

# **LIBERTY CABLEVISION OF PUERTO RICO LLC**

**Condensed Financial Statements  
September 30, 2013**

**LIBERTY CABLEVISION OF PUERTO RICO LLC**  
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**LIBERTY CABLEVISION OF PUERTO RICO LLC**  
**CONDENSED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2013**  
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**LIBERTY CABLEVISION OF PUERTO RICO LLC**

**CONDENSED BALANCE SHEETS**  
**(unaudited)**

	<b>September 30, 2013</b>	<b>December 31, 2012 <sup>(1)</sup></b>
	<b>in millions</b>	
<b>ASSETS</b>		
Current assets:		
Cash.....	\$ 2.1	\$ 2.4
Trade receivables, net.....	8.7	11.0
Prepaid expenses.....	4.8	4.3
Other current assets.....	12.2	11.0
Total current assets.....	27.8	28.7
Property and equipment, net (note 6).....	266.6	248.0
Goodwill (note 6).....	226.8	226.8
Franchise rights and other (note 6).....	437.6	437.3
Intangible assets subject to amortization, net (note 6).....	82.3	88.5
Other assets, net.....	30.1	28.8
Total assets.....	\$ 1,071.2	\$ 1,058.1
<b>LIABILITIES AND MEMBERS' CAPITAL</b>		
Current liabilities:		
Accounts payable.....	\$ 23.8	\$ 13.9
Accrued programming.....	9.2	2.9
Deferred revenue and advance payments from subscribers.....	8.5	7.4
Accrued capital expenditures.....	8.4	0.8
Current portion of debt and capital lease obligations (note 7).....	5.7	5.3
Other accrued and current liabilities (note 9).....	38.2	39.6
Total current liabilities.....	93.8	69.9
Long-term debt and capital lease obligations (note 7):		
Third-party.....	652.4	659.2
Related-party.....	13.3	10.0
Other long-term liabilities.....	5.3	5.1
Total liabilities.....	764.8	744.2
Commitments and contingencies (notes 3, 7, 10 and 11)		
Members' capital (note 10).....	306.4	313.9
Total liabilities and members' capital.....	\$ 1,071.2	\$ 1,058.1

<sup>(1)</sup> As revised – see note 3.

The accompanying notes are an integral part of these condensed financial statements.

## LIBERTY CABLEVISION OF PUERTO RICO LLC

CONDENSED STATEMENTS OF OPERATIONS  
(unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
	in millions			
Revenue .....	\$ 74.7	\$ 30.2	\$ 222.0	\$ 90.0
Operating costs and expenses:				
Operating (other than depreciation and amortization) (including share-based compensation) .....	35.8	13.8	109.9	42.3
Selling, general and administrative (SG&A) (including share-based compensation) .....	11.8	5.4	35.3	14.2
Depreciation and amortization .....	14.2	5.8	41.1	16.9
Impairment, restructuring and other operating items, net (notes 3 and 9) .....	2.2	3.3	8.3	3.6
	<u>64.0</u>	<u>28.3</u>	<u>194.6</u>	<u>77.0</u>
Operating income .....	<u>10.7</u>	<u>1.9</u>	<u>27.4</u>	<u>13.0</u>
Non-operating income (expense)				
Interest expense:				
Third-party .....	(11.8)	(1.9)	(35.5)	(4.1)
Related-party .....	(0.3)	—	(0.8)	—
Realized and unrealized losses on derivative instruments, net (note 4) .....	—	(0.4)	—	(2.2)
Losses on debt extinguishment .....	—	(4.4)	—	(4.4)
	<u>(12.1)</u>	<u>(6.7)</u>	<u>(36.3)</u>	<u>(10.7)</u>
Earnings (loss) before income taxes .....	<u>(1.4)</u>	<u>(4.8)</u>	<u>(8.9)</u>	<u>2.3</u>
Income tax benefit (expense) (note 8) .....	—	2.4	—	(1.8)
Net earnings (loss) .....	<u>\$ (1.4)</u>	<u>\$ (2.4)</u>	<u>\$ (8.9)</u>	<u>\$ 0.5</u>

The accompanying notes are an integral part of these condensed financial statements.

**LIBERTY CABLEVISION OF PUERTO RICO LLC**

**CONDENSED STATEMENT OF CHANGES IN MEMBERS' CAPITAL  
(unaudited)**

	<b>Class A preferred units</b>	<b>Class B common units</b>	<b>Total members' capital</b>
	<b>in millions</b>		
Balance at January 1, 2013 <sup>(1)</sup> .....	\$ 219.5	\$ 94.4	\$ 313.9
Priority Return (note 10) .....	11.0	(9.5)	1.5
Net loss .....	—	(8.9)	(8.9)
Other, net .....	—	(0.1)	(0.1)
Balance at September 30, 2013 .....	\$ 230.5	\$ 75.9	\$ 306.4

<sup>(1)</sup> As revised – see note 3.

The accompanying notes are an integral part of these condensed financial statements.

**LIBERTY CABLEVISION OF PUERTO RICO LLC**

**CONDENSED STATEMENTS OF CASH FLOWS**  
**(unaudited)**

	Nine months ended September 30,	
	2013	2012
	in millions	
Cash flows from operating activities:		
Net earnings (loss) .....	\$ (8.9)	\$ 0.5
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:		
Share-based compensation expense .....	0.3	0.3
Depreciation and amortization .....	41.1	16.9
Impairment, restructuring and other operating items, net .....	8.3	3.6
Amortization of deferred financing costs .....	1.0	0.3
Realized and unrealized losses on derivative instruments, net .....	—	2.2
Losses on debt extinguishment .....	—	4.4
Deferred income tax expense .....	—	4.4
Changes in operating assets and liabilities:		
Receivables and other operating assets .....	(2.0)	(2.8)
Payables and accruals .....	5.7	(12.4)
Net cash provided by operating activities .....	45.5	17.4
Cash flows from investing activities:		
Capital expenditures .....	(40.7)	(18.2)
Other investing activities .....	(0.2)	—
Net cash used by investing activities .....	(40.9)	(18.2)
Cash flows from financing activities:		
Repayments of third-party debt and capital lease obligations .....	(7.4)	—
Borrowings of third-party debt .....	—	12.1
Related-party borrowings .....	3.3	—
Payment of financing costs .....	(0.8)	(6.1)
Change in cash collateral .....	—	10.0
Net cash provided (used) by financing activities .....	(4.9)	16.0
Net increase (decrease) in cash .....	(0.3)	15.2
Cash:		
Beginning of period .....	2.4	9.7
End of period .....	\$ 2.1	\$ 24.9
Cash paid for interest .....	\$ 34.6	\$ 4.3

The accompanying notes are an integral part of these condensed financial statements.



**LIBERTY CABLEVISION OF PUERTO RICO LLC**  
**Notes to Condensed Financial Statements**  
**September 30, 2013**  
**(unaudited)**

**(1) Basis of Presentation**

Liberty Cablevision of Puerto Rico LLC is a broadband communications provider of video, broadband internet and telephony services in Puerto Rico. Liberty Cablevision Puerto Rico LLC was formed in connection with the November 8, 2012 Puerto Rico Transaction, which, as defined and further described in note 3, involved a series of transactions with certain investment funds affiliated with Searchlight Capital Partners L.P. (collectively, Searchlight), including the merger (the November 2012 Merger) of the Puerto Rican broadband communications subsidiary (Old Liberty Puerto Rico) of LGI Broadband Operations, Inc. (LG Broadband Operations) with San Juan Cable LLC, doing business as OneLink Communications (OneLink), also a broadband communications operator in Puerto Rico, with OneLink as the surviving entity. Immediately following the November 2012 Merger, OneLink changed its name to Liberty Cablevision of Puerto Rico LLC (Liberty Puerto Rico). LG Broadband Operations indirectly owns a 60.0% controlling interest in Liberty Puerto Rico, with the remaining 40.0% interest owned by Searchlight. LG Broadband Operations is an indirect wholly-owned subsidiary of Liberty Global plc (Liberty Global), an international broadband communications provider of video, broadband internet, fixed-line telephony and mobile services. In the following text, the terms “we,” “our,” “our company” and “us” refers to Liberty Puerto Rico or its predecessors, as applicable.

