



1301 E. Douglas Road, Mishawaka, Indiana, 46545

# ZRF PARTNERS

December 6, 2017

The Honorable Miro Weinberger  
Mayor of Burlington, VT  
City Hall, Burlington, VT 05401  
[miro@BurlintonVT.gov](mailto:miro@BurlintonVT.gov)

Dear Mayor Weinberger,

Schurz Communications Inc. ("Schurz") is pleased to submit this Letter of Intent (the "LOI") to acquire, through a subsidiary of Schurz, all or substantially all of the assets of Burlington Telecom (the "Company") (the "Transaction"). We are honored and excited that ZRF Partners, LLC ("ZRF") has agreed to participate as a strategic partner in Schurz's proposal. ZRF's role will be clearly identified and described in the final transaction documents. Schurz is in the process of completing its acquisition of Hiawatha Broadband, Inc. ("HBC"), and Schurz/HBC and ZRF are well positioned through industry knowledge, expertise and track record to continue the legacy of BT by expanding the focus on outstanding customer service and maintaining the quality of its network for the benefit of customers and the City of Burlington. As one of the Nation's first competitive fiber providers, HBC has long been a role model for BT and others. BT and HBC have worked together in the past as BT sought to learn from HBC to improve the efficiency and performance of its operations. We believe the Schurz/ZRF partnership will provide BT a unique opportunity to learn from HBC, and vice versa, exchanging best practices and benefitting from HBC's proven technical expertise, customer service and community engagement, as well as hard-learned growth strategies from HBC's expansion beyond Winona's borders into more than 13 additional communities. Our vision is to significantly grow BT and further strengthen its bond with the local community by making BT a key enabler of new tech startups as well as providing a strong platform for local technology workforce development.

This LOI is based on material received from Burlington Telecom ("BT"), the data room set up for the Transaction, our visits to the property and community, discussions with management, the Burlington Telecom Advisory Board, the Burlington City Council, and Mayor. It is subject to further diligence by Schurz and its advisors and the negotiation, execution and delivery of definitive purchase and related agreements for the Transaction.

## TERMS

**A) Purchase Price:** Schurz has valued Burlington Telecom at \$30,800,000 on a cash-free and debt-free basis, and assuming zero working capital (current assets less current liabilities) at close. This purchase price assumes that the projects in the fiscal 2018 capital budget, representing approximately \$2,500,000, continue to be worked on and dollars spent toward accomplishing these projects in the normal course of business between signing and closing. Schurz would recoup any shortfall in the fiscal 2018 capital expenditures at closing.

Schurz agrees to increase the Purchase Price, if the Company's EBITDA exceeds \$4.05 million for the fiscal year ending June 30, 2018, by multiplying the incremental EBITDA over \$4.05 million, times a multiple of 4.

**B) Basis for Valuation:** The Purchase Price is based on the information received from Burlington Telecom, our visits to the property and community, and the information contained in the data room set up for the Transaction, including the Company's 2017E unadjusted EBITDA of \$3.5 million and expected 2018 unadjusted EBITDA of \$4.05 million.

**C) Additional Deal Terms:** Schurz remains committed to working cooperatively with the City on the future potential need to relocate BT facilities from Memorial Auditorium. We are committed to a solution that works mutually for the City and Schurz. While we will need additional time to understand the conditions around a possible move, we do believe it can be completed with a minimum of 18 months of notice. The City will have the absolute right to require Schurz to move on specific notice period with the expense being borne by the City, but capped at \$800,000 if the notice period is 18 months, \$700,000 if the notice period is 24 months, and \$600,000 if the notice period is 30 months. These are illustrative numbers and the parties will firm these up in the definitive document.

With regard to the offices at 200 Church Street, we would like to enter into a lease agreement which will provide for a minimum five years with three 5-year options at market rents for such space, plus proportionate share of operating expenses and will contain a right of first refusal at market value should the City decide to sell the building.

