# ANNUAL REPORT
# FOR THE YEAR ENDED DECEMBER 31, 2014

## CEQUEL COMMUNICATIONS HOLDINGS I, LLC

520 Maryville Centre Drive, Suite 300
St. Louis, MO 63141
(314) 315-9400

Pursuant to (i) Section 4.12(a) of the indenture, dated as of October 25, 2012 (the "2020 Indenture"), by and among Cequel Communications Holdings I, LLC, a Delaware limited liability company ("Cequel") (as successor by merger to Cequel Communications Escrow I, LLC), Cequel Capital Corporation, a Delaware corporation ("Cequel Capital" and, together with Cequel, the "Issuers") (as successor by merger to Cequel Communications Escrow Capital Corporation), and U.S. Bank National Association, as trustee (the "Trustee"), relating to the Issuers' 6.375% Senior Notes due 2020 (the "2020 Notes"), (ii) Section 4.12(a) of the indenture, dated as of May 16, 2013 (the "2021 Indenture"), by and among Cequel, Cequel Capital, and the Trustee, relating to the Issuers' 5.125% Senior Notes due 2021 (the "Initial 2021 Notes") and (iii) Section 4.12(a) of the indenture, dated as of September 9, 2014 (the "2021 Mirror Indenture" and, together with the 2021 Indenture, the "2021 Indentures" and, together with the 2020 Indenture and the 2021 Indenture, the "Indentures"), by and among Cequel, Cequel Capital, and the Trustee, relating to the Issuers' 5.125% Senior Notes due 2021 (the "2021 Mirror Notes" and, together with the Initial 2021 Notes, the "2021 Notes" and, together with the 2020 Notes and the Initial 2021 Notes, the "Notes"), Cequel is furnishing the information contained herein to holders of the Notes.

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## CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Some statements in this Annual Report are known as "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). These forward-looking statements include, but are not limited to, statements about our plans, objectives, expectations and intentions and other statements contained in this Annual Report that are not historical facts. When used in this Annual Report, the words "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates" and similar expressions are generally intended to identify forward-looking statements. Because these forward-looking statements involve known and unknown risks and uncertainties, there are important factors that could cause actual results, events or developments to differ materially from those expressed or implied by these forward-looking statements, including the factors set forth below:

- competition for video, high-speed Internet and telephone customers;
- our ability to achieve anticipated customer and revenue growth and to successfully introduce new products and services;
- our ability to complete our capital investment plans on time and on budget;
- the effects of economic conditions or other factors which may negatively affect our customers' demand for our products or services;
- increasing programming costs and delivery expenses related to our products and services;
- increased difficulty negotiating programming and retransmission agreements on favorable terms, if at all, which may result in increased costs to us and/or the loss of popular programming, and potentially the loss of customers;
- changes in consumer preferences, laws and regulations or technology that may cause us to change our operational strategies;
- our ability to effectively integrate acquisitions and to maximize expected operating efficiencies from our acquisitions;
- our substantial indebtedness;
- the restrictions contained in our financing agreements;
- our ability to generate sufficient cash flow to meet our debt service obligations;
- fluctuations in interest rates which may cause our interest expense to vary from quarter to quarter; and
- other risks and uncertainties, including those listed under the caption "Risk Factors" in this Annual Report.

You should not place undue reliance on such forward-looking statements, which are based on the information currently available to us and speak only as of the date on which this Annual Report is posted on our website (www.suddenlink.com). We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law. However, your attention is directed to any further disclosures made on related subjects in our subsequent reports furnished to holders of the Notes.

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# PART I

*As used in this Annual Report, the term "Cequel" refers to Cequel Communications Holdings I, LLC a Delaware limited liability company; the term "Issuers" refers to Cequel and its wholly-owned subsidiary, Cequel Capital Corporation; the term "Cequel Holdings" refers to Cequel's parent company Cequel Communications Holdings, LLC, a Delaware limited liability company; the term "Cequel Corporation" refers to Cequel Holdings' parent company, Cequel Corporation, a Delaware corporation; the term "Suddenlink" refers to Cequel's wholly-owned indirect subsidiary, Cequel Communications, LLC, a Delaware limited liability company, doing business as Suddenlink Communications; the term "our manager" refers to Cequel III, LLC, which provides certain management services to us pursuant to a management agreement; and unless otherwise indicated or the context otherwise requires, the terms the "Company," "we," "us," "our" or other similar terms refer to Cequel and its consolidated subsidiaries.*

## ITEM 1. BUSINESS

### Introduction

We are the seventh largest cable system operator in the United States, making our services available over our advanced hybrid-fiber coaxial network to approximately 3.16 million homes in the United States as of December 31, 2014. We support the information, communication and entertainment demands of approximately 1,427,200 customers as of December 31, 2014. Our customer base is clustered geographically with approximately 96% of our customers located in the ten states of Texas, West Virginia, Louisiana, Arkansas, North Carolina, Oklahoma, Arizona, California, Missouri and Ohio, and 91% of our customers located within our top 20 primary systems.

We believe we are the leading integrated communications provider in our coverage areas, serving approximately 1,138,400 basic video customers as of December 31, 2014. Our cable video services include traditional basic and digital video service and, in most areas, advanced digital video services such as video on demand ("VOD"), high definition television ("HDTV") and both TiVo and traditional digital video recorders ("DVRs"). Approximately 871,900 of our basic video customers were also digital video customers. As of December 31, 2014, we provided high speed Internet services to approximately 1,149,100 residential high-speed Internet customers, provided telephone services to approximately 547,700 residential telephone customers, and provided home automation and security services to 23,100 home automation and security customers. In addition to residential subscription services, we provide high-speed Internet and telephone services, and a variety of other services such as cell tower backhaul, last mile Ethernet, Primary Rate Interface ("PRI") and regional transport services, to commercial and carrier customers and sell advertising inventory to a variety of local, regional and national customers.

We have grown both organically and through acquisitions that either expanded our existing clusters or were large enough to form a new cluster of systems. Our business was initially established through the acquisition of strategic systems from 2003 to 2006. We acquired various cable systems from Cox Communications, Inc., representing approximately 880,000 basic video customers located primarily in Arkansas, Louisiana, North Carolina, Oklahoma and Texas in May 2006. In July 2006, we acquired cable systems serving approximately 240,000 basic video customers, located primarily in West Virginia and Virginia, from Charter Communications, Inc. In addition, on April 1, 2011, we acquired NPG Cable, Inc., Mercury Voice & Data Company and NPG Digital Phone, Inc. (collectively, the "NPG Companies" or "NPG") serving approximately 82,000 basic video customers located in Arizona, California and Missouri (the "NPG Acquisition"). We integrated these and other acquisitions successfully by aligning our operating regions, developing strong regional management teams and divesting non-core assets. We connected many of the acquired systems to our national backbone, which allows us to leverage our scale to efficiently deploy services to our customers.

On November 15, 2012, Cequel Corporation acquired all of the outstanding common equity interests in Cequel Holdings (the "Acquisition") pursuant to the Purchase and Sale Agreement, dated as of July 18, 2012 (the "Purchase Agreement"), by and among Cequel Holdings, Cequel Corporation, the sellers named therein and our manager, and all other equity interests in Cequel Holdings (including preferred equity interests), and rights to purchase equity interests in Cequel Holdings, were retired, redeemed or otherwise terminated. See Footnote 4 of the accompanying consolidated financial statements for additional information.

For the year ended December 31, 2014, we had revenues of $2,330.7 million, income from operations of $258.5 million, and net income of $19.5 million.

We are a privately-owned company. Our principal executive offices are located at 520 Maryville Centre Drive, Suite 300, St. Louis, Missouri 63141. Our phone number is (314) 315-9400, and our website address is www.suddenlink.com.

### General Developments of Our Business

The following are the more significant developments in our business during 2014:

- an increase in consolidated revenue of 6.8% to $2.3 billion;
- an increase of 140.2% from a net loss of $48.4 million to net income of $19.5 million;
- an increase in Adjusted EBITDA of 5.8% to $887.9 million (see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Use of Adjusted EBITDA and Free Cash Flow" herein for the definition of "Adjusted EBITDA" and a reconciliation of net income/(loss) to Adjusted EBITDA);
- the substantial completion of an initiative to replace our use of a third-party telephone service provider with our own internal platform and resources, which reduced our telephone operating expenses; and
- the beginning of an initiative to significantly enhance our Internet speeds and ultimately position our network to offer speeds of up to 1 Gigabit per second ("Gbps").

***Viacom Contract***

We were unable to reach agreement with Viacom Inc. ("Viacom") on acceptable economic terms for a long-term contract renewal, and effective October 1, 2014, all Viacom networks were removed from our channel lineups, and we launched alternative networks offered by other programmers under new long-term contracts. We expected this change to result in the loss of some video customers, and to date those losses have been less than expected and have not had a material impact on our business, operating results or financial condition. Furthermore, most of the customers who disconnected video service because of the loss of Viacom channels chose to keep their other, non-video services with us.

**2014 Financing Transactions**

***Credit Facility***

On April 30, 2014, the Company was required to make an excess cash flow recapture payment of $72.7 million in accordance with the terms of the Credit and Guaranty Agreement (the "Credit Agreement"). Lenders holding approximately 16.4% of the outstanding term loans under the $2.2 billion term loan facility and the $500 million revolving credit facility (collectively, the "Credit Facility") waived their right to receive this payment. Accordingly, the Company made an excess cash flow recapture payment of $60.8 million to the other lenders under the Credit Facility and retained $11.9 million related to the waived excess cash flow recapture payment.