As a result of LG Broadband Operations’ 60.0% controlling interest in Liberty Puerto Rico, Old Liberty Puerto Rico is deemed to be the acquirer of OneLink in the Puerto Rico Transaction and, accordingly, the predecessor company to Liberty Puerto Rico for financial reporting purposes. Accordingly, OneLink is included in our financial statements effective November 8, 2012 at Old Liberty Puerto Rico’s cost basis.

Prior to the November 2012 Merger, our predecessor was treated as a separate tax-paying corporation in Puerto Rico. Effective with our formation in the November 2012 Merger, we are treated as a partnership that is not a separate tax-paying entity for United States (U.S.) federal or Puerto Rico income tax purposes.

Our unaudited condensed financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) for interim financial information. Accordingly, these financial statements do not include all of the information required by GAAP for complete financial statements. In the opinion of management, these financial statements reflect all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of the results of operations for the interim periods presented. The results of operations for any interim period are not necessarily indicative of results for the full year. These unaudited condensed financial statements should be read in conjunction with our 2012 financial statements and notes thereto included in our 2012 annual report.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Estimates and assumptions are used in accounting for, among other things, the valuation of acquisition related assets and liabilities, allowances for uncollectible accounts, loss contingencies, fair value measurements, impairment assessments, capitalization of internal costs associated with construction and installation activities and useful lives of long-lived assets. Actual results could differ from those estimates.

Certain prior period amounts have been reclassified to conform to the current year presentation.

These condensed financial statements reflect our consideration of the accounting and disclosure implications of subsequent events through November 20, 2013, the date of issuance.

**LIBERTY CABLEVISION OF PUERTO RICO LLC**  
**Notes to Condensed Financial Statements — (Continued)**  
**September 30, 2013**  
**(unaudited)**

**(2) Segment Reporting**

We operate in one geographical area, the territory of Puerto Rico. We operate in one segment, within which we provide video, broadband internet and telephony services to residential and/or small business customers.

Our revenue by major category is as follows:

	<b>Three months ended September 30,</b>		<b>Nine months ended September 30,</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
	<b>in millions</b>			
Subscription revenue (a):				
Video.....	\$ 37.3	\$ 13.8	\$ 112.0	\$ 42.2
Broadband internet .....	23.8	10.4	70.9	30.6
Telephony .....	7.6	3.3	22.2	9.5
Total subscription revenue .....	<u>68.7</u>	<u>27.5</u>	<u>205.1</u>	<u>82.3</u>
Non-subscription revenue (b) .....	6.0	2.7	16.9	7.7
Total.....	<u>\$ 74.7</u>	<u>\$ 30.2</u>	<u>\$ 222.0</u>	<u>\$ 90.0</u>

- (a) Subscription revenue includes amounts received from subscribers for ongoing services, excluding advertising revenue, late fees and installation fees. Subscription revenue from subscribers who purchase bundled services at a discounted rate is generally allocated proportionally to each service based on the standalone price for each individual service.
- (b) Non-subscription revenue primarily consists of advertising revenue, late fees and installation fees.

**(3) Acquisition**

On November 8, 2012, LG Broadband Operations completed a series of transactions (collectively, the Puerto Rico Transaction) with Searchlight that resulted in their joint ownership of (i) Old Liberty Puerto Rico and (ii) OneLink. In connection with the Puerto Rico Transaction, the November 2012 Merger was completed whereby Liberty Puerto Rico and OneLink were merged, as further described in note 1.

Immediately prior to the acquisition of OneLink, LG Broadband Operations contributed its 100% interest in Old Liberty Puerto Rico, and Searchlight contributed \$94.7 million of cash, to Leo Cable LP (Leo Cable), a newly formed entity. Leo Cable in turn used the cash contributed by Searchlight to fund the acquisition of 100% of the equity of OneLink from a third party (the Seller) for a purchase price of \$96.5 million, including closing adjustments and \$1.8 million of transaction-related costs paid by Old Liberty Puerto Rico on behalf of the Seller. Such purchase price, together with OneLink's consolidated net debt (aggregate fair value of debt and capital lease obligations outstanding less cash and cash equivalents) at November 8, 2012 of \$496.0 million, resulted in total consideration of \$592.5 million, excluding direct acquisition costs of \$17.2 million. Direct acquisition costs include \$2.4 million of legal and other third-party fees incurred subsequent to the November 8, 2012 acquisition date in connection with LG Broadband Operations' claims against the Seller, as discussed below. As a result of the Puerto Rico Transaction, LG Broadband Operations indirectly owns a 60.0% controlling interest in Liberty Puerto Rico, with the remaining 40.0% interest owned by Searchlight. LG Broadband Operations completed the Puerto Rico Transaction in order to achieve certain financial, operational and strategic benefits through the integration of OneLink with its existing operations in Puerto Rico.

The Seller agreed to retain \$10.0 million of the purchase price to satisfy any claims. LG Broadband Operations has informed the Seller of certain claims with respect to the funds retained by the Seller. Any amounts received upon settlement of these claims, the value and resolution of which is under discussion, will be included as a credit within impairment, restructuring and other operating items, net, in our statement of operations.

**LIBERTY CABLEVISION OF PUERTO RICO LLC**  
**Notes to Condensed Financial Statements — (Continued)**  
**September 30, 2013**  
**(unaudited)**

LG Broadband Operations accounted for the acquisition of OneLink using the acquisition method of accounting, whereby Old Liberty Puerto Rico is deemed to be the acquirer of OneLink. As a result, the total purchase price was allocated to the acquired identifiable net assets of OneLink based on assessments of their respective fair values, and the excess of the purchase price over the fair values of these identifiable net assets was allocated to goodwill.

The opening balance sheet of OneLink at the November 8, 2012 acquisition date, as revised to reflect adjustments to the acquisition accounting that we determined during the second and third quarters of 2013, is set forth below (in millions). The opening balance sheet presented below reflects our final purchase price allocation.

Cash.....	\$	4.4
Other current assets (a) .....		19.2
Property and equipment .....		150.2
Intangible assets subject to amortization (b).....		90.5
Intangible assets not subject to amortization - cable television franchise rights .....		285.0
Goodwill (c) .....		226.8
Other assets, net .....		1.2
Current portion of debt and capital lease obligations.....		(3.5)
Other current liabilities (a) .....		(54.1)
Long-term debt and capital lease obligations.....		(496.9)
Deferred tax liabilities.....		(126.3)
Total purchase price.....		<u>96.5</u>
Deferred tax liabilities retained by our Class A member .....		126.3
Seller transaction costs paid by Old Liberty Puerto Rico .....		(1.8)
Increase to members' capital related to the Puerto Rico Transaction.....	\$	<u><u>221.0</u></u>

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- (a) Other current liabilities include an accrual for a loss contingency that was measured based on our best estimate of the probable loss. The Seller has partially indemnified us for the outcome of this loss contingency and, accordingly, other current assets includes an indemnification asset, measured using the same basis as the associated loss contingency.
- (b) Amount primarily includes intangible assets related to customer relationships. At November 8, 2012, the weighted average useful life of OneLink's intangible assets was approximately 10 years.
- (c) The goodwill recognized in connection with the Puerto Rico Transaction is primarily attributable to (i) the ability to take advantage of the existing advanced broadband communications networks of OneLink to gain immediate access to potential customers and (ii) substantial synergies that are expected to be achieved through the integration of OneLink with our existing broadband communications operations in Puerto Rico.