In consideration of the significant costs to be borne by the parties in pursuing this transaction, the City will not sell, transfer or offer to sell or transfer the assets or business of the Company and/or any equity interests in the Company to any person or entity other than Schurz or a subsidiary of Schurz, nor solicit, entertain offers from or enter into discussions, negotiations or any agreement with any party other than Schurz (or its subsidiary) with respect to the disposition of the assets, the business and/or the equity interests of the Company, unless the parties have not signed a definitive purchase agreement on or before 12/15/2017 (or such other later date as is established by the mutual agreement of the parties).

#### SALE CRITERIA AND SCHURZ QUALIFICATIONS

**D) Sale Criteria:** We are committed to the following sales criteria as set forth by the Burlington Telecom Advisory Board and the City of Burlington, and we have discussed with you more fully how we intend to achieve each of these criteria as summarized below:

**1) Continue to offer affordable services that provide a competitive opportunity for BT customers.**

- ✓ Our company believes in and strives for mutual success. We seek to constantly improve so that we not only meet our customers' needs, but exceed their expectations. Schurz offers affordable services in all of its current markets, most of which have multiple video, telephony, and

broadband providers, and plan to do the same in Burlington. The last broadband rate increase under our ownership in our current markets was more than five years ago, and our 5-year financial model for BT (which aligns closely with BT's model) projects no broadband rate increases as well. We agree with the thesis of BT's 5-year plan in holding broadband rates steady, as we believe one of the key growth factors for BT's recent success is Unmatchable Internet at rates that are below the competition. We also agree that BT should always strive to be a price leader from the customer's point of view, and that Schurz will take that philosophy into account in future pricing decisions. We also agree that any price change will be discussed at the BT board level before implementation.

We believe that BT can and should continue to bring choice to the Burlington community.

**2) Continue to have local employees with a local presence (office) with an emphasis on responsive and effective customer service.**

- ✓ BT is known for providing great products and exceptional customer service; our intent would be to continue and expand those efforts. We will keep BT's local management and current staffing levels. We plan to increase the number of local employees over time in order to serve BT's customers and support its growth.

Over the course of our history, Schurz has operated as a decentralized company. It is part of our core values, and we believe one of our key company strengths that we empower local leadership and local management to make the strategic and day-to-day decisions that provide the best possible product and service experience for our customers. This would mean that local management in Burlington would make the decisions that assure they continue to provide the excellent level of customer service BT customers presently enjoy. Further, they would also be encouraged to continue that development (as we do at all of our businesses) as we look at superior customer service as a process or journey rather than a project. The opportunity to improve the customer experience comes from on-going refinement and employing some of the best practices that we believe our more than 50 years of successful cable/broadband and fiber operating experience can bring to Burlington and BT. The senior leadership broadband segment team, as well as the General Managers at our other systems, can serve as a resource and added layer of experience and judgement for BT's leadership team on all aspects of operations including the customer experience. In turn, Schurz will also benefit from the experience and leadership at BT just as we have from our past acquisitions.

Using HBC's customer service expertise, we will work closely with BT's management to assure continued quality of service, as well as introducing new initiatives, including off hours evening and weekend customer service and customer care solutions using the latest technology. We agree that exceptional customer services will continue to be a priority for BT and will use HBC's experience to strengthen BT's service delivery.

We will keep the name, Burlington Telecom, as it has created exceptional goodwill, is recognized so highly for its place in the community and the excellent service and products for which it has come to be known. The achievement of that is in large part due to the great work

that has been done by the entire employee group and we plan to keep and retain all employees of the organization. In fact, we expect to increase the number of local employees over time and have a locally based General Manager.

