ownership and control, but without actual transfer of title. At the end of the term, full control of the upgraded and improved system would revert to Tacoma Public Utilities.

- Wave would honor Click!'s existing cable TV service plans and pricing for two years (subject to pass-throughs of programming rate increases Wave incurs from programming vendors capped at not more than 5% of current rates per year), as Wave rolls out its enhanced service offerings with more channels and improved programming features. Wave's residential cable TV products and services in the Seattle metro area consist of over 300 cable TV channels, with over 80 in high-definition, over 33,000 hours of video-on-demand services available for customer viewing, over 72 cable networks available on a TV Everywhere basis (programming available at any time and on any device). Wave would also offer plans for low income residents comparable to those currently offered by Click!.
- Wave would bring true high speed broadband services to Tacoma, including extending its Gigabit broadband service into commercial and residential buildings commencing during the six-month period for the transition of the operations of the system from Click! to Wave and rolled-out on an expedited basis. Wave would commit to uphold the key principles of "net neutrality".
- Wave would introduce Voice-Over Internet Protocol telephone services on the system during the transition period and offer "triple play" service packages to residents and businesses.
- Wave would commit to assume and maintain in effect the current arrangement for an Institutional Network for the City of Tacoma, and would either obtain approval to assume each of Click!'s franchise agreements or enter into its own franchise agreements to serve the same communities.
- Wave would also commit to promote competition with open wholesale access to network infrastructure at fair and reasonable prices, and on transparent and non-discriminatory terms, and to assume and maintain in effect the current wholesale master services agreements for IP transport and for third party commercial and retail sale of Internet access services. Wave has had a similar open access network wholesale broadband provider arrangement in place in its Port Angeles system for approximately 10 years.
- Wave expects to hire an initial staff of approximately 81 employees who would work out of Wave's newly established office in Tacoma or one of Wave's existing offices in Port Orchard and Kirkland. Wave would make a good faith commitment to interview all current employees of Click! who express an interest in potential employment and make offers of employment prior to the closing to such candidates who have the required skill sets and who meet Wave's hiring criteria. The terms and conditions of employment would be established by Wave.

Wave has obtained the necessary corporate approvals to undertake the proposed transaction outlined in this letter and the attached non-binding term sheet subject to completion of due diligence and negotiations of the definitive IRU and other transaction documents. Because we already have completed a significant portion of the needed financial diligence, we believe any follow-on due diligence efforts can be completed in a matter of weeks. Steve Weed, CEO, will personally lead Wave's diligence effort and will be assisted by Wayne Schattenkerk, CFO, Gary O'Malley, EVP and Jim Penney, EVP, along with outside counsel that have assisted Wave in several other acquisitions. Wave's ability to promptly and professionally conclude operational, financial, technical and legal due diligence without disrupting the day-to-day activities of the other party is well known in the cable and telecommunications industry. Because of our extensive track record of acquisitions and mergers, Wave is uniquely qualified to obtain speedy regulatory approvals, and we expect closing would take place approximately 15-30 days following the execution of mutually agreeable franchises authorizing Wave to provide cable and other services on the system.

Confidentiality. This letter of intent and Attachment A hereto constitute Confidential Information under, and are subject to, the terms of that certain Confidentiality and Non-Disclosure Agreement between the parties dated August 4, 2014; provided, however, Wave expressly acknowledges and agrees that this letter of intent and Attachment A hereto may be disclosed by the Director of Tacoma Public Utilities, when and as he deems necessary in his sole discretion, to members of the City of Tacoma Public Utility Board and of City Council in connection with the decision to execute this letter of intent and that such disclosure may include, as required by applicable law, discussion with said governing body members during one or more open public meetings; and provided further that Wave expressly acknowledges and agrees that the fully negotiated definitive agreements to be submitted for approval to the City of Tacoma Public Utilities Board and to the Tacoma City Council, and the terms thereof, would not constitute Confidential Information under, or be subject to, the terms of said Confidentiality and Non-Disclosure Agreement between the parties dated August 4, 2014 or any other confidentiality or non-disclosure obligation.

Responsibility for Costs. Each of Wave and Tacoma Public Utilities will be responsible for and bear all of its own costs and expenses incurred at any time in connection with pursuing or consummating the proposed transaction.