**LIBERTY CABLEVISION OF PUERTO RICO LLC**  
**Notes to Condensed Financial Statements — (Continued)**  
**September 30, 2013**  
**(unaudited)**

Our condensed balance sheet as of December 31, 2012 has been retrospectively revised to reflect the adjustments to the OneLink acquisition accounting that we determined during the second and third quarters of 2013, as set forth in the below table:

	<b>December 31, 2012</b>		
	<b>As reported</b>	<b>Adjustments</b>	<b>As revised</b>
	<b>in millions</b>		
Total current assets.....	\$ 13.1	\$ 15.6	\$ 28.7
Property and equipment .....	\$ 248.3	\$ (0.3)	\$ 248.0
Goodwill.....	\$ 155.6	\$ 71.2	\$ 226.8
Franchise rights and other .....	\$ 507.3	\$ (70.0)	\$ 437.3
Intangible assets subject to amortization, net.....	\$ 129.5	\$ (41.0)	\$ 88.5
Total assets .....	\$ 1,082.6	\$ (24.5)	\$ 1,058.1
Other accrued and current liabilities .....	\$ 22.9	\$ 16.7	\$ 39.6
Members' capital (a).....	\$ 355.1	\$ (41.2)	\$ 313.9
Total liabilities and members' capital.....	\$ 1,082.6	\$ (24.5)	\$ 1,058.1

- (a) The adjustment to members' capital relates to the deferred income tax impacts of the adjustments to the OneLink acquisition accounting that are retained by our Class A member.

We did not retrospectively revise our condensed statements of operations for periods prior to the three months ended June 30, 2013 to reflect the impacts of the adjustments set forth in the above table, as these adjustments had no material effect on our results of operations for such periods.

***Pro Forma Information***

The following unaudited pro forma operating results for the three and nine months ended September 30, 2012 give effect to the acquisition of OneLink as if it had been completed as of January 1, 2012. These unaudited pro forma amounts are not necessarily indicative of the operating results that would have occurred if this transaction had occurred on such date. The pro forma adjustments are based on certain assumptions that we believe are reasonable.

	<b>Three months ended</b>	<b>Nine months ended</b>
	<b>September 30, 2012</b>	<b>September 30, 2012</b>
	<b>in millions</b>	
Revenue.....	\$ 73.7	\$ 222.1
Net loss.....	\$ (9.6)	\$ (9.1)

**(4) Derivative Instruments**

Prior to the Puerto Rico Transaction, we were a party to certain interest rate derivative contracts that we had entered into to manage interest rate exposure. We did not apply hedge accounting to these derivative instruments. Accordingly, changes in the fair values of these contracts were recorded in realized and unrealized gains or losses on derivative instruments, net, in our condensed statements of operations. In the periods following the Puerto Rico Transaction, we have not entered into any derivative contracts.

**LIBERTY CABLEVISION OF PUERTO RICO LLC**  
**Notes to Condensed Financial Statements — (Continued)**  
**September 30, 2013**  
**(unaudited)**

**(5) Fair Value Measurements**

GAAP provides for a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. Level 1 inputs are quoted market prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 2 inputs are inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability. We record transfers of assets or liabilities in or out of Levels 1, 2 or 3 at the beginning of the quarter during which the transfer occurred. During the nine months ended September 30, 2013, no such transfers were made.

Prior to the Puerto Rico Transaction, we were a party to certain interest rate derivative contracts to manage our interest rate exposure. With respect to these derivative contracts, all of our Level 2 inputs (interest rates, yield curves and certain of the inputs for our weighted average cost of capital calculations) and certain of our Level 3 inputs (forecasted volatilities and credit spreads) were obtained from pricing services. These inputs, or interpolations or extrapolations thereof, were used in our internal models to calculate, among other items, yield curves, forward interest and currency rates and weighted average cost of capital rates. In the normal course of business, we received market value assessments from the counterparties to our derivative contracts. Although we compared these assessments to our internal valuations and investigated unexpected differences, we did not otherwise rely on counterparty quotes to determine the fair values of our derivative instruments. The midpoints of applicable bid and ask ranges generally were used as inputs for our internal valuations. The recurring fair value measurements of these derivative instruments were determined using discounted cash flow models. Most of the inputs to these discounted cash flow models consisted of, or were derived from, observable Level 2 data for substantially the full term of these derivative instruments. This observable data included applicable interest rates, swap rates and yield curves, which were retrieved or derived from available market data. Although we may have extrapolated or interpolated this data, we did not otherwise alter this data in performing our valuations. We incorporated a credit risk valuation adjustment in our fair value measurements to estimate the impact of our own nonperformance risk. Our credit spreads were Level 3 inputs that were used to derive the credit risk valuation adjustments with respect to our interest rate derivative valuations. As we did not expect changes in our credit spreads to have a significant impact on the valuations of these derivative instruments, we determined that these valuations fell under Level 2 of the fair value hierarchy.

Fair value measurements are also used in connection with nonrecurring valuations performed in connection with impairment assessments and acquisition accounting. These nonrecurring valuations include the valuation of intangible assets related to customer relationships and cable television franchise rights, property and equipment and the implied value of goodwill. With the exception of certain inputs for our weighted average cost of capital and discount rate calculations that are derived from pricing services, the inputs used in our discounted cash flow analyses, such as forecasts of future cash flows, are based on our assumptions. The valuations of our customer relationships and cable television franchise rights intangible assets are each primarily based on an excess earnings methodology, which is a form of a discounted cash flow analysis. The excess earnings methodology requires us to estimate the specific cash flows expected from the respective customer relationship and cable television franchise rights intangible assets, considering such factors as estimated customer life, the revenue expected to be generated over the life of the customer or cable television franchise rights, contributory asset charges, and other factors. Tangible assets are typically valued using a replacement or reproduction cost approach, considering factors such as current prices of the same or similar equipment, the age of the equipment and economic obsolescence. The implied value of goodwill is determined by allocating the fair value of the reporting unit to all of the assets and liabilities of that unit as if the reporting unit had been acquired in a business combination, with the residual amount allocated to goodwill. All of our nonrecurring valuations use significant unobservable inputs and therefore fall under Level 3 of the fair value hierarchy. As further described in note 3, we performed nonrecurring fair value measurements in connection with the Puerto Rico Transaction.

**LIBERTY CABLEVISION OF PUERTO RICO LLC**  
**Notes to Condensed Financial Statements — (Continued)**  
**September 30, 2013**  
**(unaudited)**

**(6) Long-lived Assets**

***Property and Equipment, Net***

The details of our property and equipment and the related accumulated depreciation are set forth below:

	<b>September 30, 2013</b>	<b>December 31, 2012 <sup>(1)</sup></b>
	<b>in millions</b>	
Cable distribution systems .....	\$ 346.9	\$ 301.2
Support equipment, buildings and land.....	24.3	17.2
	371.2	318.4
Accumulated depreciation.....	(104.6)	(70.4)
Total property and equipment, net.....	\$ 266.6	\$ 248.0

<sup>(1)</sup>As revised – see note 3

Depreciation expense related to our property and equipment was \$12.0 million and \$5.8 million during the three months ended September 30, 2013 and 2012, respectively, and \$34.9 million and \$16.9 million during the nine months ended September 30, 2013 and 2012, respectively.

***Goodwill***

Our entire goodwill balance at September 30, 2013 was recorded in connection with the acquisition of OneLink. If, among other factors, (i) our enterprise value were to decline significantly or (ii) the adverse impacts of economic, competitive, regulatory or other factors were to cause our results of operations or cash flows to be worse than anticipated, we could conclude in future periods that impairment charges are required in order to reduce the carrying values of our goodwill, franchise costs and, to a lesser extent, other long-lived assets.