On December 29, 2014, the Company made a voluntary principal prepayment in the amount of $55.0 million, using cash on hand. No additional amounts will be owed in 2015 other than our normal quarterly payments on the Credit Facility.

***Senior Notes***

On September 9, 2014, the Issuers issued $500.0 million aggregate principal amount of the 2021 Mirror Notes. The proceeds from the sale, plus cash on hand, were used to make a distribution in the amount of $600 million to our parent (see Footnote 22 of the accompanying consolidated financial statements) and pay related fees and expenses. The 2021 Mirror Notes mature on December 15, 2021. Interest is payable on the 2021 Mirror Notes semi-annually in cash on June 15 and December 15 of each year. The 2021 Mirror Notes have substantially the same terms as the Initial 2021 Notes.

**2014 Acquisition Transactions**

***Northland***

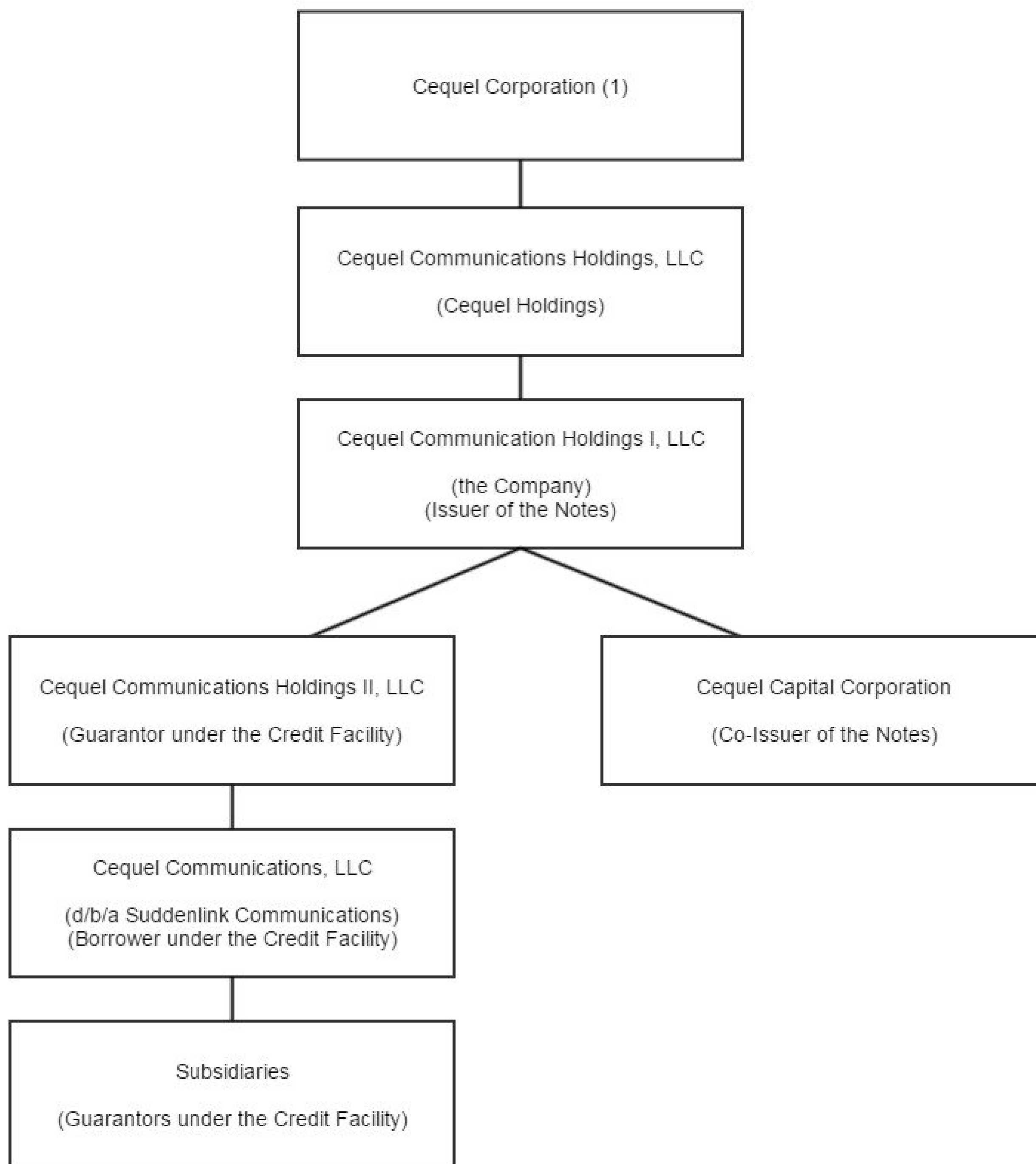
On January 2, 2014, the Company consummated its acquisition of three cable systems in Texas from Northland Communications ("Northland"), for a purchase price of $40.6 million (the "Northland Acquisition"). The Northland Acquisition was funded by cash on hand. In connection with this acquisition, the Company also incurred acquisition related costs of approximately $0.2 million and $0.2 million for the years ended December 31, 2014 and 2013, respectively, which are included in selling, general and administrative expense in the consolidated statements of operations. See Footnote 5 of our consolidated financial statements for additional information.

***New Wave***

On October 1, 2014, the Company acquired two cable systems in Nevada from NewWave Communications ("New Wave") for $6.1 million (the "New Wave Acquisition"), using cash on hand. In connection with the New Wave Acquisition, the Company also incurred acquisition related costs of less than $0.1 million for the year ended December 31, 2014, which are included in selling, general and administrative expense in the consolidated statements of operations.

**Corporate Entity Structure**

The following chart illustrates our corporate structure as of December 31, 2014:




(1) For more information about the equity owners of Cequel Corporation, see Item 10. "Directors, Executive Officers and Corporate Governance" and Item 12. "Security Ownership of Certain Beneficial Owners."

## Products and Services

### *Overview*

We sell video, high-speed Internet and telephone services over our broadband network. Our video services include traditional cable video services and, for 98% of the homes located in the areas we serve, advanced digital video services, such as DVR, HDTV, VOD and pay-per-view. Our high-speed Internet services are provided with downstream speeds up to 300 megabits per second ("Mbps"), and our telephone services are provided using voice over Internet protocol (“VoIP”) technology. Our video, high-speed Internet and telephone services are offered to residential and commercial customers on a monthly subscription basis. The prices we charge for our services vary based on the level of service or the number of services the customer chooses, the equipment taken and the geographic market. We offer reduced-price service for promotional periods in order to attract new customers, though there is no assurance that these customers will remain as subscribers when the promotional period expires. In addition to selling our services separately, we offer bundled services for a single price to both our residential and commercial customers and, increasingly, these customers subscribe to two or three of our services. Customers who subscribe to a bundle generally receive a discount from the price of buying each of these services separately, as well as the convenience of receiving multiple services from a single provider via a single connection, all on a single monthly bill.

We also sell advertising inventory to a variety of local, regional and national customers, offer residential home automation and security services to 74% of the homes in our market, and offer a variety of other services to commercial and carrier customers, such as cell tower backhaul, last mile Ethernet, Primary Rate Interface (“PRI”) and regional transport services.

### *Project Imagine*

In 2012, we completed “Project Imagine,” a significant three year bandwidth expansion capital expenditure plan we commenced in 2009. In connection with Project Imagine, we increased the bandwidth in a majority of our systems primarily through the deployment of digital simulcast, which digitized our expanded basic analog services. When coupled with the deployment of digital terminal adapters (“DTAs”) to non-digital converter households and outlets, this process allows for the removal of bandwidth inefficient analog services. Traditional plant bandwidth upgrades were also completed in some systems. Project Imagine allowed us to redeploy the reclaimed analog spectrum, and thus, expand our advanced digital video services, including an increase in the number of high-definition services and VOD offerings across our markets. In addition, we were able to increase the speed of our high-speed Internet services and offer telephone services to more homes in the markets we serve.