**3) Continue BT's commitment to net neutrality, support of affordable, local Public Access, and other issues of importance to Burlingtonians.**

Schurz is committed to enforce the Company's support for net neutrality, and will treat all Internet traffic equally. This includes refusing to engage in blocking, throttling, slowing down, or charging money for access to different web sites or online content, or taking part in any other activities designed to charge different rates or limit access to different web sites and online content and will assure customer privacy, and we will continue support for local Public Access programming. We believe consumers should have the freedom to go anywhere on the Internet and run any application and to know that the delivery of traffic will not be blocked, nor throttled. We are transparent with our customers around usage and have developed tools so customers can view and manage their own usage. We believe Public Access programming helps communicate and inform the unique attributes and cultures of local communities.

**4) Continue to offer both residential and commercial services.**

✓ We plan to not only continue the current residential and commercial services, but to expand offerings over time to current and additional customers. While BT has a strong portfolio today, our company has launched or is launching more advanced products and services in video and telephony for our residential and commercial customers that we expect to bring to Burlington in the near future.

**5) Continue to engage in active participation with the US Ignite and BTV Ignite initiatives focused on realizing the ongoing and sustainable economic development benefits to the local economy that the network infrastructure affords.**

✓ Schurz and ZRF embrace new technologies, and we are committed to continuing BT's key role in the technology community, BTV Ignite, and US Ignite. Under our ownership, BT will play a critical role in the development of a technology ecosystem in Burlington by reducing major barriers (i.e. access to capital and talent) in the way of formation/retention of tech start-ups. BT would work with other stakeholders (BTV Ignite, universities/colleges and City) and invest \$2.5 million in the first 10 years to establish and support either a BTV Ignite Technology Innovation Fund (BT - BTV Ignite partnership terms to be agreed) that provides mentorship and seed capital to local startups or other to be determined community/economic development investment. There are many parties working on growing the local technology ecosystem; BT is and should be a key player in the process. BT's future is inextricably linked to the Burlington region's future. We look forward to supporting and investing in such efforts in Burlington with our resources – including time, talent, in-kind, and financial.

We have also taken concrete actions to address and reduce the Digital Divide. We will maintain and expand BT's community initiatives including Edu-Net for low income students, Lifeline for qualifying residents, and other initiatives aimed at bridging the digital divide and improving opportunities for all. BT would also start an apprenticeship/internship program that would provide an opportunity for students to gain valuable real-world experience and skillsets. In addition, BT would contribute \$500,000 in the first 10 years to establish a program in partnership with local resources to teach basic technical skills/competencies necessary to remain relevant and improve employment prospects in today's work environment, to Burlington's existing workforce/high school students. For these 2 programs, measurement tools would be developed in the first 2 years to determine the basis by which to run these programs, and determine their viability on an ongoing basis, to be discussed in good faith. It is the intent of the parties to have the programs continue beyond 10 years provided that the benefits support the costs of the initiatives to the City and to BT. We would encourage and hope that local businesses and anchor institutions will also contribute to the BTV Ignite Technology Innovation Fund and help build this retraining program aimed at creating more and better paying jobs in Burlington.

**6) Establish a skilled, experienced management team to sustain BT's "state of the art" capabilities, keep pace with technology changes, and support expansion to the currently unserved areas of Burlington as well as other communities.**

✓ We have grown our local fiber networks to include more than 15,000 Fiber-to-the-Home (FTTH) serviceable addresses. In total, our broadband business has grown to 78,000 customers and to 4,080 miles of fiber and fiber/coax and will add to that the assets of HBC. BT has the necessary framework and operational platform to become a regional provider of services and serve as the parent to support growth through future acquisitions under Schurz. The experience of the local BT management team coupled with the Schurz leadership team, ZRF, and HBC ensures that regardless of the type of acquisition (whether traditional cable, fiber, or other network platforms) that may be considered in the future, we have the operational and technical ability to effectively integrate the entity into BT.

Our company has been in the telecommunications industry for over 50 years and have successfully implemented multiple technological innovations. We will support the local leadership group with our broadband segment senior leadership team with over 120 years of experience in the cable, fiber, technology, and telecommunications industries.