***Intangible Assets Subject to Amortization, Net***

The details of our intangible assets subject to amortization are set forth below:

	<b>September 30, 2013</b>			<b>December 31, 2012 <sup>(1)</sup></b>		
	<b>Gross carrying amount</b>	<b>Accumulated amortization</b>	<b>Net carrying amount</b>	<b>Gross carrying amount</b>	<b>Accumulated amortization</b>	<b>Net carrying amount</b>
	<b>in millions</b>					
Customer relationships .....	\$ 90.0	\$ (8.0)	\$ 82.0	\$ 90.0	\$ (1.9)	\$ 88.1
Other .....	0.5	(0.2)	0.3	0.5	(0.1)	0.4
Total.....	\$ 90.5	\$ (8.2)	\$ 82.3	\$ 90.5	\$ (2.0)	\$ 88.5

<sup>(1)</sup> As revised – see note 3.

Amortization of intangible assets with finite useful lives was \$2.2 million and \$6.2 million during three and nine months ended September 30, 2013, respectively. We had no intangible assets subject to amortization prior to the completion of the acquisition of OneLink.

**LIBERTY CABLEVISION OF PUERTO RICO LLC**  
**Notes to Condensed Financial Statements — (Continued)**  
**September 30, 2013**  
**(unaudited)**

***Indefinite-lived Intangible Assets***

Our indefinite-lived intangible assets, comprised primarily of cable television franchise rights, were \$437.6 million at September 30, 2013.

For information regarding the impacts of adjustments to the OneLink acquisition accounting on our intangible assets (including goodwill), see note 3.

**(7) Debt and Capital Lease Obligations**

Our debt and capital lease obligations are as follows:

	<u>September 30, 2013</u>					
	Weighted average interest rate (a)	Unused borrowing capacity (b)	<u>Estimated fair value (c)</u>		<u>Carrying value (d)</u>	
			September 30, 2013	December 31, 2012	September 30, 2013	December 31, 2012
in millions						
Third-party debt – Liberty Puerto Rico Bank Facility (e) .....	6.88%	\$ 25.0	\$ 658.4	\$ 667.0	\$ 656.4	\$ 663.9
Related-party debt – Shareholder Loan (f) .....	10.00%	—	(f)	(f)	13.3	10.0
Total debt .....	<u>6.94%</u>	<u>\$ 25.0</u>			<u>669.7</u>	<u>673.9</u>
Capital lease obligations .....					1.7	0.6
Total debt and capital lease obligations .....					<u>671.4</u>	<u>674.5</u>
Current maturities .....					(5.7)	(5.3)
Long-term debt and capital lease obligations .....					<u>\$ 665.7</u>	<u>\$ 669.2</u>

- (a) Represents the weighted average interest rate in effect at September 30, 2013 for all borrowings outstanding pursuant to each debt instrument including any applicable margin. The interest rates presented represent stated rates and do not include the impact of deferred financing costs, original issue discounts or commitment fees, all of which affect our overall cost of borrowing. Including the effects of original issue discounts and commitment fees, but excluding the impact of financing costs, our weighted average interest rate on our aggregate variable and fixed rate indebtedness was approximately 6.9% at September 30, 2013.
- (b) Unused borrowing capacity represents the maximum availability under the Revolving Facility (as defined below) at September 30, 2013 without regard to covenant compliance calculations or other conditions precedent to borrowing. At September 30, 2013, our availability under the Revolving Facility was limited to \$14.6 million. When the relevant September 30, 2013 compliance reporting requirements have been completed and assuming no changes from the September 30, 2013 borrowing levels, we anticipate that the full amount of the Revolving Facility will be available.
- (c) The estimated fair values of our debt instruments were determined using the average of applicable bid and ask prices (generally Level 2 of the fair value hierarchy). For additional information concerning fair value hierarchies, see note 5.
- (d) The carrying values of the Liberty Puerto Rico Bank Facility include the impact of premiums and discounts.
- (e) The Liberty Puerto Rico Bank Facility consists of (i) a \$145.0 million second lien loan, (ii) a \$345.0 million term loan, (iii) a \$175.0 million term loan and (iv) a \$25.0 million revolving credit facility (the Revolving Facility).
- (f) The fair value of the Shareholder Loan, as defined and described below, is not subject to reasonable estimation due to the related-party nature of this loan.

**LIBERTY CABLEVISION OF PUERTO RICO LLC**  
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***Shareholder Loan***

On December 31, 2012, Liberty Puerto Rico entered into a loan agreement with LG Broadband Operations (the Shareholder Loan). The Shareholder Loan is pledged and subordinated in right of payment to the prior payment in full of the loans under the Liberty Puerto Rico Bank Facility in the event of certain insolvency or similar events in respect of Liberty Puerto Rico. The Shareholder Loan currently bears interest at 10.0% per annum and has a repayment date of the first anniversary of the latest maturity date of the loans under the Liberty Puerto Rico Bank Facility. Accrued and unpaid interest on the Shareholder Loan is due and payable either monthly, capitalized annually or on the repayment date. On February 13, 2013, the Shareholder Loan was amended and restated, whereby certain of the Searchlight affiliates provided an irrevocable, absolute and unconditional guarantee to LG Broadband Operations for the repayment of the original advance under the Shareholder Loan, including accrued interest, limited to Searchlight's 40.0% pro rata portion. The increase in the Shareholder Loan balance during 2013 relates to further cash borrowings of \$3.3 million.

***Maturities of Debt and Capital Lease Obligations***

Maturities of our debt and capital lease obligations as of September 30, 2013 are presented below:

*Debt:*

	<b>Third-party debt</b>	<b>Shareholder Loan</b>	<b>Total</b>
	<b>in millions</b>		
Year ending December 31:			
2013 (remainder of year).....	\$ 2.2	\$ —	\$ 2.2
2014 .....	5.2	—	5.2
2015 .....	5.2	—	5.2
2016 .....	5.2	—	5.2
2017 .....	492.3	—	492.3
2018 .....	145.0	—	145.0
Thereafter .....	—	13.3	13.3
Total debt maturities.....	655.1	13.3	668.4
Unamortized premium.....	1.3	—	1.3
Total debt.....	<u>\$ 656.4</u>	<u>\$ 13.3</u>	<u>\$ 669.7</u>
Current portion.....	<u>\$ 5.2</u>	<u>\$ —</u>	<u>\$ 5.2</u>
Noncurrent portion.....	<u>\$ 651.2</u>	<u>\$ 13.3</u>	<u>\$ 664.5</u>



**LIBERTY CABLEVISION OF PUERTO RICO LLC**  
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*Capital lease obligations (in millions):*

Year ending December 31:		
2013 (remainder of year) .....	\$	0.2
2014 .....		0.5
2015 .....		0.5
2016 .....		0.4
2017 .....		0.3
2018 .....		—
Thereafter .....		—
Total principal and interest payments .....		<u>1.9</u>
Amounts representing interest .....		<u>(0.2)</u>
Present value of net minimum lease payments .....	\$	<u>1.7</u>
Current portion .....	\$	<u>0.5</u>
Noncurrent portion .....	\$	<u>1.2</u>

**(8) Income Taxes**

Prior to the November 2012 Merger, our predecessor was treated as a separate tax-paying corporation in Puerto Rico. Effective with our formation in the November 2012 Merger, we are treated as a partnership that is not a separate tax-paying entity for U.S. federal or Puerto Rico income tax purposes.