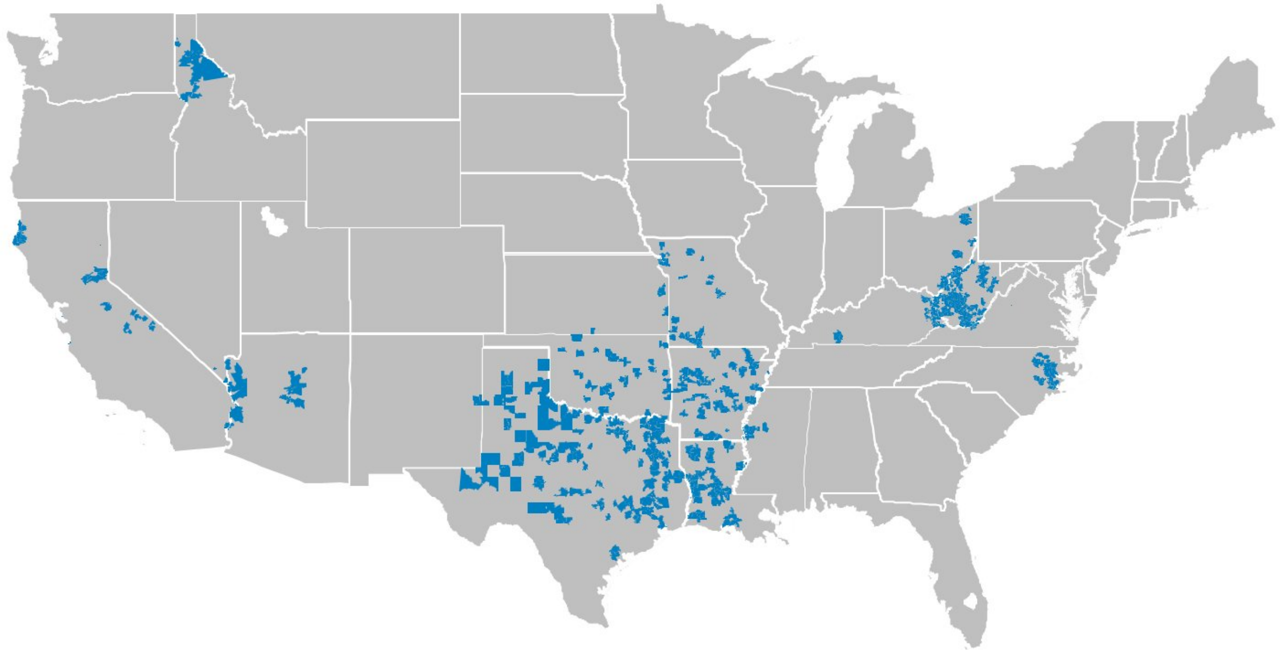
### *Operation Reliant*

Under a multi-year agreement that expired in December 2014, a third-party provider performed certain functions and services necessary to provide our telephone service, such as carrying traffic to and from destinations outside our network via the public switched telephone network, delivering E911 service and assisting in local number portability and long-distance traffic carriage. In March 2013, we began “Operation Reliant,” an initiative to replace our use of the third-party provider with our own internal platform and resources. The majority of the migration activity relating to Operation Reliant began in the third quarter of 2014, and we successfully migrated all residential and commercial lines by the end of 2014, with virtually no customer disruption.

### *Operation GigaSpeed*

Starting in the second half of 2014 and extending through 2017, we expect to invest up to an additional $230 million of capital expenditures to significantly enhance our Internet speeds in markets serving 94% of our high-speed Internet customers and ultimately position our network to offer speeds of up to 1 Gbps in markets serving nearly 85% of our high-speed Internet customers. Internally known as "Operation GigaSpeed," this initiative will include expenditures to upgrade data network headend equipment, replace any remaining deployed Data over Cable Service Interface Specification (“DOCSIS”) 2.0 customer premises equipment with DOCSIS 3.0 equipment, and complete our all-digital video conversion that began with Project Imagine. We expect to complete these enhancements in a phased, market-by-market approach, focusing first on our largest and most competitive markets. Once fully phased in, the plan calls for our flagship Internet speed to increase from 15 to 200 Mbps and our top Internet speed to increase from over 100 Mbps to 1 Gbps in a vast majority of our markets. In 2014, we completed the initial phases of Operation GigaSpeed in 26 markets, which serve approximately 49% of our residential high-speed Internet customers. Those investments allowed us to increase the flagship Internet speed from 15 Mbps to 50 Mbps and to increase our top Internet speed to up to 150 Mbps to 300 Mbps in those markets. We spent approximately $35.2 million of the total capital expenditures related to Operation GigaSpeed in the second half of 2014, and expect to spend $85 million in 2015, with the remainder expected to be invested during 2016 and 2017.

**Service Areas**



As of December 31, 2014, we served approximately 1.43 million customers across our markets, with approximately 91% of our customers residing within our top 20 primary systems. Each primary system is designed to deliver services such as high-speed Internet, HDTV, VOD, telephone and other advanced services to a concentrated group of customers from a central delivery point, which we refer to as a master headend. We made our services available over our advanced hybrid-fiber coaxial network to approximately 3.16 million homes in the United States as of December 31, 2014.

Our business strategy has been to serve small and mid-sized cities that are not part of major metropolitan areas, and are the commercial, retail, educational and medical hubs for the surrounding communities. We believe we are the leading provider of bundled video, high-speed Internet and telephone service in the areas we serve.

The following table ranks our largest primary systems by number of customers as of December 31, 2014. The customers listed are only those connected to each geographic master headend and may not contain all systems in the geographic area if they are not connected to the master headend.

| Rank | Primary System | Customers (in thousands) | Cumulative Percent of Customers |
|---|---|---|---|
| 1 | West Texas | 217.7 | 15.3% |
| 2 | West Virginia | 214.1 | 30.3% |
| 3 | East Texas | 136.9 | 39.9% |
| 4 | Western Louisiana | 128.3 | 48.8% |
| 5 | Central Texas | 109.6 | 56.5% |
| 6 | North Carolina | 95.5 | 63.2% |
| 7 | Jonesboro, AR | 77.1 | 68.6% |
| 8 | Arizona | 74.1 | 73.8% |
| 9 | Georgetown, TX | 33.3 | 76.1% |
| 10 | Humboldt, CA | 33.1 | 78.5% |
| 11 | Branson, MO | 29.5 | 80.5% |
| 12 | St. Joseph, MO | 26.0 | 82.3% |
| 13 | Victoria, TX | 18.9 | 83.7% |
| 14 | East Oklahoma | 16.1 | 84.8% |
| 15 | Buckhannon, WV | 15.8 | 85.9% |
| 16 | Greenville, MS | 15.1 | 87.0% |
| 17 | Enid, OK | 14.0 | 87.9% |
| 18 | Stillwater, OK | 13.8 | 88.9% |
| 19 | Truckee, CA | 12.1 | 89.8% |
| 20 | Malvern, AR | 10.6 | 90.5% |

**Our Services**

The table below summarizes certain customer and penetration data for our operations:

| | Approximate as of December 31, | | |
|---|---|---|---|
| | 2014 | 2013 | 2012 |
| Homes passed | 3,159,000 | 3,079,200 | 3,042,900 |
| Video | | | |
| Video customers | 1,138,400 | 1,177,400 | 1,211,200 |
| Video penetration | 36.0% | 38.2% | 39.8% |
| Digital video customers | 871,900 | 868,700 | 837,500 |
| Digital video penetration | 76.6% | 73.8% | 69.1% |
| High-speed Internet | | | |
| High-speed Internet homes passed | 3,081,600 | 2,998,600 | 2,960,200 |
| High-speed Internet customers | 1,149,100 | 1,059,500 | 1,002,100 |
| High-speed Internet penetration | 37.3% | 35.3% | 33.9% |
| Telephone | | | |
| Telephone homes passed | 2,644,800 | 2,556,900 | 2,505,200 |
| Telephone customers | 547,700 | 513,300 | 471,700 |
| Telephone penetration | 20.7% | 20.1% | 18.8% |

***Video***

We currently offer a variety of video programming services, which include traditional cable video services, such as basic service, expanded basic service and digital service, and advanced digital video services, such as VOD, HDTV, DVR and pay-per-view, to residential and commercial markets. We design our channel line-ups for each system according to demographics, programming preferences, channel capacity, competition, price sensitivity and local regulation. Additionally, Suddenlink2GO enables customers to watch over 400,000 movies, shows and clips from over 450 networks on a PC once authenticated via the Suddenlink customer portal. We also launched our Suddenlink2GO mobile application in 2014, which offers our video customers select TV shows and movies on their mobile devices, as well as the ability to manage their account, view and pay their bill, view scheduled appointments, and more. Monthly subscription rates and related charges vary according to the type of services and equipment selected by customers. For the year ended December 31, 2014, video services, as described below, represent approximately 49.9% of our total revenues.

*Basic Service.* All of our video customers receive our basic service, for a monthly fee, which generally includes a combination of approximately 7 to 27 channels, including local broadcast network and independent stations, limited programming, home shopping and local public, government and leased access channels. As of December 31, 2014, we had approximately 1,138,400 basic video customers, representing approximately 36.0% penetration of estimated homes passed.

*Expanded Basic Service*. Our expanded basic service includes, for an additional monthly fee, a combination of approximately 20 to 65 additional channels such as CNN, ESPN, Lifetime, Discovery Channel, USA Network, TBS, Food Network, History, TLC, HGTV, A&E, Fox News and TNT.

*Digital Service.* We currently offer several programming packages that can include a combination of one of our tiers of digital service, multichannel premium services, sports channels, digital music channels, an interactive on-screen program guide and, in most markets, full access to our VOD library of up to approximately 20,000 hours of content. Currently, digital customers can receive up to 298 digital channels, depending on the market and level of service selected. A digital converter or cable card is required to receive our digital and other advanced digital video services. Customers pay a monthly fee for digital video service, which varies according to the type and number of services taken and the number of digital converters in the home. As of December 31, 2014, we had approximately 871,900 digital customers, representing approximately 76.6% penetration of our basic video customers.