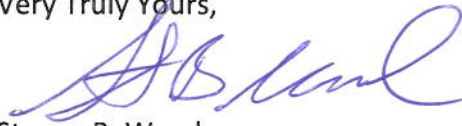
This letter of intent (including Attachment A) does not contain all of the material matters, terms and conditions necessary in order for the proposed transaction contemplated by this letter to be binding and (except with respect to Confidentiality and Responsibility for Costs described above,) is not intended to create and shall not be considered a binding legal obligation. This letter is intended solely as a basis to establish the material terms of the proposed transaction. The obligation to consummate the proposed transaction contemplated herein is expressly made contingent upon and subject to: (i) the negotiation of definitive agreements, the terms of which must be acceptable to each party, acting in its discretion; (ii) the approval of the definitive agreements by the City of Tacoma Public Utilities Board; (iii) the approval of the definitive agreements by the Tacoma City Council (acting in its proprietary capacity and not as a franchising authority); (iv) the execution of definitive agreements; and (v) the fulfillment or waiver of the closing conditions to be further specified in the definitive agreements. Either party may cease pursuit of the proposed transaction and the negotiation of the definitive agreements at any time and for any or no reason.

This letter of intent will remain open for your consideration for only 60 days. Absent a written confirmation by Wave extending such time period, Wave reserves the right to withdraw

from this letter of intent after 60 days without any liability whatsoever other than responsibility for its own costs.

Please sign as indicated below to signify Tacoma Public Utilities' concurrence with the intent of the terms proposed herein. On our receipt of a counter-signed copy, we will work with counsel to develop drafts of an IRU and all necessary related agreements reflecting the terms stated herein in order to facilitate the negotiation of definitive agreements. Wave understands that Tacoma Public Utilities management intends to seek approval by the Tacoma Public Utilities Board and the Tacoma City Council to execute this letter of intent, and further pursue the proposed transaction within the above-noted 60 day period.

Very Truly Yours,



Steven B. Weed
Chief Executive Officer

Agreed and accepted this ____ day of _____, 2015.

Tacoma Public Utilities

By: _____

Name: _____

Title: _____

wave

ATTACHMENT A

NON-BINDING TERM SHEET FOR PROPOSED TRANSACTION

1. Definitive Agreements for the IRU and the Purchase of the Related Assets. Wave would obtain an indefeasible right to use and operate (the "IRU") the hybrid fiber coaxial system that today Click! uses to provide wholesale and retail cable TV and broadband products and services to residents and businesses in the City of Tacoma and in the other jurisdictions in which Click! is franchised to operate, and a non-exclusive right to use any associated rights that are owned or controlled by Tacoma Power or Tacoma Public Utilities for current and future use for the same purpose (collectively the "System") for a term of 40 years (the "IRU Term"). Provided Wave has maintained compliance with the terms of the IRU, on the expiration of the IRU Term Wave shall have an option to renew the IRU for an additional period of 10 years (the "Extended IRU Term"). The System would not include: (i) fibers currently used by Tacoma Public Utilities for its utility operations, and (ii) fibers currently used for the City Institutional Network pursuant to Click!'s Institutional Network Services Agreement with the City (collectively the "Excluded Fibers"). Wave would acquire all other assets necessary or convenient to the provision of such products and services including without limitation all customer accounts, deposits, accounts receivable, vehicles, inventory of spare parts and equipment, credits, prepaid expenses, deferred charges, advance payments, prepaid items and the like, and material contracts, in each case related to the operation of the System and the provision of products and services (collectively, the "Related Assets") in accordance with the terms of an asset purchase agreement (the "APA"). Related Assets would not include the equipment comprising the current System headend, receivers, satellite dishes, and other personal property ("Excluded Assets"). The parties contemplate the APA and the IRU would be fully negotiated and the APA executed by Wave within 60 days following mutual execution of this letter of intent, with effectiveness subject to completion of disclosure schedules and due diligence satisfactory to Wave. The APA would be executed by Tacoma Public Utilities only upon obtaining required approvals for the definitive agreements by the City of Tacoma Public Utilities Board and by the Tacoma City Council. At the closing of the proposed transaction, the IRU would be executed by both Parties, the Related Assets would be conveyed to Wave, and Wave would assume such liabilities related to the System and Related Assets as have been mutually agreed. During the six-month post-closing transition period Wave would compensate Tacoma Public Utilities for any transition services, ongoing back-office support or other arrangements necessary to facilitate the continued operation of Click!'s business and the transfer of operations to Wave.