We will keep BT's local decision authority. Burlington Telecom is not a minor spoke of a centralized operation. Schurz values local leadership, local presence, and local staffing because we find they provide the most responsive and personal service to our valued customers, especially when coupled with local decision authority.

We are committed to concluding the build out of the network in Burlington by 2019 (except for the 120 homes that present affordable build challenges) as well as continuing to extend facilities and choice to the communities around Burlington. For the 120-home exception, we will remain

committed to working with the City, BED and BT/Schurz technical resources to find a solution to bring additional broadband options to this group. We also agree with and support local management's plans to largely complete the fill-in growth from the Town Center Mall and Burlington College redevelopment. We also agree with BT management that there is an opportunity to accelerate the growth in BT's plan by simultaneously investing the expansion capital to expand the network to other neighboring communities in Chittenden County, including Winooski and South Burlington.

**7) Demonstrate sufficient financial capacity to sustain BT's "state of the art" capabilities, keep pace with technology changes, and support expansion to the currently unserved areas of Burlington as well as other communities.**

- ✓ Our company's offer has no financing contingencies. Currently, Schurz has cash on our balance sheet and over \$100 million in unused debt capacity. Schurz will commit to spending a minimum of \$6,200,000 and up to \$8,840,000 in capital projects in accordance with the updated BT capital plan, both maintaining and expanding the current network, for fiscal 2019 through 2021 without any dilution of the City of Burlington's potential equity position.

We are committed to concluding the build out of the network in Burlington by 2019 (except for the 120 homes that present affordable build challenges) as well as continuing to extend facilities and choice to the communities around Burlington. For the 120-home exception, we will remain committed to working with the City, BED and BT/Schurz technical resources to find a solution to bring additional broadband options to this group.

As noted above, we believe that BT could accelerate its growth with additional reinvestment and expansion. We believe that BT should not carry significant debt at this point, so that it has the balance sheet strength to reinvest. We believe that BT would be best served by a combination of operational expertise, a shared vision for growth, and patient capital; our offer does exactly that.

**8) Maintain and foster a strong partnership with the City of Burlington and its elected public officials.**

- ✓ Our company believes its strength mirrors the strength of our local communities; we support them as a good corporate citizen and encourage active involvement. Our company is proud of our strong community presence, ranging from assisting non-profit organizations with marketing, fund-raising, and volunteer leadership to working in private-public partnerships for economic development. BT's local management will be empowered to work effectively with local public officials. In addition, our corporate and broadband segment senior leadership team will visit Burlington on a regular basis and would commit to periodic in-person discussions with elected public officials or BTAB (or its successor).

**9) Allowing the City of Burlington the opportunity to retain a meaningful carried equity interest in Burlington Telecom.**

✓ We support the City's desire to maintain a meaningful interest in BT for the short-term or the long-term. As part of the Transaction, Schurz would be amenable to the City of Burlington contributing its net proceeds from the sale, plus any additional funds necessary for the City to acquire a carried interest equity ownership percentage up to 33.3%. Schurz is prepared to pay the remaining Purchase Price (after accounting for the ownership interest acquire by the City) in cash at close.

If the City determines in the future that it wishes to re-acquire BT, we would be amenable to those discussions and would negotiate in good faith. Although we want the City of Burlington to remain an owner of Burlington Telecom because we view the City's continued ownership as valuable to the BT brand, we would agree to purchase the City's interest based upon annual valuation by an independent 3<sup>rd</sup> party and notice provisions generally consistent with our internal company policy provided to you under separate cover, provided however, that we understand that the minimum purchase price shall be based on an established EBITDA multiple as a floor without discount.