*Advanced Digital Video Services:*

- *Digital Video Recorders.* We make digital converters available to our customers, the majority of which are HDTV-capable and have video recording capability. DVR services require the use of an advanced digital converter for which we charge a monthly fee. As of December 31, 2014, approximately 46.4% of our digital customers utilized DVR services. Beginning in 2011, we enhanced our digital converter product lineup by offering TiVo HD/DVR and TiVo HD-only converters, which use the award winning TiVo user interface integrated into the converter. The TiVo relationship also delivers multi-room DVR capability, using TiVo Mini devices, that allows a customer to pause and replay live TV, manage recordings from different television locations and play them back throughout the home. In addition, we offer TiVo Stream service to complement our already deployed TiVo Premiere DVRs. TiVo Stream allows customers to stream live TV channels and recorded programming wirelessly throughout their home to Android and iOS devices, and download previously recorded content to these devices so that it can be viewed outside the home. In addition, beginning in the summer of 2014, we provided our video customers seamless access to Netflix through their TiVo devices, eliminating the need for multiple devices, remote controls and inputs. Approximately 36.6% of our customers who utilize DVR services do so with a TiVo device. As of December 31, 2014, we had deployed over 294,000 combined TiVo, TiVo Mini and TiVo Stream devices to 149,400 customers.
- *High-Definition Television.* HDTV features high-resolution picture quality, digital sound quality and a wide-screen, theater-like display when using an HDTV set and an HD-capable converter. Our channel lineups include an average of 92 high-definition channels, which represent the most widely watched programming, including all major broadcast networks, as well as most leading national cable networks, premium channels and regional sports networks. We also continue to launch additional high-definition channels to continuously improve our customer's viewing experience. As of December 31, 2014, approximately 85% of our digital customers utilized HDTV services.
- *Video-On-Demand.* Our VOD service provides on-demand access to movies, special events, free primetime content and general interest titles. We have VOD capacity to allow for up to 20,000 hours of content, including VOD content from all four major broadcast networks. Subscription-based VOD premium content such as HBO, Showtime and Starz! is included when customers subscribe to one of our premium programming packages. Our customers enjoy full two-way functionality, including the ability to start the programs at whatever time is convenient, as well as pause, rewind and fast forward both standard definition and high

definition VOD programming. As of December 31, 2014, VOD services were available to approximately 93% of our basic customers, and we offered over 2,700 high-definition titles on-demand.

- *Pay-Per-View Service.* Our pay-per-view service allows customers to pay to view single showings of programming on an unedited, commercial-free basis, including feature films, live sporting events, concerts and other special events. As of December 31, 2014, pay-per-view services were available to all of our digital customers.

***High-Speed Internet***

We offer residential high-speed Internet services with downstream speeds up to 300 Mbps. Our high-speed Internet services also include an interactive portal, multiple e-mail addresses, personal web space and local community content. As of December 31, 2014, we serve approximately 1,149,100 residential high-speed Internet customers, representing approximately 37.3% penetration of estimated homes passed where residential high-speed Internet service is currently available. At December 31, 2014, 87% of our high-speed Internet customers had provisioned download speeds of 15 Mbps or greater, and 47% of our high-speed Internet customers had provisioned download speeds of 50 Mbps or greater. Our WiFi@Home networking service uses DOCSIS 3.0 wireless routers, whereby customers can connect up to 20 devices in their home. Our service uses a standard configuration approach that simplifies the support of the wireless devices. At December 31, 2014, we had approximately 362,600 customers utilizing our WiFi@Home networking service, representing 31.6% of residential high-speed Internet customers.

For small and medium-sized commercial customers (generally 100 employees or less), we offer high-speed data services with speeds up to 300 Mbps, as well as managed services, including business e-mail, hosted private branch exchange, web space storage and network security monitoring. For enterprise and larger commercial customers, we offer high capacity data services, including wide area networking and dedicated data access, and advanced services such as wireless mesh networks. We also offer wholesale transport services to wireless telephone providers for cell tower backhaul and to wireline telecommunications service providers to connect to customers that their own networks do not reach. Our commercial services are offered on a stand-alone basis or in bundles that are developed specifically for our commercial customers. In addition, DOCSIS 3.0 technology allows us to expand our high-speed Internet bandwidth and offer enhanced service features to our commercial customers. At December 31, 2014, we served 63,700 commercial data customers.

For the year ended December 31, 2014, residential and commercial high-speed Internet services represented approximately 32.1% of our total revenues.

***Telephone Services***

We offer, through our VoIP telephone service, unlimited local, regional and long-distance calling within the United States, Puerto Rico, the U.S. Virgin Islands and Guam for a flat monthly rate, including popular calling features such as Caller ID with name and number, call waiting, three-way calling, enhanced Emergency 911 dialing and TV Caller ID. We also offer additional options designed to meet our customers' needs, including directory assistance, voice mail services and international calling. As of December 31, 2014, we served approximately 547,700 residential telephone customers, representing approximately 20.7% of estimated marketable telephone homes passed. Approximately 98.4% of our telephone customers subscribe to multiple services from us.

Additionally, we served 40,000 commercial telephone customers representing over 110,000 telephone lines. We offer business customers enterprise class telephone services which include traditional multi-line phone service over DOCSIS and trunking solutions via Session Initiated Protocol ("SIP") for our PRI and SIP trunking applications.

For the year ended December 31, 2014, residential and commercial telephone services represented approximately 8.8% of our total revenues.

***Advertising Sales***

We generate revenues from selling advertising time to national, regional and local customers. As part of the agreements under which we acquire video programming, we typically receive an allocation of scheduled advertising time during such programming, generally two minutes per hour, into which our systems can insert commercials, subject, in some instances, to certain subject matter limitations. Our advertising sales infrastructure includes in-house production facilities, production and administrative employees and a locally-based sales force. In a few of our markets, we have entered into agreements commonly referred to as "interconnects" with other cable operators to jointly sell local advertising, simplifying our clients' purchase of local advertising and expanding their geographic reach. In some of these markets, we represent the advertising sales efforts of other cable operators; in other markets, other cable operators represent us. Additionally, national and regional representation agreements have been negotiated to simplify the purchase of advertising time by our clients and expand the share of viewers that we reach. We also offer advanced advertising technologies to our customers, including

interactive TV advertising, and online advertising, including display and pre-roll video, on thousands of the most popular websites. For the year ended December 31, 2014, advertising sales represented approximately 4.3% of our total revenues.

***ConnectedHome***

We offer ConnectedHome, a next-generation home automation and monitoring service, which includes state-of-the-art equipment and 24/7 professional monitoring, and features that include email alert notification and access to streaming video from in-home cameras to any computer or Internet-enabled mobile device. We believe that our existing customer relationships provide a solid base from which to grow our home automation business, and that our ConnectedHome service is distinguished from many of our competitors by our local presence and brand recognition. For the year ended December 31, 2014, our ConnectedHome service represented less than 1% of our total revenues.

**Sales and Marketing**

Sales are managed at the regional or local levels and multiple sales channels are leveraged to reach current and potential customers, including in-bound customer care centers, outbound telemarketing, Suddenlink stores, field technician sales and door-to-door sales. Ecommerce is managed centrally on behalf of the organization and is a growing and dynamic part of our business. We use mass media, including broadcast television, digital media, radio, newspaper and outdoor advertising, to attract customers and direct them to our in-bound customer care centers or website. Our sales and service employees use a variety of sales tools as they work to match customers' needs with our best-in-class products, with a focus on building and enhancing customer relationships.

Because of our local presence and market knowledge, we invest heavily in targeted marketing. Our strategic focus is on building new customer relationships and bundling video, high-speed Internet, telephone and security services. We strive to follow our "Easy to do business with" operating philosophy with superior service from motivated employees. Our promotional materials and message focus on the ease with which a customer can order our products and services, and highlight the differentiated convenience of one call, one connection and one bill. We offer discounted pricing for our bundled services compared to the cost of individual services. In addition, customers who subscribe to video, high-speed Internet and telephone services through our "triple play" bundle are recognized through our "VIP Perks" program. Much of our advertising is developed centrally and customized for our regional marketing teams. Among other factors, we monitor customer perceptions, marketing efforts, and competition, to increase our responsiveness and the effectiveness of our efforts.

Our footprint has several large college markets where we market specialized products and services to students for multiple dwelling units ("MDUs"), such as dormitories and apartment complexes, including: Texas A&M University, Texas Tech University, Oklahoma State University, East Carolina University, Louisiana Tech University, Stephen F. Austin State University, Arkansas State University, Northern Arizona University and Humboldt State University.

**Customer Care**

We believe that customer service is the cornerstone of our business. Accordingly, we make a concerted effort to continually improve each customer's experience and have made significant investments in our people, processes and technology to enhance our customers' experience and to reduce customer contacts.

Our customer care centers are managed and operated locally, with the deployment and execution of end-to-end care strategies and initiatives conducted on a site-by-site basis. We have residential and commercial customer care centers located in Tyler, TX; Parkersburg, WV; Lubbock, TX; Lake Havasu, AZ; St. Joseph, MO and Greenville, NC. Our customer care centers function as an integrated system and utilize software programs that provide increased efficiencies and limited wait-times for customers requiring support. Our field technicians and schedulers utilize the same software programs for customers requiring in-person support. We provide service to our customers 24 hours a day, seven days a week, and we have systems that allow our customer care centers to be accessed and managed remotely in the event that systems functionality is temporarily lost, which provides our customers access to customer service with limited disruption.

We also utilize our customer portal to enable our customers to view and pay their bills online, obtain useful information and perform various equipment troubleshooting procedures. Our customers may also obtain support through our on-line chat, e-mail functionality and social media websites, including Twitter and Facebook.