2. Financial Consideration. The consideration payable for the IRU and for the Related Assets would include the following:

- Approximately \$1 million in cash (depending on the quantity and value of the Related Assets at closing) for the Related Assets due at the closing of the proposed transaction;
- \$2 million in cash due at the beginning of year one of the IRU Term for the first year thereof;
- \$2 million in cash at the beginning of each subsequent year of the IRU Term and Extended IRU Term, if applicable (such amount would be adjusted annually for any increase in the CPI beginning with the year two payment and such CPI-based increases will continue during the Extended IRU Term);

- \$1.5 million Capital Expenditures Commitment each year during the IRU Term and the Extended IRU Term, if applicable (such amount would be adjusted annually for any increase in the CPI beginning with year two of the IRU Term and such CPI-based increases will continue during the Extended IRU Term), as further described in Section 3 below; and
- Maintenance Commitment described in Section 4 below.

3. **Capital Expenditures Commitment.** Wave would immediately begin investing the capital needed to accomplish System upgrades and improvements, including the interconnection to Wave's master 10 Gbps backbone network, necessary to offer on the System all products and services currently offered by Wave in its surrounding markets. Wave's residential products and services in the Seattle metro area consist of over 300 cable TV channels, with over 80 in high-definition, over 33,000 hours of video-on-demand services available for customer viewing, over 72 cable networks available on a TV Everywhere basis (programming available at any time and on any device), Internet access services with speeds up to 1 Gbps, and telephone service, which would be offered on the System for the first time as a result of these upgrades.

Wave (through its CondoInternet division) would commence efforts to extend its Gigabit service into commercial and residential buildings during the post-closing transition period and continue the roll out on an expedited basis. In addition, during the IRU Term Wave would make continuous financial investments in the System to maintain a state-of-the-art distribution network carrying all products and services, and with service quality standards, commensurate with Wave's other Seattle metro area network facilities. All responsibility for the capital expenditures for the provision of the products and services to System subscribers would be borne by Wave during the IRU Term.

In support of System upgrades and other operations-related improvements, Wave would commit to make \$1.5 million in capital expenditures on the physical assets of the System during the first year of the IRU Term (such amount would be adjusted annually for any increase in the CPI beginning with year two of the IRU Term and such CPI-based increases will continue during the Extended IRU Term) ("Capital Expenditures Commitment"). Capital expenditures on the physical assets of the System would include, but not necessarily be limited to, expenditures on fiber-to-the-home (FTTH), node splits, technical upgrades and expansions of the System to serve new subdivisions, multi-dwelling units complexes, commercial complexes, and future franchise areas, investments to maintain the System's MEF Certifications, public WiFi hotspots, small cells, and core routers (CMTS). These improvements would be physical assets of the System and owned by Tacoma Public Utilities subject to Wave's IRU. Expenditures on physical assets that do not become part of the System (such as customer premises equipment (CPE), cloud based services, web based services, or a soft switch located elsewhere) would not be credited toward the Capital Expenditures Commitment. Compliance with the Capital Expenditures Commitment would be measured annually and tracked on a cumulative basis. Wave would describe the capital expenditures actually made in each year of the IRU in an annual report to Tacoma Public Utilities. If Wave exceeds its Capital Expenditures Commitment in a given year, Wave would get credit in immediately future years for those expenditures in excess of its annual commitment. If Wave does not meet its Capital Expenditures Commitment in a given year through current year expenditures, credits from prior years or a combination, Wave would meet its Capital Expenditures Commitment for that year by remitting the shortfall in cash to Tacoma Public Utilities at the same time as Wave remits its next annual cash payment for the IRU. Tacoma Public Utilities would have the right to audit these expenditures.