Income tax expense consists of the following:

	<b>Three months ended September 30, 2012</b>	<b>Nine months ended September 30, 2012</b>
	<u>in millions</u>	
Current .....	\$ 5.2	\$ 2.6
Deferred .....	(2.8)	(4.4)
Total .....	<u>\$ 2.4</u>	<u>\$ (1.8)</u>

Income tax expense attributable to our company's earnings (loss) before income taxes differs from the amounts computed by applying the U.S. federal income tax rate of 35.0%, as a result of the following:

	<b>Three months ended September 30, 2012</b>	<b>Nine months ended September 30, 2012</b>
	<u>in millions</u>	
Computed "expected" tax benefit (expense) .....	\$ 1.7	\$ (0.8)
Puerto Rico income tax .....	1.8	0.2
Other, net .....	(1.1)	(1.2)
Total .....	<u>\$ 2.4</u>	<u>\$ (1.8)</u>

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**(9) Restructuring Liabilities**

A summary of changes in our restructuring liabilities during the nine months ended September 30, 2013 is set forth below (in millions):

Restructuring liability as of January 1, 2013.....	\$	0.3
Restructuring charges.....		5.3
Cash paid.....		(3.6)
Restructuring liability as of September 30, 2013.....	<u>\$</u>	<u>2.0</u>

All of our restructuring liabilities are related to employee severance and termination costs related to reorganization and integration activities, primarily associated with the Puerto Rico Transaction. Our restructuring liability is included in other accrued and current liabilities in our condensed balance sheet as of September 30, 2013.

**(10) Members' Capital**

In accordance with our limited liability agreement, an \$8.0 million Priority Return, as defined in our limited liability company agreement, was accrued and recorded as an increase to Class A Preferred Unit Member capital and a decrease to Class B Common Unit Member capital during the nine months ended September 30, 2013. Such Priority Return will be reflected as a liability when and if declared. The Priority Return amounts reflected in our statement of changes in member's capital during the nine months ended September 30, 2013 also include adjustments to properly reflect the Priority Return accrued during 2012 following the November 2012 Merger.

**(11) Commitments and Contingencies**

***Commitments***

In the normal course of business, we have entered into agreements that commit our company to make cash payments in future periods with respect to internet bandwidth agreements and non-cancelable operating leases. We expect that in the normal course of business, operating leases that expire generally will be renewed or replaced by similar leases. As of September 30, 2013, such commitments are as follows:

	<u>Payments due during:</u>							<u>Total</u>
	<u>Remainder of 2013</u>	<u>Year ending December 31,</u>					<u>Thereafter</u>	
	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>			
	<u>in millions</u>							
Internet bandwidth agreements.....	\$ 0.3	\$ 1.2	\$ 1.2	\$ 1.2	\$ 1.2	\$ 1.2	\$ 6.6	\$ 12.9
Operating leases.....	0.3	0.9	0.6	0.4	0.2	0.2	0.3	2.9
Total.....	<u>\$ 0.6</u>	<u>\$ 2.1</u>	<u>\$ 1.8</u>	<u>\$ 1.6</u>	<u>\$ 1.4</u>	<u>\$ 1.4</u>	<u>\$ 6.9</u>	<u>\$ 15.8</u>

In addition to the obligations set forth in the table above, we have certain commitments under agreements with programming vendors, franchise authorities and municipalities pursuant to which we expect to make payments in future periods. While our programming commitments do not require that we pay any fixed minimum fees, we expect to make significant future payments under these contracts based on the actual number of subscribers to the programming services. In this regard, during the nine months ended September 30, 2013 and 2012, we incurred programming and copyright costs of \$62.7 million and \$23.7 million, respectively.

***Legal and Regulatory Proceedings and Other Contingencies***

*Regulatory Issues.* Adverse regulatory developments could subject our businesses to a number of risks. Regulation could limit growth, revenue and the number and types of services offered and could lead to increased operating costs and capital expenditures. In addition, regulation may restrict our operations and subject them to further competitive pressure, including pricing

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restrictions, interconnect and other access obligations and restrictions or controls on content, including content provided by third parties. Failure to comply with current or future regulation could expose our businesses to various penalties.

*OneLink.* Liberty Puerto Rico, as the surviving entity in the Puerto Rico Transaction, is a party to certain lawsuits previously asserted against OneLink, including a claim that OneLink acted in an anticompetitive manner in connection with a series of legal and regulatory proceedings it initiated against the incumbent telephone operator in Puerto Rico beginning in 2009. The Seller has partially indemnified us for any losses we may incur up to a specified maximum amount. Although the amount of damages has not been specified, the acquisition accounting for the OneLink acquisition includes a provision and a related indemnification asset representing our best estimate of the net loss we may incur upon the settlement of this matter. While we expect that the net amount required to satisfy this contingency will not materially differ from the estimated amount we have accrued, no assurance can be given that the ultimate resolution of this matter will not result in a material impact on our results of operations or cash flows in any given period.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis, which should be read in conjunction with our condensed financial statements and the discussion and analysis included in our 2012 annual report, is intended to assist in providing an understanding of our financial condition, changes in financial condition and results of operations and is organized as follows:

- *Forward-Looking Statements.* This section provides a description of certain of the factors that could cause actual results or events to differ materially from anticipated results or events.
- *Overview.* This section provides a general description of our business, our product offerings and recent events.
- *Material Changes in Results of Operations.* This section provides an analysis of our results of operations for the three and nine months ended September 30, 2013 and 2012.
- *Material Changes in Financial Condition.* This section provides an analysis of our liquidity and condensed statements of cash flows.

The capitalized terms used below have been defined in the notes to our condensed financial statements. In the following text, the terms, “we,” “our,” “our company” and “us” may refer, as the context requires, to Liberty Puerto Rico or its predecessors, as applicable.

### Forward-Looking Statements

Certain statements in this quarterly report constitute forward-looking statements. To the extent that statements in this quarterly report are not recitations of historical fact, such statements constitute forward-looking statements, which, by definition, involve risks and uncertainties that could cause actual results to differ materially from those expressed or implied by such statements. In particular, statements under *Management's Discussion and Analysis of Financial Condition and Results of Operations* contain forward-looking statements, including statements regarding our expectations with respect to our growth prospects, the economic environment in Puerto Rico, the future projected cash flows associated with our commitments, our business, product, finance strategies, our property and equipment additions, subscriber growth and retention rates, competitive, regulatory and economic factors, the maturity of our markets, anticipated cost increases, liquidity, credit risks, and target leverage levels. Where, in any forward-looking statement, we express an expectation or belief as to future results or events, such expectation or belief is expressed in good faith and believed to have a reasonable basis, but there can be no assurance that the expectation or belief will result or be achieved or accomplished. The following are some but not all of the factors that could cause actual results or events to differ materially from anticipated results or events:

- economic and business conditions and industry trends in Puerto Rico;
- the competitive environment in the broadband communications and programming industries in Puerto Rico, including competitor responses to our products and services;
- fluctuations in interest rates;
- instability in global financial markets, including sovereign debt issues and related fiscal reforms;
- consumer disposable income and spending levels, including the availability and amount of individual consumer debt;
- changes in consumer television viewing preferences and habits;
- consumer acceptance of our existing service offerings, including our digital video, broadband internet and telephony offerings, and of new technology, programming alternatives and other products and services that we may offer in the future;
- our ability to manage rapid technological changes;
- our ability to maintain or increase the number of subscriptions to our digital video, broadband internet and telephony offerings and our average revenue per household;

- our ability to provide satisfactory customer service, including support for new and evolving products and services;
- our ability to maintain or increase rates to our subscribers or to pass through increased costs to our subscribers;
- the impact of our future financial performance, or market conditions generally, on the availability, terms and deployment of capital;
- changes in, or failure or inability to comply with, government regulations in Puerto Rico and adverse outcomes from regulatory proceedings;
- government intervention that opens our broadband distribution network to competitors;
- our ability to obtain regulatory approval and satisfy other conditions necessary to close acquisitions and dispositions and the impact of conditions imposed by competition and other regulatory authorities in connection with acquisitions;
- changes in laws and government regulations that may impact the availability and cost of credit and the derivative instruments that hedge certain of our financial risks;
- the ability of suppliers and vendors to timely deliver quality products, equipment, software and services;
- the availability of attractive programming for our digital video services at reasonable costs;
- uncertainties inherent in the development and integration of new business lines and business strategies;
- our ability to adequately forecast and plan future network requirements;
- the availability of capital for the acquisition and/or development of our telecommunications network and services;
- our ability to successfully integrate and realize anticipated efficiencies from the businesses we acquire;
- problems we may discover post-closing with the operations, including the internal controls and financial reporting process, of businesses we acquire;
- the outcome of any pending or threatened litigation;
- the loss of key employees and the availability of qualified personnel;
- changes in the nature of key strategic relationships with partners and joint venturers; and
- events that are outside of our control, such as political unrest, terrorist attacks, malicious human acts, natural disasters, pandemics and other similar events.