**Network Technology**

Our cable systems are generally designed with a hybrid-fiber coaxial architecture that has proven to be highly flexible in meeting the increasing needs of our customers. We deliver our signals via laser-fed fiber optic cable from control centers known as headends and hubs to individual nodes. Each node is connected to the individual homes we serve by coaxial cable and/or fiber-to-the-home. A primary

benefit of this design is that it pushes fiber optics closer to our customers' homes, which allows us to subdivide our systems into smaller service groups and make capital investments only in service groups experiencing higher than average service growth.

As of December 31, 2014, approximately 83% of our customers were served by systems with capacity of at least 750 MHz. We operate 126 primary systems, with approximately 91% of our customers served by our top 20 primary systems. More than 97% of our residential high-speed Internet customers are connected to our national backbone with a presence in major carrier access points in Dallas, Chicago, San Jose, Washington D.C. and Phoenix. This presence allows us to avoid significant Internet "drain," or transit costs, by establishing peering relationships with major Internet service and content providers enabling direct connectivity with them at these access points. This network architecture also provides us with the capability to manage traffic across several Internet access points, thus helping to ensure Internet access redundancy and quality of service for our customers. Additionally, our national backbone connects our primary systems, which allows for an efficient and economical deployment of services from our centralized platforms that include telephone, VOD, common digital video content, high-speed Internet, provisioning, email and other related services.

We have also focused on system reliability and disaster recovery as part of our national backbone and primary system strategy. For example, to help ensure a high level of reliability in our services, we implemented redundant power capability, as well as fiber route and carrier diversity in our networks serving most of our customers. With respect to disaster recovery, we invested in our telephone platform architecture for geo-redundancy to minimize downtime in the event of a disaster to any single facility.

In addition, through Project Imagine, we expanded and refined our bandwidth utilization in capacity constrained systems in order to meet demand for new and improved advanced services. A key component to reclaim bandwidth was the digital delivery of video channels that were previously distributed in analog through the launch of digital simulcast, which duplicates analog channels as digital channels. Additionally, the deployment of lower-cost digital customer premises equipment, such as DTAs, enabled the use of digital channels instead of analog channels, thus allowing the reclamation of expanded basic analog bandwidth in the targeted systems. This reclaimed analog bandwidth could then be re-purposed for other advanced services such as additional HDTV services and faster Internet access speeds. This technology has the added benefit of providing improved picture and sound quality to customers for most of their video programming.

In the third quarter of 2014, we launched Operation GigaSpeed, where we will focus on launching advanced Internet speeds in markets serving 94% of our high-speed Internet customers, with up to 1 Gbps available in markets serving nearly 85% of our high-speed Internet customers, over the next three years. We will use a similar process as in Project Imagine to deploy high definition DTAs ("HD-DTAs") and reclaim the remaining analog channels in the systems previously targeted in Project Imagine, as well as all the analog channels in most of the additional systems that were not previously included in Project Imagine. A portion of the analog bandwidth will be re-purposed for advanced high-speed Internet delivery. In addition to bandwidth reclamation, we will replace any remaining deployed DOCSIS 2.0 customer premises equipment with DOCSIS 3.0 equipment to allow our customers to achieve these higher speeds.

**Community Relations**

We are dedicated to fostering strong relations with the communities we serve, and we believe our local involvement strengthens favorable perception of our brand. We encourage all of our teams to take leadership roles in our local communities and to participate in civic activities. We support a variety of local charities and community causes with events and campaigns to raise funds and supplies for people in need, and in-kind donations that include, but are not limited to, producing and airing public service announcements. We participate in industry initiatives such as the Connect2Compete (C2C) program, which provides high-speed Internet access at a deeply discounted price to qualifying low-income families.

We also develop and provide exclusive local programming for our communities, including the Network West Virginia online marketplace and a variety of public access channels. We believe our local programming helps build customer loyalty in the communities we serve.

**Suppliers**

***Video Programming***

We offer a variety of video programming services, which include traditional cable video services, such as basic service, expanded basic service and digital service, and advanced digital video services, such as VOD, HDTV, DVR and pay-per-view. We design our channel line-ups for each system according to demographics, programming contract requirements, market research, local programming preferences, channel capacity, competition, price sensitivity and local regulation. We believe that offering a wide variety of programming influences a customer's decision to subscribe to and retain our video services. We obtain programming, including basic, expanded basic, digital, high-definition, VOD and broadband content, from a number of suppliers, including broadcast and cable networks.

We generally carry cable networks pursuant to written programming contracts, which continue for a fixed period of time, usually from three to five years, and are subject to negotiated renewal. Cable network programming is usually made available to us for a license fee, which is generally paid based on the number of customers who subscribe to the level of service that provides such programming. Such license fees may include "volume" discounts available for higher numbers of customers, as well as discounts for channel placement or service penetration. Where possible, we negotiate volume discount pricing structures. In addition, we purchase approximately 13% of our programming through the National Cable Television Cooperative ("NCTC") which, in certain cases, provides for more favorable pricing or terms than we could negotiate independently with programmers. For home shopping channels, we receive a percentage of the revenue attributable to our customers' purchases, as well as, in some instances, incentives for channel placement.

In every year we have operated, our cable programming costs have increased in excess of customary inflationary and cost-of-living type increases. We expect programming costs to continue to increase due to a variety of factors including annual increases imposed by programmers and additional programming being provided to customers, including high-definition and VOD programming. In particular, sports programming costs have increased significantly over the past several years. In addition, contracts to purchase sports programming sometimes provide for optional additional programming to be available on a surcharge basis during the term of the contract.

We were unable to reach agreement with Viacom on acceptable economic terms for a long-term contract renewal, and effective October 1, 2014, all Viacom networks were removed from our channel lineups, and we launched alternative networks offered by other programmers under new long-term contracts. We expected this change to result in the loss of some video customers, and to date those losses have been less than expected and have not had a material impact on our business, operating results or financial condition. Furthermore, most of the customers who disconnected video service because of the loss of Viacom channels chose to keep their other, non-video services with us.

We carry local broadcast stations pursuant to either the Federal Communications Commission ("FCC") "must carry" rules or a written retransmission consent agreement with the relevant station owner. Local broadcast stations must choose between "must carry" or "retransmission consent" generally on three year cycles. We successfully completed negotiations for continued carriage of all local broadcast stations that were to expire on December 31, 2014. When negotiating retransmission consent agreements, broadcast stations generally require us to pay them a consent fee and/or carry one or more of their affiliated stations. We typically pass the retransmission consent costs we incur directly to our customers.

We have programming contracts that have expired and others that will expire at or before the end of 2015. We will seek to renegotiate the terms of these agreements, but there can be no assurance that these agreements will be renewed on favorable or comparable terms. To the extent that we are unable to reach agreement with certain programmers on terms that we believe are reasonable, we have been, and may in the future be, forced to remove such programming channels from our line-up, which may result in a loss of customers. For more information, see "Risk Factors - Programming and retransmission costs are increasing and we may not have the ability to pass these increases and certain other costs on to our customers, which would materially adversely affect our cash flow and operating margins."

***Set-top Boxes and Network Equipment***

We purchase set-top boxes and other customer premises equipment from a limited number of vendors because each of our cable systems uses one or two proprietary technology schemes. We also buy HD, HD/DVRs and VOD equipment, routers and other network equipment from a limited number of suppliers. See "Risk Factors - We may not be able to obtain necessary hardware, software, communications equipment and services and other items from our vendors at reasonable costs or at all, which could materially adversely affect our business, financial condition, results of operations and liquidity."

***High-speed Internet and Telephone Connectivity***

We deliver high-speed Internet and telephone services through our hybrid-fiber coaxial network. We use circuits that are either owned by us or leased from third parties to connect to the Internet, the public switched telephone network and to interconnect to its network. We pay fees for leased circuits based on the amount of capacity available to it and pay for Internet connectivity based on the amount of IP-based traffic received from and sent over the other carrier's network.

In March 2013, we began "Operation Reliant," an initiative to replace our use of the third-party provider with our own internal platform and resources. The majority of the migration activity relating to Operation Reliant began in the third quarter of 2014, and we successfully migrated all residential and commercial lines by the end of 2014, with virtually no customer disruption.

**Franchises**

As of December 31, 2014, our systems operated pursuant to a total of approximately 890 franchises, permits and similar authorizations issued by state and local governmental authorities. Most franchises are subject to termination proceedings in the event of a material

breach. In addition, most franchises require us to pay the granting authority a franchise fee of up to 5.0% of revenues as defined in the various agreements, which is the maximum amount that may be charged under the applicable federal law. We are entitled to and generally do pass this fee through to our customers.

Prior to the scheduled expiration of most franchises, we generally initiate renewal proceedings with the granting authorities. This process usually takes less than three years but can take a longer period of time. The Communications Act of 1934, as amended ("Communications Act"), which is the primary federal statute regulating interstate communications, provides for an orderly franchise renewal process in which granting authorities may not unreasonably withhold renewals. In connection with the franchise renewal process, many governmental authorities require the cable operator to make certain commitments, such as building out certain franchise areas, meeting customer service requirements and supporting and carrying public access channels. Historically we have been able to renew our franchises without incurring significant costs, although any particular franchise may not be renewed on commercially favorable terms or otherwise. Our failure to obtain renewals of our franchises, especially in our largest primary systems where we have the most customers, could have a material adverse effect on our consolidated financial condition, results of operations and liquidity. For more information, see "Risk Factors - Our cable system franchises are subject to non-renewal or termination. The failure to renew a franchise in one or more key markets could adversely affect our business." Approximately 4% of our franchises, covering approximately 5% of our video customers, had expired as of December 31, 2014. Approximately 5% of additional franchises, covering approximately 5% of additional video customers, will expire on or before December 31, 2015, if not renewed prior to expiration, approximately half of which are subject to replacement by state issued franchises. We expect to renew or continue to operate under all or substantially all of these franchises.