4. Maintenance Commitment. All of the operating expenses of the operation of the System, including the payment of franchise fees to the franchisors, and the provision of the products and services to System subscribers would be borne by Wave during the IRU Term (except electrical power provided by Tacoma Power and consumed in the operation of the System the cost of which is included in the annual IRU payment). Wave would be responsible for maintaining the System and Excluded Fibers located in the same cable bundle as System fibers in accordance with a mutually acceptable Service Level Agreement. Wave would assume and perform a maintenance and support agreement for the approximate 18,000 wired gateway meters utilized by Tacoma Public Utilities to collect electric service usage data via the System until a substitute meter reading network is deployed by Tacoma Public Utilities.
5. Employees. Wave expects to operate the System with an initial staff of approximately 81 employees who would work out of Wave's newly established office in Tacoma or one of Wave's existing offices in Port Orchard and Kirkland. Wave would make a good faith commitment to interview current employees of Click! who express an interest in potential employment, and would anticipate making offers of employment prior to the closing to those employees who have the required skill sets and who meet Wave's hiring criteria. The terms and conditions of employment would be established by Wave. Certain of the technical employees hired by Wave would be based in Wave's nearby operations and the customer service employees hired by Wave would be based in Wave's central call center in Kirkland.
6. Existing Cable TV Services and Rates. Wave would commit to maintain Click!'s current cable TV service packages on a grandfathered basis for two years, including maintaining Click!'s channel line-up and current rates for a period of two years (subject to pass-throughs of programming rate increases Wave incurs from programming vendors capped at not more than 5% of current rates per year). Wave will establish low income rates consistent with those currently offered by Click!.
7. Franchise Agreements and Institutional Network Services Agreement. Wave acknowledges that the System currently serves businesses and residents pursuant to the Cable Agreement between Click! and the City dated December 21, 2009 and the franchise agreements between Click! and each of the City of Fife, the City of Fircrest, the City of Lakewood, the City of University Place and Pierce County (collectively, "Franchise Agreements"). Prior to the closing of the proposed transaction, Wave would either obtain approval to assume each of these Franchise Agreements or enter into its own franchise agreements to serve these jurisdictions. Wave also would commit to assume and maintain in effect the current arrangement for an Institutional Network pursuant to the Cable Agreement and the Institutional Network Services Agreement between the City and Click! dated December 21, 2009. For the avoidance of doubt, the definitive agreements to be negotiated between Wave and Tacoma Public Utilities for the proposed transaction are described in Section 1 and would include the APA, the IRU, and all necessary related agreements reflecting the terms stated herein, but would not include the Franchise Agreements and the Institutional Network Services Agreement with the City.
8. Net Neutrality, Open Access and Assignment of ISP Advantage Agreements, Master Services Agreements, and Master Communications Services Agreements. Wave would commit to uphold the key principles of "net neutrality" -- transparency, no blocking, no throttling, no paid prioritization, and no unreasonable interference with access to or distribution of content. Wave would also commit to promote competition with open wholesale access to network infrastructure at fair and reasonable prices, and on transparent and non-discriminatory terms (i.e., as an open access network), and to assume and maintain

in effect the current wholesale master services agreements for fiber transport and for third party commercial and retail sale of Internet access services.

9. Programming Contracts. Wave would operate the System under its existing (and future) retransmission consent agreements, cable programming carriage agreements and other agreements necessary or convenient to the operation of the System and provision of products and services. Wave is familiar with Click!'s current channel lineup and would not assume Click!'s retransmission consent agreements and programming carriage agreements to the extent that Wave already carries the same programming under its existing contracts.

10. Additional Capacity for Tacoma Public Utilities. As part of the consideration for the IRU, and at no cost to Tacoma Public Utilities, Wave will, throughout the IRU Term and the Extended IRU Term, provision services in the System as needed by Tacoma Public Utilities to meet its operational needs. These services would be provisioned in accordance with operational, security and regulatory compliance requirements specified by Tacoma Public Utilities. Further, should Tacoma Public Utilities determine that it requires dark fiber to meet certain operational needs, it would have the right to re-designate unused dark fibers on the System as Excluded Fibers, subject to prior notification of Wave as to the quantity and routes, and confirmation by Wave that the fibers are not imminently required by the System. If inadequate numbers of unused dark fibers are available to meet Tacoma Public Utilities' request, Wave would work in good faith with Tacoma Public Utilities to develop an acceptable alternate solution.

