

ATTACHMENT A



ASHPAUGH & SCULCO, CPAs, PLC  
Certified Public Accountants and Consultants

November 2, 2011

Tony Perez  
Director, Office of Cable Communications  
City of Seattle  
700 5th Avenue  
PO Box 94709  
Seattle, WA 98124-4079

**SUBJECT: Review Of The Transfer Of The Cable Television Franchise From  
Broadstripe LLC To WaveDivision I, LLC**

Dear Mr. Perez:

Ashpaugh & Sculco, CPAs, PLC ("A&S") was engaged by the City of Seattle, Washington (the "City") to review the financial qualifications of WaveDivision I, LLC ("Wave I") associated with the sale and transfer of the Seattle cable franchise and Broadstripe LLC's ("Broadstripe") cable assets to Wave I. Exhibit 5-A to the filed FCC Form 394 provides the following information explaining the organizational structure of Wave I. In addition, Attachment 1 to this report is an organizational chart provided as Exhibit 5 to the FCC Form 394.

The proposed assignee is WaveDivision I, LLC, a Washington limited liability company ("Wave I"). Wave I is a wholly-owned subsidiary of WaveDivision Holdings, LLC, a Delaware limited liability company. WaveDivision Holdings, LLC is currently owned by (i) WaveDivision Capital, LLC, (ii) Sandler Capital Partners V, L.P.; SCP V FTE WaveDivision Holdings, L.P.; and SCP V Germany WaveDivision Holdings, L.P., or their affiliates (collectively, the "Sandler V Partnerships"), (iii) WaveDivision Networks, LLC, and (iv) Steve Friedman.

Broadstripe has been in Chapter 11 bankruptcy proceedings since 2009. On August 16, 2011, the City received notice that the bankruptcy resolution included the sale/transfer of Broadstripe's Seattle cable franchise to Wave I. Broadstripe and Wave I have requested approval of this transaction from the City.

The City submitted a letter request to Wave I for additional financial information on September 12, 2011. Wave I responded by letter dated September 22. A&S followed up on October 6 notifying Wave I that it had additional questions. On Friday, October 7, A&S had a telephone discussion with Wave I's Chief Financial Officer concerning Exhibit A provided in the September 22 response. On October 18, Wave I provided an email responding to the items discussed on October 7. On October 23, A&S requested additional

Tony Perez, Director, Office of Cable Communications  
City of Seattle  
November 2, 2011  
Page 2 of 4

information by email concerning Wave I's association with the purchase of Broadstripe's Anne Arundel County, Maryland system. Wave I provided a response that day by email.

#### **SUMMARY**

The information provided shows Wave I should be capable of meeting the financial requirements associated with franchise. However, our experience and analysis has identified some concerns with Wave I's forecasted financials. In addition, the City's engineering and technical review has identified deficiencies that need to be addressed within the next two years at an estimated cost of \$600,000. This amount has not been contemplated by Wave I in the forecast financials. In addition, the parent company, WaveDivision Holdings, LLC, has debt repayment obligations of \$351 million over 2011 through 2014. As such, it would be prudent for the City to require a parental guarantee from WaveDivision Holdings, LLC as a condition of any approval of this proposed transfer.

#### **ANALYSIS**

One of the steps in the City's evaluation of the sale/transfer is the assessment of the financial capabilities of the transferee to meet the needs of the franchise in the City. The financial review performed by A&S has relied on information provided by the City, Broadstripe and Wave I. Wave I provided consolidated financial data for its Northwest system, of which the Seattle franchise will be a part. The consolidated financials, reproduced in part as Attachment 2 to this report, provide actual operating results for 2010 and the first two (2) quarters of 2011 with forecasted operating results for the remainder of 2011 and 2012 through 2015.

**Revenue:** The consolidated financial information (actual and forecast) is consistent with stand-alone financial data and operating results of Broadstripe reviewed by A&S. This information outlines declining cable television subscribers and revenue as set forth in Broadstripe's actual operating results for 2009 and 2010. Wave I forecasts growth in revenues in its data, voice and commercial lines of business and growth in video 2013-2015. The growth in data, voice and commercial is driven by growth in number of customers and in revenue per customer, while the growth in video revenues is driven primarily by increases in prices for services.

**Expenses:** Attachment 2 also shows Wave I forecast expenses to remain relatively flat. Our experience shows that programming expenses associated with video offering has increased 7% to 10% per year for the last few years. We are not aware of anything that would cause this to change. The only way Wave I could be showing such small change in video expense is with a reduction in programming content. This would not be conducive to growth in video. As such, we believe Wave I has under-forecast such expenses.

**Debt:** Wave I shows projected reductions in debt associated with the Northwest region that is supported by consistent levels of cash flow in 2011 and 2012 and significant increases in 2013-2015. However, the following table - based on data from Exhibit 6 to the FCC Form 394 and the 2010 audited financial statements of WaveDivision Holdings, LLC and Subsidiaries - shows a large refunding of debt required in 2014.

Annual maturities of long-term debt outstanding at December 31, 2010 for future years are as follows:	
Year Ending December 31,	
2011	\$ 19,920,000
2012	27,420,000
2013	75,920,000
2014	228,085,000
Total	\$ 351,345,000

In response to the City's request concerning repayment of this debt, Wave I stated:

*Between now and the maturity dates, Wave will make quarterly payments as called for under the amortization schedule contained within Wave's credit agreement. In addition Wave has made, and will continue to make, additional principal payments over and above those required by the amortization schedule. All principal repayments are funded by cash generated through ongoing operations. In addition and as is typical in the cable television industry, Wave has the ability to refinance its outstanding debt with a number of different lenders with which Wave has existing relationships.*

While the analysis of A&S has not identified anything that would contradict Wave I's response, refinancing such a large amount in 2014 has the potential to put a strain on Wave I and WaveDivision Holdings, LLC's resources.

### **Conclusion**

The forecast financials of Wave I support that it is financially capable of meeting the requirements of the franchise with the City. The financials rely on growth in video, data, voice and commercial revenues that seems consistent with operators of this size. They also rely on little or no growth in expenses. Should this revenue growth not occur or occur in a lesser fashion than anticipated, financial concerns could arise. Any increase in expenses could also put additional financial pressure on Wave I.

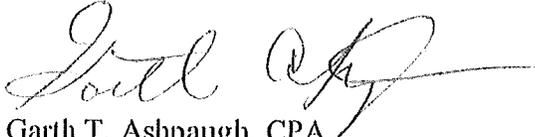
Wave I has forecast \$15 million of capital expenditures for "rebuild" in 2012 and 2013 for its entire Northwest region. The City's engineering and technical review of the cable system has identified major concerns that will need to be addressed by the franchisee in this same time frame at an estimated cost of \$600,000. These costs have not been forecast by Wave I and would impact other anticipated uses of capital dollars. In the event the above or other financial stresses are put on the system, financial support may be needed from the parent company, WaveDivision Holdings, LLC. As such, we would recommend the City require a guarantee from WaveDivision Holdings, LLC.

Tony Perez, Director, Office of Cable Communications  
City of Seattle  
November 2, 2011  
Page 4 of 4

As stated previously, our analysis is based on information provided by the City, Broadstripe and Wave I. If additional information was made available, our analysis and this report may need to be amended. If you have any questions, please give let us know.

Sincerely yours,

**ASHPAUGH & SCULCO, CPAS, PLC**

A handwritten signature in cursive script, appearing to read "Garth T. Ashpaugh".

Garth T. Ashpaugh, CPA  
President and Member

**Attachments**

WAVE Financial Review Report