Proposals to streamline cable franchising recently have been adopted at both the federal and state levels. These franchise reforms are primarily intended to facilitate entry by new competitors, particularly telephone companies, but they often include substantive relief for incumbent operators as well. In many states, the local franchising process under which we have historically operated has been replaced by a streamlined state certification process.

**Competition**

We face intense competition from a variety of alternative information and entertainment delivery sources, principally from direct broadcast satellite ("DBS") providers, certain telephone companies and increasingly from video services delivered over the Internet. DBS providers and telephone companies offer a broad range of services and provide features and functions comparable to those offered by us. In addition, technological advances and product innovations have increased and will likely continue to increase the number of alternatives available to our customers from other providers and intensify the competitive environment. We cannot predict the impact on us, if any, of broadband services offered by our competitors.

In May 2014, AT&T announced its intention to acquire DirecTV, the nation's largest DBS provider. If completed, this transaction will create an even larger competitor that will have the ability to offer services that include bundled wireless offerings, which may have an adverse impact on our business, operating results or financial condition.

***Principal Competitors***

*Broadcast Television.* Cable television has long competed with broadcast television, which consists of television signals that the viewer is able to receive without charge using an "off-air" antenna. The extent of such competition is dependent upon the quality and quantity of broadcast signals available through "off-air" reception, compared to the services provided by the local cable system. Traditionally, cable television has provided higher picture quality and more channel offerings than broadcast television. However, the use of digital spectrum now provides traditional broadcasters with the ability to deliver high-definition television pictures and multiple digital-quality program streams.

*Direct Broadcast Satellite.* Our video services face competition from DBS services, such as DirecTV and DISH. DirecTV and DISH offer one-way satellite-delivered pre-packaged programming services that are received by relatively small and inexpensive receiving dishes. While we continue to believe that the initial investment by a DBS customer exceeds that of a cable customer, the up-front equipment cost for DBS has decreased substantially because of aggressive marketing offers to new customers, which include discounted or free equipment, installation and multiple units. DBS providers are also able to offer service nationwide and are therefore able to establish a national image and branding with standardized offerings. DBS providers are also able to avoid franchise fees of up to 5% of revenues and property tax, which leads to greater efficiencies and lower costs. However, we believe that cable-delivered VOD services, which include high-definition programming, offer a competitive advantage to DBS service because cable headends can provide two-way communication to deliver many titles which customers can access and control independently, whereas DBS technology can only make available a much smaller number of titles with DVR-like customer control.

In many of our markets, DBS providers and telephone companies have entered into co-marketing agreements that allow them to offer service arrangements that combine video services provided by the applicable DBS provider with digital customer line ("DSL"), traditional telephone and, in some cases, wireless telephone services provided by the applicable telephone company. These marketing arrangements are designed to compete with our bundled service offerings. DBS providers have also made attempts at deployment of high-speed Internet access services via satellite, but those services have been technically constrained and of limited appeal. The proposed AT&T acquisition of DirecTV may have an adverse impact on our business, operating results or financial condition.

*Telephone Companies.* Our telephone service competes directly with established telephone companies and other carriers, including wireless providers, as an increasing numbers of homes are replacing their traditional telephone service with wireless telephone service, and Internet-based VoIP providers (see "Internet Delivered Services" below), for telephone service customers. The telecommunications industry is highly competitive and includes competitors with greater financial and personnel resources, strong brand name recognition, and long-standing relationships with regulatory authorities and customers.

Most telephone companies, which already have wired networks, an existing customer base and other operational functions in place (such as billing and service personnel), offer DSL service. We believe DSL service competes with our high-speed Internet service and is often offered at prices lower than our Internet services. However, we believe that DSL is often offered at speeds lower than the speeds we offer. In addition, DSL providers may currently be in a better position to offer Internet services to businesses since their networks tend to be more complete in commercial areas. They may also have the ability to combine video services with telephone and Internet services on an increasing basis to their customers, particularly as telephone companies enter into co-marketing agreements with other service providers. In addition, the continuing deployment of fiber optics into telephone companies' networks will enable them to provide even higher bandwidth Internet services.

Telephone companies, including AT&T, CenturyLink, Frontier and Verizon, and utility companies are capable of offering video and other services in competition with us, and we expect they will increasingly do so in the future. In addition, where available, AT&T's U-verse, which is an affiliate of AT&T, offers high-speed Internet service at speeds comparable to ours. These services are offered at prices similar to those for our services. Based on our internal estimates and surveys, AT&T U-verse offers these services in areas serving approximately 5.7% of our estimated homes passed as of December 31, 2014. Additional upgrades and service launches are expected in markets in which we operate. The proposed AT&T acquisition of DirecTV may have an adverse impact on our business, operating results or financial condition. Verizon does not currently offer FiOS service in any of our service areas.

In addition to obtaining or seeking to obtain traditional franchises or alternative authorizations to provide video services, telephone companies have been successful in some states in reducing or streamlining the franchising requirements applicable to them. As a result, such telephone companies have enhanced their competitive posture in the provision of video services relative to cable operators like us. The large scale entry of major telephone companies as direct competitors in the video marketplace could adversely affect the profitability and valuation of our cable systems.

*Overbuilds.* Cable systems are operated under non-exclusive franchises historically granted by local authorities. More than one cable system may legally be built in the same area, which is referred to as an overbuild. It is possible that a franchising authority might grant a second franchise to another cable operator and that such franchise might contain terms and conditions more favorable than those afforded to us. Although entry into the cable industry involves significant cost barriers and risks, well-financed businesses from outside the cable industry, such as public utilities that already possess fiber optic and other transmission lines in the areas they serve, may over time become competitors. In addition, there are a few cities that have constructed their own cable systems, in a manner similar to city-provided utility services, and private cable companies not affiliated with established local exchange carriers have also demonstrated an interest in constructing overbuilds. We believe that for any potential competitor to be successful, such competitor's overbuild would need to be able to serve the homes and businesses in the overbuilt area with equal or better service quality, on a more cost-effective basis than we can.

The FCC is also currently considering the adoption of new regulations preempting state laws that restrict the ability of municipalities to deploy broadband systems in competition with private offerings. There are approximately 20 such state laws now in effect, and FCC preemption would be predicated on the belief that such state laws are impeding the nation-wide deployment of broadband service. Any such action would likely be subject to appeal regarding the FCC's preemptive authority, and Congress might also adopt legislation expressly limiting the FCC's authority in this area. If the FCC does preempt state restrictions and that preemption is upheld, it could lead to increased competition from municipal provided broadband.

We believe that the markets we serve are not significantly overbuilt. However, the American Recovery and Reinvestment Act of 2009 ("ARRA") provides specific funding for broadband development as part of the economic stimulus package. We did not apply for any of these funds, but many other organizations did, including broadband services competitors and new entrants into such services. We

could be placed at a competitive disadvantage if recipients use these funds to subsidize services that compete with our broadband services. As of December 31, 2014, we were aware of overbuilds impacting approximately 9.6%, including AT&T U-Verse, of our estimated homes passed.

*Internet Delivered Services*. High-speed Internet access facilitates the streaming of video and the use of VoIP telephone technology in homes and businesses, thus resulting in the Company's residential video service facing competition from a number of different sources, including services such as Hulu.com, iTunes, AmazonPrime, Netflix and YouTube, that deliver movies, television shows, and other video programming over broadband Internet connections, as well as the Company's telephone services facing competition with national providers of IP-based telephony services, such as Vonage, Skype and magicJack. Increasingly, content owners are utilizing Internet-based delivery of content or services directly to consumers, some without charging a fee for access to the content or services. Furthermore, due to consumer electronics innovations, consumers are able to watch such Internet-delivered content on television sets and mobile devices, such as smartphones and tablets. Recently, HBO, CBS and Nickelodeon announced plans to launch subscription based services to provide Internet delivered content directly to consumers without requiring a pay-TV subscription. Furthermore, DISH launched SlingTV, a service that offers a small selection of popular major cable channels, including ESPN, delivered over the Internet to smart TVs and mobile devices. If customers were to choose to receive video over the Internet rather than through our basic, expanded basic or digital video services or receive telephone services using IP-based technology other than our telephone services, we could experience a decline in our video or telephone customers or a reduction in our video or telephone revenues.

*Private Cable.* Additional competition is posed by satellite master antenna television systems ("SMATV"), serving MDUs, such as condominiums, apartment complexes and private residential communities. Private cable systems can offer improved reception of local television stations, and many of the same satellite-delivered program services that are offered by cable systems. SMATV systems currently benefit from operating advantages not available to franchised cable systems, including fewer regulatory burdens.

*Utilities.* We are subject to competition from utilities that possess fiber optic transmission lines capable of transmitting signals with minimal signal distortion. In some cases, the local municipalities that regulate us also own cable systems that compete with us. Certain utilities are also developing broadband over power line technology, which may allow the provision of Internet and other broadband services to homes and offices. We are not aware of any utilities that have deployed broadband over power line technology in our markets.