The broadband communications services industries are changing rapidly and, therefore, the forward-looking statements of expectations, plans and intent in this quarterly report are subject to a significant degree of risk. These forward-looking statements and the above-described risks, uncertainties and other factors speak only as of the date of this quarterly report, and we expressly disclaim any obligation or undertaking to disseminate any updates or revisions to any forward-looking statement contained herein, to reflect any change in our expectations with regard thereto, or any other change in events, conditions or circumstances on which any such statement is based. Readers are cautioned not to place undue reliance on any forward-looking statement.

## Overview

Liberty Puerto Rico is a broadband communications provider of video, broadband internet and telephony services in Puerto Rico. Liberty Puerto Rico was formed in connection with the Puerto Rico Transaction, as further described in note 3 to our condensed financial statements. LG Broadband Operations indirectly owns a 60.0% controlling interest in Liberty Puerto Rico, with the remaining 40.0% interest indirectly owned by Searchlight. LG Broadband Operations is an indirect wholly-owned subsidiary of Liberty Global, an international broadband communications provider of video, broadband internet and telephony services.

As a result of LG Broadband Operations' 60.0% controlling interest in Liberty Puerto Rico, Old Liberty Puerto Rico is deemed to be the acquirer of OneLink in the Puerto Rico Transaction and, accordingly, the predecessor company to Liberty Puerto Rico for financial reporting purposes. Accordingly, OneLink is included in our financial statements effective November 8, 2012 at Old Liberty Puerto Rico's cost basis. The comparability of our operating results during 2013 and 2012 is affected by the acquisition of OneLink.

For additional information, see notes 1 and 3 to our condensed financial statements.

Our digital cable service offerings include basic and premium programming and incremental offerings such as enhanced pay-per-view programming (including video-on-demand). Our residential subscribers generally access the internet via cable modems connected to their personal computers at various download speeds ranging up to 60 Mbps, depending on the tier of service selected. We determine pricing for each different tier of broadband internet service through analysis of speed, data limits, market conditions and other factors. We offer telephony services using voice-over-internet-protocol or "VoIP" technology.

Our revenue includes revenue earned from subscribers for ongoing services, revenue earned from advertising, late fees and installation fees. We use the term "subscription revenue" in the following discussion to refer to amounts received from subscribers for ongoing services, excluding late fees and installation fees.

We strive to achieve organic revenue and customer growth in our operations by developing and marketing bundled entertainment and information and communications services, and extending and upgrading the quality of our network where appropriate. As we use the term, organic growth excludes the estimated impact of acquisitions. While we seek to obtain new customers, we also seek to maximize the average revenue we receive from each household by increasing the penetration of our digital cable, broadband internet and telephony services, with existing customers through product bundling and upselling.

At September 30, 2013, we owned and operated a network that passed 704,300 homes and served 519,100 revenue generating units (RGUs), consisting of 209,000 video subscribers, 188,100 broadband internet subscribers and 122,000 telephony subscribers. We added a total of 13,300 and 39,900 RGUs on an organic basis during the three and nine months ended September 30, 2013, respectively, as compared to 5,200 and 12,400 RGUs that we added on an organic basis during the three and nine months ended September 30, 2012, respectively. The organic RGU growth during the three and nine months ended September 30, 2013 is attributable to the growth of our (i) telephony services, which added 9,500 and 27,700 RGUs, respectively, (ii) broadband internet services, which added 1,600 and 9,100 RGUs, respectively, and (iii) video services, which added 2,200 and 3,100 RGUs, respectively.

We are facing a challenging economic environment in Puerto Rico. This environment could adversely impact our ability to increase, or in certain cases, maintain the revenue, RGUs, operating cash flow (defined as revenue less operating and SG&A expenses (excluding share-based compensation, depreciation and amortization and impairment, restructuring and other operating items)) and liquidity of our business, particularly if the economic environment were to weaken further.

The video, broadband internet and telephony businesses in which we operate are capital intensive. Significant additions to our property and equipment are required to add customers to our network and to upgrade our broadband communications network and customer premises equipment to enhance our service offerings and improve customer experience, including expenditures for equipment and labor costs. Significant competition, the introduction of new technologies, the expansion of existing technologies such as fiber-to-the-home, or adverse regulatory developments could cause us to decide to undertake previously unplanned upgrades of our network and customer premises equipment. In addition, no assurance can be given that any future upgrades will generate a positive return or that we will have adequate capital available to finance such future upgrades. If we are unable to, or elect not to, pay for costs associated with adding new customers, expanding or upgrading our network or making our other planned or

unplanned additions to our property and equipment, our growth could be limited and our competitive position could be harmed. For information regarding our property and equipment additions, see *Material Changes in Financial Condition – Condensed Statements of Cash Flows* below.

We rely on third-party vendors for the equipment, software and services that we require in order to provide services to our customers. Our suppliers often conduct business worldwide and their ability to meet our needs are subject to various risks, including political and economic instability, natural calamities, interruptions in transportation systems, terrorism and labor issues. As a result, we may not be able to obtain the equipment, software and services required for our businesses on a timely basis or on satisfactory terms. Any shortfall in customer premises equipment could lead to delays in connecting customers to our services and, accordingly, could adversely impact our ability to maintain or increase our RGUs, revenue and cash flows.

## Material Changes in Results of Operations

### General

As noted under *Overview* above, the comparability of our operating results during 2013 and 2012 is affected by the acquisition of OneLink. In the following discussion, we quantify the estimated impact of this acquisition on our operating results. The acquisition impact represents our estimate of the difference between the operating results of the periods under comparison that is attributable to an acquisition. In general, we base our estimate of the acquisition impact on an acquired entity's operating results during the first three months following the acquisition date such that changes from those operating results in subsequent periods are considered to be organic changes. Accordingly, in the following discussion, variances attributed to the acquisition of OneLink during the first twelve months following the acquisition date represent differences between the estimated acquisition impact and the actual results.

### Revenue

Our revenue by major category is set forth below:

	Three months ended September 30,		Increase		Organic increase (decrease)
	2013	2012	\$	%	%
	in millions				
Subscription revenue (a):					
Video.....	\$ 37.3	\$ 13.8	\$ 23.5	170.3	(5.0)
Broadband internet.....	23.8	10.4	13.4	128.8	14.5
Telephony .....	7.6	3.3	4.3	130.3	21.5
Total subscription revenue.....	68.7	27.5	41.2	149.8	5.6
Non-subscription revenue (b).....	6.0	2.7	3.3	122.2	15.4
Total.....	\$ 74.7	\$ 30.2	\$ 44.5	147.4	6.4

	Nine months ended September 30,		Increase		Organic increase (decrease)
	2013	2012	\$	%	%
	in millions				
Subscription revenue (a):					
Video.....	\$ 112.0	\$ 42.2	\$ 69.8	165.4	(7.2)
Broadband internet.....	70.9	30.6	40.3	131.7	16.2
Telephony .....	22.2	9.5	12.7	133.7	18.5
Total subscription revenue.....	205.1	82.3	122.8	149.2	4.5
Non-subscription revenue (b).....	16.9	7.7	9.2	119.5	8.8
Total.....	\$ 222.0	\$ 90.0	\$ 132.0	146.7	4.8

(a) Subscription revenue includes amounts received from subscribers for ongoing services, excluding advertising revenue, late fees and installation fees. Subscription revenue from subscribers who purchase bundled services at a discounted rate is generally allocated proportionally to each service based on the standalone price for each individual service.