11. Existing System Nodes and Equipment Space in the Existing Headend Building. As part of the IRU, Tacoma Power would allow Wave to maintain the existing System nodes at their present locations during the IRU Term. Wave would interconnect its fiber optic backbone to the System at the System's current headend location, thus converting the headend to a node. Tacoma Power would provide Wave with colocation space for such interconnection and for Wave's related equipment as part of the IRU during the IRU Term.

12. Closing Conditions. Closing of the proposed transaction would be conditioned, among other typical conditions, on regulatory consents and approvals and any third-party consents relating to designated material contracts to be assumed by Wave (including but not limited to the agreements described in Section 7).

ATTACHMENT B

ABOUT WAVEDIVISION HOLDINGS, LLC

Wave Division Holdings. WaveDivision Holdings, LLC is a cable and broadband services company providing advanced cable TV, true high-speed Internet and Phone services to over 427,000 residential and business customers in the communities, and surrounding suburbs, of the Seattle, Portland, San Francisco and Sacramento markets. Wave is headquartered in Kirkland, Washington. Owned and operated by local industry leaders, Wave supports its customers with decades of cable know-how. Serving customers under two retail brand names; Wave Broadband in the Seattle, Portland and Sacramento DMAs, and Astound in the San Francisco DMA - the company's mission is to provide all customers with the latest technologies and upgrades. Wave was recognized by CableFAX Magazine with the prestigious Independent Cable Operator of the Year award in 2012. Wave debuted on PC Magazine's 2012 list of Top 10 Fastest ISPs in the nation and was named "Fastest ISP in the Northwest" in PC Magazine's 2014 list. In addition, another nationally recognized consumer magazine recognized Wave as the second best provider of Internet access services (with a survey score only two points behind the leader) and the fourth best provider of cable television services (with a survey score only four points behind the leader). Wave's Business Solutions division delivers redundant fiber rings that serve local governments and businesses of all sizes, including well-known Fortune 100 companies and brands, with major fiber hubs in West Coast markets. For more information about Wave, please visit www.wavebroadband.com or www.astound.net.

Below are brief descriptions of Wave's private equity partners Oak Hill Capital Partners and GI Partners:

Oak Hill Capital Partners. Oak Hill Capital Partners is a private equity firm with committed capital from leading entrepreneurs, endowments, foundations, corporations, pension funds and global financial institutions. The funds managed by Oak Hill Capital Partners were formed with over \$8 billion of initial capital commitments. For over 25 years, the professionals at Oak Hill Capital Partners and its predecessors have invested in more than 70 significant private equity transactions. Oak Hill Capital Partners applies a theme-based approach to investing across six key industry sectors (Basic Industries, Business and Financial Services, Consumer, Retail and Distribution, Healthcare, Media and Telecommunications, and Technology). The firm has a long history of investment in the communications infrastructure and media sectors. The professionals at Oak Hill Capital Partners and its predecessors have invested approximately \$2.2 billion in telecommunications, media and technology companies. Oak Hill Capital Partners is one of several independently managed firms (which may work together from time to time) that operate with the Oak Hill name and invest in various asset classes, including equity and debt securities. Oak Hill Capital Partners' current private equity investment fund closed in 2009 with \$3.8 billion of initial capital commitments.

GI Partners. GI Partners was founded in 2001 and is a leading private equity firm with approximately \$8.4 billion of capital under management from leading institutional investors in the United States, Europe, Asia and the Middle East. The firm primarily invests in asset-intensive, middle-market businesses and portfolios of assets located in North America. Key sectors of focus include asset-backed communications and Internet infrastructure, specialist healthcare, asset-backed leisure and retail, financial services and commercial real estate. Across all of its investments, GI Partners seeks to identify operating companies with market

leading positions and establish a partnership orientation with management to drive value creation and growth. GI Partners is currently investing its third fund, which closed in 2009 with \$1.9 billion in capital commitments.

401 Parkplace Center, Suite 500 Kirkland, WA 98033 Tel 425.576.8200 Fax 425.576.8221 www.wavebroadband.com

Wave