*Other Competitors.* We also face competition:

- for our commercial services from local incumbent telephone companies, especially AT&T, CenturyLink, Frontier and Verizon, as well as from a variety of other national and regional business services competitors.
- for our advertising sales from traditional and non-traditional media outlets, including television and radio stations, traditional print media and the Internet.
- for our security services from nationwide security providers, such as ADT (part of Tyco International, Ltd.) and Protection One, Inc., and numerous local and regional companies that operate within our service areas.

In addition, cable systems compete with all other sources of leisure, news, information and entertainment, including movies, sporting or other live events, radio broadcasts, home video services, console games, print media and the Internet. In general, we also face competition from other media for advertising dollars.

**Regulation and Legislation**

The following summary addresses the key regulatory and legislative developments affecting the cable industry and our video, high-speed Internet and telephone services. Cable system operations are extensively regulated by the federal government (primarily the FCC), certain state governments and many local governments. Our business can be dramatically impacted by changes to the existing regulatory framework, whether triggered by legislative, administrative or judicial rulings.

***Video Service***

*Cable Rate Regulation*. The cable industry has operated under a federal rate regulation regime since 1992. The regulations can restrict the prices that cable systems charge customers for the minimum level of video programming service, referred to as "basic service," and associated equipment, except in markets where the FCC finds that the cable system is subject to "effective competition," as defined under federal law. All other cable offerings are currently exempt from rate regulation. Although rate regulation operates pursuant to a federal formula, state and local governments, commonly referred to as franchising authorities, are primarily responsible for implementing rate regulation. Franchising authorities must be certified by the FCC in order to regulate rates. The vast majority of our local franchising authorities have never been certified to regulate basic service cable rates, but they generally retain the right

to do so, subject to state franchising laws, except in those specific communities facing effective competition. As of December 31, 2014, approximately 99.6% of our video services customers are not subject to rate regulation.

There have been frequent calls to impose further rate regulation on the cable industry. It is possible that Congress or the FCC may adopt new constraints on the retail pricing or packaging of cable programming. For example, there has been legislative and regulatory interest in requiring cable operators to offer historically bundled programming services on an à la carte basis. Federal rate regulations include certain marketing restrictions that limit our flexibility in pricing or packaging our services and equipment. As we attempt to respond to a changing marketplace with competitive pricing practices, we may face regulations that impede our ability to compete.

*Must Carry/Retransmission Consent and Program Carriage*. There are two alternative legal methods for carriage of local broadcast television stations on cable systems. Federal "must carry" regulations require cable systems to carry local broadcast television stations upon the request of the local broadcaster. Alternatively, federal law includes "retransmission consent" regulations, by which commercial television stations can prohibit cable (and DBS) carriage unless the provider first negotiates for the station's consent, which may be conditioned on significant payments or other concessions. Broadcast stations must elect "must carry" or "retransmission consent" every three years.

In the most recent retransmission consent negotiations, popular television stations have demanded substantial compensation increases, thereby increasing our operating costs. Due to changes in the markets for video programming distribution, disputes in the retransmission consent negotiation process have increased in frequency and have become more visible in the industry. Congress passed legislation in 2014 prohibiting local television stations from coordinating retransmission consent negotiations with other television stations in the same market unless the stations are commonly owned and directing the FCC to review aspects of its existing retransmission consent rules. Additionally, a rulemaking proceeding on retransmission consent initiated by the FCC in March 2011 remains open. We are unable to predict what rules, if any, the FCC might adopt in connection with retransmission consent.

*Access Channels*. Local franchise agreements often require cable operators to set aside certain channels for public, educational and governmental access programming. Federal law also requires cable systems to designate up to 15% of their channel capacity for commercial leased access by unaffiliated third parties. The FCC adopted revised rules several years ago mandating a significant reduction in the rates that operators can charge commercial leased access users. The effect of these rules was stayed, however, by a federal court, pending a cable industry appeal. This matter currently remains pending and the revised rules are not yet in effect. Although commercial leased access activity historically has been relatively limited, increased activity in this area could further burden the channel capacity of our cable system.

*Ownership Limitations*. Federal regulation of the communications field traditionally included a host of ownership restrictions, which limited the size of certain media entities and restricted their ability to enter into competing enterprises. Through a series of legislative, regulatory, and judicial actions, most of these restrictions have been either eliminated or substantially relaxed. Changes in this regulatory area could alter the business environment in which we operate.

*Pole Attachments.* The Communications Act requires most utilities to provide cable systems with access to poles and conduits and subjects the rates charged for this access to either federal or state regulation. In 2011, the FCC amended its existing pole attachment rules to promote broadband deployment. The amended rules allow for new penalties in certain cases involving unauthorized attachments, but they generally strengthen the cable industry's ability to access investor-owned utility poles on reasonable rates, terms and conditions. They maintain the basic rate formula applicable to "cable" attachments, but reduce the rate formula previously applicable to "telecommunications" attachments to make it closer to the more favorable "cable" attachment rate. Although the amended rules maintain the status quo treatment of cable-provided VoIP service as an unclassified service eligible for the favorable cable rate, there is still some uncertainty in this area. Adverse changes to the pole attachment rate structure, rate, and classifications could significantly increase our annual pole attachment costs.

*Cable Equipment.* In 1996, Congress required the FCC to adopt regulations designed to assure the development of an independent retail market for "navigation devices," such as cable set-top boxes. As a result, the FCC generally requires cable operators to make a separate offering of security modules (e.g., a "CableCARD") that can be used with retail devices, and to use those separate security modules even in their own set-top boxes. Cable operators are also required to provide a credit to customers who do not use any operator-provided equipment included within a service package. In December 2014, as part of the STELA Reauthorization Act of 2014 ("STELAR"), Congress repealed the ban on integrated set-top box security. STELAR also directed the FCC to establish, within 45 days of STELAR's enactment, a "working group of technical experts" to identify and report on downloadable security design options that are not unduly burdensome and that promote competition with respect to the availability of navigation devices. It is possible that the FCC could propose new equipment obligations as a result of the recommendations of this working group.

*MDUs/Inside Wiring*. The FCC has adopted a series of regulations designed to spur competition to established cable operators in MDU complexes. These regulations allow our competitors to access certain existing cable wiring inside MDUs. The FCC also adopted regulations limiting the ability of established cable operators, like us, to enter into exclusive service contracts for MDU complexes.

*Other FCC Regulatory Matters*. FCC regulations cover a variety of additional areas, including, among other things: equal employment opportunity obligations, customer service standards, technical service standards, mandatory blackouts of certain network and syndicated programming, restrictions on political advertising; restrictions on advertising in children's programming, closed captioning of video programming, licensing of systems and facilities, maintenance of public files, emergency alert system, encryption, disability access, including requirements governing video-description and closed-captioning, and other reporting and filing requirements. Each of these regulations restricts our business practices to varying degrees. The FCC is now considering whether online video distributors ("OVDs") that offer programming to customers with a broadband Internet connection should be classified as multichannel video programming distributors ("MVPDs"), and thereby subject to the program access protections available to MVPDs, as well as some of the regulatory requirements applicable to MVPDs. The outcome of this proceeding, which could impact how OVDs compete in the future with traditional cable service, cannot be determined at this time.

It is possible that Congress or the FCC will expand or modify its regulations of cable systems in the future, and we cannot predict at this time how that might impact our business.

*Copyright*. Cable systems are subject to a federal compulsory copyright license covering carriage of television and radio broadcast signals. The possible modification or elimination of this compulsory copyright license is the subject of continuing legislative and administrative review and could adversely affect our ability to obtain desired broadcast programming. The Copyright Office adopted final rules in 2014 implementing formal procedures for copyright owners to conduct audits of the compulsory copyright payments made by cable operators. Copyright clearances for non-broadcast programming services are arranged through private negotiations. Cable operators also must obtain music rights for locally originated programming and advertising from the major music performing rights organizations. These licensing fees have been the source of litigation in the past, and we cannot predict with certainty whether license fee disputes may arise in the future.

*Franchise Matters*. Cable systems generally are operated pursuant to nonexclusive franchises granted by a municipality or other state or local government entity in order to utilize and cross public rights-of-way. Cable franchises generally are granted for fixed terms and in many cases include monetary penalties for noncompliance and may be terminable if the franchisee fails to comply with material provisions. The specific terms and conditions of cable franchises vary significantly between jurisdictions. Cable franchises generally contain provisions governing cable operations, franchise fees, system construction, maintenance, technical performance, customer service standards and changes in the ownership of the franchisee. A number of states subject cable systems to the jurisdiction of centralized state government agencies, such as public utility commissions. Although local franchising authorities have considerable discretion in establishing franchise terms, certain federal protections benefit cable operators. For example, federal law caps local franchise fees at 5% of cable service revenues and includes renewal procedures designed to protect incumbent franchisees from arbitrary denials of renewal and the imposition of unreasonable conditions to renewal. Even if a franchise is renewed, however, the local franchising authority may seek to impose new and more onerous requirements as a condition of renewal. Similarly, if a local franchising authority's consent is required for the purchase or sale of a cable system, the local franchising authority may attempt to impose more burdensome requirements as a condition for providing its consent.