(b) Non-subscription revenue primarily consists of advertising revenue, late fees and installation fees.

Our total revenue increased \$44.5 million and \$132.0 million during the three and nine months ended September 30, 2013, respectively, as compared to the corresponding periods in 2012. These increases include \$42.6 million and \$127.6 million, respectively, attributable to the impact of the acquisition of OneLink. Excluding the effects of the acquisition of OneLink, total revenue increased \$1.9 million or 6.4% and \$4.4 million or 4.8%, respectively.

*Subscription revenue.* The details of the increases in our subscription revenue during the three and nine months ended September 30, 2013, as compared to the corresponding periods in 2012, are as follows:

	Three-month period	Nine-month period
	in millions	
Increase (decrease) in subscription revenue due to change in:		
Average number of RGUs.....	\$ 4.6	\$ 11.4
Average monthly subscription revenue per average RGU (ARPU) .....	(3.1)	(7.7)
Organic increase .....	1.5	3.7
Impact of the acquisition of OneLink.....	39.7	119.1
Total increase in subscription revenue .....	\$ 41.2	\$ 122.8



Excluding the effect of the acquisition of OneLink, our subscription revenue increased \$1.5 million and \$3.7 million during the three and nine months ended September 30, 2013, respectively, as compared to the corresponding periods in 2012. These increases are attributable to the net effect of (i) increases in subscription revenue from broadband internet services of \$1.5 million or 14.5% and \$5.0 million or 16.2%, respectively, due to (a) increases in our average numbers of broadband internet RGUs and (b) higher ARPU from broadband internet services, (ii) increases in subscription revenue from telephony services of \$0.7 million or 21.5% and \$1.8 million or 18.5%, respectively, as the impacts of increases in the average number of telephony RGUs were only partially offset by declines in ARPU from telephony services, and (iii) decreases in subscription revenue from video services of \$0.7 million or 5.0% and \$3.1 million or 7.2%, respectively, as the impacts of lower ARPU from video services were only partially offset by increases in our average numbers of video RGUs. The higher ARPU from broadband internet services is primarily attributable to increased proportions of subscribers receiving higher-priced tiers of services. The declines in ARPU from video services is primarily due to (i) increased proportions of subscribers receiving lower-priced tiers of services and (ii) lower ARPU from incremental services. In addition, ARPU from video, broadband internet and telephony services was adversely impacted by the impacts of higher bundling discounts during the 2013 periods.

*Non-subscription revenue.* Excluding the effect of the acquisition of OneLink, our non-subscription revenue increased \$0.4 million or 15.4% and \$0.7 million or 8.8% during the three and nine months ended September 30, 2013, respectively, as compared to the corresponding periods in 2012, due largely to increased installation revenue.

#### *Operating expenses*

Operating expenses include programming, network operations, interconnect, customer operations, customer care, share-based compensation and other direct costs. Programming and copyright costs, which represent a significant portion of our operating costs, are expected to rise in future periods as a result of (i) higher costs associated with the expansion of our digital video content, including rights associated with ancillary product offerings, (ii) increased penetration of our premium digital products and tiers and (iii) rate increases. Any cost increases that we are not able to pass on to our subscribers through service rate increases would result in increased pressure on our operating margins.

Total operating expenses increased \$22.0 million or 159.4% and \$67.6 million or 159.8% during the three and nine months ended September 30, 2013, respectively, as compared to the corresponding periods in 2012. These increases include \$22.7 million and \$68.0 million, respectively, attributable to the impact of the acquisition of OneLink. Excluding the effect of the acquisition of OneLink, our total operating expenses decreased \$0.7 million or 5.1% and \$0.4 million or 0.9%, respectively. These decreases are primarily due to the net effect of (i) decreases in personnel costs, (ii) increases in professional fees, (iii) decreases in bad debt and collection expense and (iv) increases in programming and related costs, primarily due to increased rates.

#### *SG&A expenses*

SG&A expenses include human resources, information technology, general services, management, finance, legal, marketing costs, share-based compensation and other general expenses.

Total SG&A expenses increased \$6.4 million or 118.5% and \$21.1 million or 148.6% during the three and nine months ended September 30, 2013, respectively, as compared to the corresponding periods in 2012. These increases include \$6.4 million and \$19.1 million, respectively, attributable to the impact of the acquisition of OneLink. Excluding the effect of the acquisition of OneLink, our total SG&A expenses remained relatively unchanged during the three-month period and increased \$2.0 million or 14.1% during the nine-month period. These changes are primarily due to the net effect of (i) increases in professional fees, primarily associated with legal proceedings, (ii) increases in personnel costs, (iii) increases in facilities-related costs and (iv) decreases in marketing and advertising costs.

#### *Depreciation and amortization expense*

Our depreciation and amortization expense increased \$8.4 million or 144.8% and \$24.2 million or 143.2% during the three and nine months ended September 30, 2013, respectively, as compared to the corresponding periods in 2012. These increases are primarily attributable to the net effect of (i) increases associated with the acquisition of OneLink and (ii) increases associated with property and equipment additions related to (a) new build and upgrade projects to expand services and (b) the installation of customer premises equipment.

### *Impairment, restructuring and other operating items, net*

We recognized impairment, restructuring and other operating items, net, of \$2.2 million and \$8.3 million during the three and nine months ended September 30, 2013, respectively, as compared to \$3.3 million and \$3.6 million during the three and nine months ended September 30, 2012. The 2013 nine-month amounts include \$5.3 million of restructuring charges, related primarily to severance payments, and \$2.4 million of direct acquisition costs incurred in connection with certain claims against the Seller, as described in note 3 to our condensed financial statements. The 2012 nine-month amount is primarily attributable to direct acquisition costs incurred in connection with the Puerto Rico Transaction.

If, among other factors, (i) our enterprise value were to decline significantly or (ii) the adverse impacts of economic, competitive, regulatory or other factors were to cause our results of operations or cash flows to be worse than anticipated, we could conclude in future periods that impairment charges are required in order to reduce the carrying values of our goodwill, franchise costs and, to a lesser extent, other long-lived assets.

### *Interest expense – third-party*

Interest expense – third-party increased \$9.9 million and \$31.4 million during the three and nine months ended September 30, 2013, respectively, as compared to the corresponding periods in 2012. These increases are primarily due to increases in our debt balances attributable to the debt of OneLink that was added in connection with the Puerto Rico Transaction. For additional information, see note 7 to our condensed financial statements.

### *Interest expense – related-party*

Interest expense – related-party increased \$0.3 million and \$0.8 million during the three and nine months ended September 30, 2013, respectively, as compared to the corresponding periods in 2012. These increases are due to the higher weighted average balance of our Shareholder Loan. For additional information, see note 7 to our condensed financial statements.

### *Realized and unrealized losses on derivative instruments, net*

Our realized and unrealized gains or losses on derivative instruments include (i) unrealized changes in the fair values of our derivative instruments that are non-cash in nature until such time as the underlying contracts are fully or partially settled and (ii) realized gains or losses upon the full or partial settlement of the underlying contracts. We incurred net losses related to our interest rate exchange contracts of \$0.4 million and \$2.2 million during the three and nine months ended September 30, 2012, respectively. For additional information regarding our derivative instruments, see notes 4 and 5 to our condensed financial statements.

### *Income tax expense*

Prior to the November 2012 Merger, our predecessor was treated as a separate tax-paying corporation in Puerto Rico. Effective with our formation in the November 2012 Merger, we are treated as a partnership that is not a separate tax-paying entity for U.S. federal or Puerto Rico income tax purposes.