While Schurz would be the majority owner, we would want to ensure that the City of Burlington could have a voice on key decisions. We propose a Board with local community representation and representative membership (i.e. if the City owns 10% of the enterprise, it could name an individual with a strong background in telecommunications, business, and/or finance as one of five Board members). Local senior management would report to a regional/segment general manager on an operational basis and would regularly update this Board. In addition, there would be an annual strategic plan, budget, and independent audit of BT that would be presented to this Board. This board would not be the same as the Burlington Telecom Advisory Board, or its successor, which would be tasked with providing a voice for and input from customers.

**10) Ability to complete a Transaction by the 2 January 2018, subject to regulatory approval.**

✓ Our company's Acquisitions Committee and Board of Directors have already reviewed and approved this Transaction. The Schurz Communications Board of Directors approved our purchase offer for Burlington Telecom at its August 2, 2017 meeting. We anticipate their confirming continued approval during a conference call in the first ten days of December, 2017. Assuming due diligence, negotiations, and documents are completed in a timely manner, our company would be prepared to file all documentation as soon as December, 2017.

**11) A strategy of holding the asset for the long-term.**

✓ Our company is a fifth-generation family firm that has been in operation since 1872, and its owners plan to continue operating for multiple future generations. We plan to own and operate any and every acquisition for the long-term. We believe that a public-private partnership is the best structure for Burlington Telecom as it provides the stability and expertise for long-term success in a highly competitive marketplace marked by rapidly evolving technology.

If our intentions would change, we would be willing to offer the City and/or possibly a group of local investors (determined at the City's election) a first right of refusal through our ownership agreement, which would be based on a valuation established in a sales process.

We support the City's desire to maintain a competitive marketplace for telecommunications services. We understand the City's concern on a future sale resulting in excessive market share greater than 75% for a new buyer and would agree to that threshold, and we would support the City's desire to be involved in the regulatory review and approval process.

**12) A strategy to reinvest and or invest into the business.**

- ✓ As noted above, we agree with and support local management's plans to largely complete the build-out in Burlington and to expand the network into neighboring communities in Chittenden County. We are reviewing several different strategies that would do so without a dilutive effect on the City of Burlington's equity position.

**13) It is important for the City's public officials to try to recover as much of the taxpayer's investment as possible. Part of that should come from the price paid by the purchaser of the BT System, the City's maintaining a continued meaningful interest in BT that enables financial recovery over the next decades, and the indirect benefits of maintaining a strong Telecom System, recognizing the potential of BT's fiber optic infrastructure to enable sustainable economic growth and job creation in an increasingly Tech centric economy.**

- ✓ Our vision is to set the standard nationally for independent fiber networks that are recognized for price, community engagement, digital equality and technical leadership in communities focused on providing next generation fiber infrastructure to enable economic development opportunities. We agree with BT's plan that it could double its earnings before interest, taxes, depreciation, and amortization (EBITDA); we believe our company can provide operational expertise, logistical support, and economies of scale that can accelerate that growth. We plan to enhance BT's profitability 2-3x organically in the near to medium term and significantly more if successful in partnership/acquisition opportunities.

We believe that partnering with a well-respected, experienced operator of local fiber networks provides the City with the best path to recovering its investment in BT. We plan to maintain and grow BT's first-rate fiber optic infrastructure in the support of the business and the community. As we have done in all our broadband markets, we also believe there are additional investments and acquisitions in the region that could be "bolted on" BT's infrastructure that could generate a favorable return on investment.

It is more difficult to quantify the indirect benefits that BT brings the greater Burlington region. It is clear that any community that does not have a dense fiber network is at a competitive disadvantage in the 21<sup>st</sup> century economy.



In addition to our deep understanding of media and telecommunications, we are doing extensive research into the cloud communications and managed Information Technology services industry that will lead to investments and acquisitions. We believe that BT will benefit from these efforts. We are a major investor in a service provider to Google Fiber and have simultaneously learned from that firm and shared some ideas and best practices. We have investments in a dozen firms with digital DNA; again, we have learned from their innovative practices and experiments as we have brought patient capital, access to markets and entrepreneurs to them. Our company has grown stronger from each acquisition and introduction to a new community, and we have already gained new insights from our brief exposure to BT and Burlington. In addition to our enthusiasm for BT, we are intrigued by the possibility to be an operating partner for other municipally-owned fiber networks.