We recognized income tax benefit of \$2.4 million and income tax expense of \$1.8 million during the three and nine months ended September 30, 2012, respectively. The income tax benefit during the three months ended September 30, 2012 differs from the expected income tax benefit of \$1.7 million (based on the U.S. federal income tax rate of 35.0%), due primarily to the impact of (i) the Puerto Rico income tax and (ii) permanent differences between the financial and tax accounting treatment for certain items. The income tax expense during the nine months ended September 30, 2012 differs from the expected income tax expense of \$0.8 million (based on the U.S. federal income tax rate of 35.0%), due primarily to the net impact of individually insignificant items.

### *Net earnings (loss)*

We reported net losses of \$1.4 million and \$8.9 million during the three and nine months ended September 30, 2013, respectively, and a net loss of \$2.4 million and net earnings of \$0.5 million during the three and nine months ended September 30, 2012, respectively.

Our ability to achieve net earnings is largely dependent on our ability to increase our aggregate operating cash flow to a level that more than offsets the aggregate amount of our (i) depreciation and amortization, (ii) impairment, restructuring and other operating items, (iii) interest expense and (iv) other net non-operating expenses.

## **Material Changes in Financial Condition**

### ***Sources and Uses of Cash***

We had \$2.1 million of cash at September 30, 2013. In addition to our existing cash, the primary sources of our liquidity are (i) cash provided by operations and (ii) borrowing availability under the Liberty Puerto Rico Bank Facility. From time to time, our members may also agree to provide funding to our company in the form of subordinated debt or equity contributions. Our liquidity generally is used to fund capital expenditures, debt service requirements and other liquidity requirements that may arise from time to time. In addition, we may periodically require funding in connection with acquisitions or other investment opportunities.

At September 30, 2013, we had a significant working capital deficit. Over time, we expect to reduce this deficit through increases to our operating cash flow. In the meantime, we plan to closely monitor and control our working capital requirements in order to ensure the most efficient use of our capital resources. In this regard, we believe that the cash provided from our operations and any available borrowings under the Liberty Puerto Rico Bank Facility will be sufficient to fund our currently anticipated working capital needs, capital expenditures and debt service requirements during the next 12 months, although no assurance can be given that this will be the case. In the event the above sources of liquidity prove to be insufficient, we expect that we would pursue additional funding from our members or external sources. No assurance can be given that any additional funding from our members or external parties would be available to us on favorable terms, or at all.

For a discussion of our condensed cash flows, see the discussion under *Condensed Statements of Cash Flows* below.

### ***Capitalization***

At September 30, 2013, our outstanding third-party debt and capital lease obligations aggregated \$658.1 million, including \$5.7 million that is classified as current in our condensed balance sheet and \$638.9 million that is due in 2017 or thereafter.

Our ability to service or refinance our debt and to maintain compliance with our leverage covenants is dependent primarily on our ability to maintain or increase our operating cash flow and to achieve adequate returns on our capital expenditures and acquisitions. Our ability to maintain or increase our operating cash flow is dependent, to some extent, on general economic, financial, competitive, market, regulatory and other factors, many of which are beyond our control. In addition, our ability to obtain additional debt financing is limited by the leverage covenants contained in the Liberty Puerto Rico Bank Facility. In this regard, if our operating cash flow were to decline, we could be required to repay or limit our borrowings under the Liberty Puerto Rico Bank Facility in order to maintain compliance with applicable covenants. No assurance can be given that we would have sufficient sources of liquidity, or that any funding would be available on favorable terms, or at all, to fund any such required repayment. For additional information regarding available borrowings under the Liberty Puerto Rico Bank Facility, see note 7 to our condensed financial statements.

With regard to our leverage covenants, the ratio of our September 30, 2013 Senior Debt to our annualized EBITDA (last two quarters annualized) for the quarter ended September 30, 2013 was 4.10x. In addition, the ratio of our September 30, 2013 Total Debt to our annualized EBITDA (last two quarters annualized) for the quarter ended September 30, 2013 was 5.27x, with each ratio defined and calculated in accordance with the Liberty Puerto Rico Bank Facility. We do not anticipate any instances of non-compliance with respect to any of our debt covenants that would have a material adverse impact on our liquidity during the next 12 months.

As our debt matures in later years, we anticipate that we will seek to refinance or otherwise extend our debt maturities. No assurance can be given that we will be able to complete refinancing transactions or otherwise extend our debt maturities. In this regard, it is not possible to predict how economic conditions, sovereign debt concerns and/or any adverse regulatory developments could impact the credit markets we access and accordingly, our future liquidity and financial position. In addition, sustained or increased competition, particularly in combination with adverse economic or regulatory developments, could have an unfavorable impact on our cash flows and liquidity.

### **Condensed Statements of Cash Flows**

*Summary.* Our condensed statements of cash flows for the nine months ended September 30, 2013 and 2012 are summarized as follows:

	<b>Nine months ended September 30,</b>		<b>Change</b>
	<b>2013</b>	<b>2012</b>	
	<b>in millions</b>		
Net cash provided by operating activities .....	\$ 45.5	\$ 17.4	\$ 28.1
Net cash used by investing activities .....	(40.9)	(18.2)	(22.7)
Net cash provided (used) by financing activities .....	(4.9)	16.0	(20.9)
Net increase (decrease) in cash .....	<u>\$ (0.3)</u>	<u>\$ 15.2</u>	<u>\$ (15.5)</u>

*Operating activities.* The increase in net cash provided by our operating activities is primarily attributable to the net effect of (i) an increase in the cash provided by our operating cash flow and related working capital items, due to the acquisition of OneLink, and (ii) a decrease in cash provided due to higher cash payments for interest, due primarily to the acquisition of OneLink.

*Investing activities.* The increase in cash used by our investing activities is attributable to an increase in capital expenditures.

The capital expenditures that we report in our statements of cash flows do not include amounts that are financed under capital lease arrangements. Instead, these amounts are reflected as non-cash additions to our property and equipment when the underlying assets are delivered, and as repayments of debt when the principal is repaid. In the following discussion, we present (i) our capital expenditures as reported in our statements of cash flows, which exclude amounts financed under capital lease arrangements, and (ii) our total property and equipment additions, which include changes in current liabilities associated with capital expenditures and amounts that are financed under capital lease arrangements. A reconciliation of our property and equipment additions to our capital expenditures as reported in the condensed statements of cash flow is set forth below:

	<b>Nine months ended September 30,</b>	
	<b>2013</b>	<b>2012</b>
	<b>in millions</b>	
Property and equipment additions .....	\$ 53.5	\$ 18.2
Changes in current liabilities related to capital expenditures .....	(11.6)	0.7
Assets acquired under capital leases .....	(1.2)	(0.7)
Capital expenditures .....	<u>\$ 40.7</u>	<u>\$ 18.2</u>

During the nine months ended September 30, 2013 and 2012, (i) our capital expenditures were \$40.7 million and \$18.2 million, respectively, and (ii) our property and equipment additions were \$53.5 million and \$18.2 million, respectively. The increase in property and equipment additions is primarily attributable to the net effect of (a) an increase due to the acquisition of OneLink, (b) an increase in expenditures for the purchase and installation of customer premises equipment and (c) a decrease in expenditures for new build and upgrade projects to expand services. During the nine months ended September 30, 2013 and 2012, (1) capital expenditures represented 18.3% and 20.2% of our revenue, respectively, and (2) property and equipment additions represented 24.1% and 20.2% of our revenue, respectively.

*Financing activities.* The change in net cash provided (used) by our financing activities is primarily attributable to the net effect of (i) a decrease in cash related to higher net repayments of third-party debt and capital lease obligations of \$19.5 million, (ii) a decrease in cash due to changes in cash collateral of \$10.0 million, (iii) an increase in cash due to lower payments of financing costs of \$5.3 million and (iv) an increase in cash due to higher borrowings of related-party debt of \$3.3 million.

***Commitments and Contingencies***

For information regarding our commitments and contingencies, see note 11 to our condensed financial statements.