We know today that BT will bring growth and empowerment to Burlington's citizens; we are excited to see how we will each change and improve each other.

#### ADDITIONAL SCHURZ QUALIFICATIONS

**E) Transaction Rationale:** Schurz is an established operator in the communications industry, operating three separate fiber-coaxial systems across the U.S. as well as a data center and the pending acquisition of Hiawatha Broadband. Following the sale of its broadcast assets in February of 2016, Schurz has been actively pursuing opportunities to redeploy capital into existing broadband properties as well as new and adjacent business sectors. We believe Burlington Telecom has the potential to be a platform for additional bolt-on acquisitions and organic growth in the region; Schurz has ample capacity to invest additional capital into the Company to further drive future growth following a Transaction. We believe that our public-private partnership might be the catalyst for future partnerships with other municipally-owned fiber networks.

**F) Financing:** Schurz currently has ample room under its credit facility in addition to cash on hand to finance a Transaction. There are no financing contingencies with this offer, and our relatively low cost of financing will not overburden BT with unrealistic financial performance expectations.

**G) Acquirer Identity and Conditions / Approvals:** Schurz Communications, a family-owned Indiana-headquartered media, telecommunications and content company, or a subsidiary, would be the acquiring entity of the Company.

Schurz Communications is a diversified privately-owned, nationwide communications company founded in 1872. The first cable acquisition was Antietam Cable TV in Hagerstown in 1968, and the company began offering Internet access in the early 1990's. We have experience operating networks over multiple generations of technology – copper wire, coaxial cable, and fiber - in urban and rural settings. Today, we operate over 4,080 miles of fiber and hybrid fiber/coax facilities serving 72,000 customers of which more than 3,300 are commercial customers. In addition, we have fiber-to-the-home services offering gigabit speeds available to more than

16,000 households and growing across our service areas. In our markets we offer the most advanced telecommunications services, including broadband speeds up to one gigabit residentially and ten gigabits commercially, as well as robust video offerings and residential and commercial phone services.

The Schurz Communications Board of Directors approved our purchase offer for Burlington Telecom at its August 2, 2017 meeting. We anticipate their confirming continued approval during a conference call in the first ten days of December, 2017.

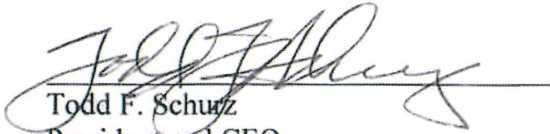
We understand that the purchase agreement will require us to use commercially reasonable efforts to close on the sale as soon as is commercially practicable and that a petition must be submitted to the Public Utility Commission seeking a certificate of public good within 30 days of signing the purchase agreement.

**H) Due Diligence Requirements:** Schurz expects to conduct additional standard due diligence on the Company. Our due diligence process will include customary business, accounting, financial, tax, technology, real estate, and legal due diligence. Schurz and its advisors are prepared to begin this diligence immediately and work expeditiously to further progress a Transaction.

I) **Contact Information:** The following should be contacted if you have any questions regarding our proposal:

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President and CEO  
Schurz Communications Inc.  
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Office: 574-247-7220  
[tschurz@schurz.com](mailto:tschurz@schurz.com)

Best regards,

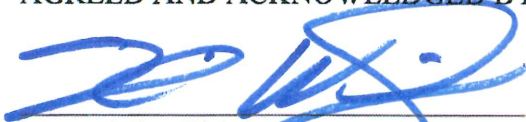


Todd F. Schurz  
President and CEO  
Schurz Communications

December 6, 2017

Date

AGREED AND ACKNOWLEDGED BY:



Mayor Miro Weinberger  
Mayor, City of Burlington, VT

December 6, 2017

Date