The traditional cable franchising regime is undergoing significant change as a result of various federal and state actions. The FCC has adopted rules that streamline entry for new competitors (such as those affiliated with telephone companies) and reduce certain franchising burdens for these new entrants. The FCC adopted more modest relief for existing cable operators.

At the same time, a substantial number of states have adopted new franchising laws. Again, these new laws were principally designed to streamline entry for new competitors, and they often provide advantages for these new entrants that are not immediately available to existing cable operators. In some instances, however, incumbent cable operators have the ability to immediately "opt into" the new franchising regime, which can provide significant regulatory relief. The exact nature of these state franchising laws, and their varying application to new and existing video providers, will impact our franchising obligations and our competitive position.

***Internet Service***

On January 14, 2014, the D.C. Circuit Court of Appeals, in *Verizon v. FCC*, struck down major portions of the FCC's 2010 "net neutrality" rules governing the operating practices of broadband Internet access providers like us. The FCC originally designed the rules to ensure an "open Internet" and included three key requirements for broadband providers: (1) a prohibition against blocking websites or other online applications; (2) a prohibition against unreasonable discrimination among Internet users or among different websites or other sources of information; and (3) a transparency requirement compelling the disclosure of network management policies. The Court struck down the first two components, concluding that they constitute "common carrier" restrictions that are not permissible given the FCC's earlier decision to classify Internet access as an "information service," rather than a "telecommunications service." The Court simultaneously upheld the FCC's transparency requirement, concluding that this final requirement does not amount to impermissible common carrier regulation.

On May 15, 2014, the FCC initiated a new rulemaking to issue new network neutrality regulations, potentially including a reclassification of broadband services as Title II common carrier services, which could subject our services to far more extensive and burdensome federal and state regulation. On February 4, 2015, the Chairman of the FCC released a fact sheet ("Fact Sheet") describing his proposed new rules. The Chairman's proposal reclassifies wireline and wireless broadband services as Title II common carrier services,

and asserts legal authority to regulate broadband service offered by Internet service providers ("ISPs") under Title II, Title III, and Section 706 of the Communications Act. In an effort to protect consumers and edge providers, the new rules would prohibit ISPs from engaging in blocking, throttling, and paid prioritization, and the existing transparency rules would be enhanced. According to the Fact Sheet, reasonable network management activities would remain permitted. For the first time, the FCC would have authority to hear complaints and take enforcement action if it determines that the interconnection activities of ISPs are not just and reasonable, or if ISPs fail to meet a new general obligation not to harm consumers or edge providers. According to the Fact Sheet, the Chairman has proposed forbearing from certain Title II regulation, such as rate regulation, tariffs and last-mile unbundling. He does not propose assessment of USF fees on broadband services at this time. The Chairman has indicated he intends to have the FCC commissioners vote on his proposal at the end of February 2015. Given the political composition of the FCC, it is likely the FCC will adopt the Chairman's proposed rules. If adopted, several leading broadband providers have already indicated their intention to challenge the regulations in court. There are also legislative proposals in Congress to preempt the Chairman's proposed "utility-style" regulation, while still addressing many of the underlying concerns. We do not know at the current time if the new regulations proposed by the Chairman will go into effect, nor do we know how they would be administered, but they could limit our ability to efficiently manage our cable systems and respond to operational and competitive challenges.

As the Internet has matured, it has become the subject of increasing regulatory interest beyond the "net neutrality" issue. Congress and federal regulators have adopted a wide range of measures directly or potentially affecting Internet use, including, for example, consumer privacy, copyright protections, defamation liability, taxation, obscenity and unsolicited commercial e-mail. Our internet services are subject to the Communications Assistance for Law Enforcement Act ("CALEA") requirements regarding law enforcement surveillance. The FCC is currently exploring the transition of communications networks from circuit-switched to packet-switched technology, including the issue of IP interconnection. To that end, the FCC initiated a proceeding to determine whether to expand existing interconnection rights in a manner that would permit competitive telephone companies to interconnect their IP networks with incumbent telephone companies' IP networks. The expansion of such interconnection rules to our IP networks could also result in new obligations imposed upon us to interconnect with other providers, which could affect our ability to compete in the provision of voice services. Content owners are now seeking additional legal mechanisms to combat copyright infringement over the Internet. Pending and future legislation in this area could adversely affect our operations as an Internet service provider and our relationship with our Internet customers. Additionally, the FCC and Congress are considering subjecting high-speed Internet access services to Universal Service Fund contribution requirements. Any contribution requirements adopted for Internet access services would impose significant new costs on our high-speed Internet service. At the same time, the FCC is changing the manner in which Universal Service funds are distributed. By focusing on broadband and wireless deployment, rather than traditional telephone service, the changes could assist some of our competitors in more effectively competing with our service offerings. State and local governmental organizations have also adopted Internet-related regulations. These various governmental jurisdictions are also considering additional regulations in these and other areas, such as privacy, taxation, pricing, service and product quality and intellectual property ownership.

The FCC and some state regulatory commissions direct certain subsidies to telephone companies deploying broadband to areas deemed to be "unserved" or "underserved." We have generally opposed such subsidies when directed to areas that we serve and have deployed broadband capable networks. Despite those efforts, future subsidies may be directed to areas we serve, which could result in subsidized competitors operating in our service territories.

On January 29, 2015, the FCC, in a nation-wide proceeding evaluating whether "advanced broadband" is being deployed in a reasonable and timely fashion, increased the minimum connection speeds required to qualify as advanced broadband service to 25 Mbps for downloads and 3 Mbps for uploads. As a result, the FCC concluded that advanced broadband was not being sufficiently deployed and initiated a new inquiry into what steps it might take to encourage broadband deployment. This action may lead the FCC to adopt additional measures affecting our business.

The FCC is also currently considering the adoption of new regulations preempting state laws that restrict the ability of municipalities to deploy broadband systems in competition with private offerings. There are approximately 20 such state laws now in effect, and FCC preemption would be predicated on the belief that such state laws are impeding the nation-wide deployment of broadband service. Any such action would likely be subject to appeal regarding the FCC's preemptive authority, and Congress might also adopt legislation expressly limiting the FCC's authority in this area. If the FCC does preempt state restrictions and that preemption is upheld, it could lead to increased competition from municipal provided broadband.

***Telephone Service***

We offer telephone services using interconnected VoIP technology. Although traditional providers of circuit-switched telephone service are generally subject to significant regulation, it is unclear whether, and to what extent, federal and state regulators will subject VoIP services to the same regulations as traditional telephone services provided by incumbent local exchange carriers. Some states have

begun proceedings to subject cable VoIP services to state level regulation. The FCC has already determined that certain providers of telephone services using Internet Protocol technology like us must comply with 911 emergency service rules, requirements for accommodating law enforcement wiretaps under CALEA, Universal Service Fund contributions, disability access, customer privacy, Customer Proprietary Network Information requirements, disability access, network outage reporting, rural call competition reporting, number porting and other regulatory requirements.

In November 2011, the FCC released an order significantly changing the rules governing intercarrier compensation for the origination and termination of telephone traffic between carriers. The rules will result in a substantial decrease in intercarrier compensation payments over a multi-year period. These decreases will affect both the amounts that we pay to other carriers and the amounts that we receive from other carriers. The schedule and magnitude of these decreases, however, will vary depending on the nature of the carriers and the telephone traffic at issue, and the FCC's new ruling initiates further implementation rulemakings and is currently under appeal. We cannot predict with certainty the impact on our revenues and expenses for voice services at particular times over this multi-year period.

***Commercial Networking and Transport Services***

Entities providing point-to-point and other transport services, like those offered by us, generally have been subjected to various kinds of regulation. In particular, state regulatory authorities commonly require providers of intrastate transport services to obtain and maintain certificates of public convenience and necessity and to file tariffs setting the service's rates, terms and conditions, which typically must be just, reasonable and non-discriminatory. Interstate transport services are governed by similar federal regulations, except that tariffs are not required. In addition, providers generally may not transfer assets or ownership without receiving prior approval from, or providing notice to, state and federal authorities. Finally, providers of point-to-point and similar transport services, like those offered by us, are generally required to contribute to various state and federal regulatory funds, including the Federal Universal Service Fund.

In addition, in 2013 the FCC issued a broad data collection order that will require providers of point to point transport services, including those that we offer (referred to as "special access" services), to produce information to the agency concerning the rates, terms and conditions of these services. The FCC will use the data to evaluate whether the market for such services is competitive, or whether the market should be subject to further regulation, which may increase our costs or constrain our ability to compete in this market.

***Privacy and Information Security Regulation***

The Communications Act limits our ability to collect and disclose customers' personally identifiable information and also provides requirements to safeguard such information. We are also subject to other federal, state and local laws and regulations that impose additional customer and employee privacy restrictions. Further, the FCC, the Federal Trade Commission ("FTC") and many states now regulate and restrict the telemarketing practices of cable operators, including telemarketing and online marketing efforts. Efforts are also underway in Congress and in various federal agencies to adopt significant new privacy restrictions affecting the use of personal and profiling data for online and behavioral advertising.

We are also subject to federal and state laws governing information security, including rules requiring customer notification in the event of an information security breach. The FCC recently brought enforcement actions against two communications companies for failing to protect customer data from unauthorized access by, and disclosure to, third parties, with proposed forfeitures totaling $10 million. Similarly, the FTC and state attorneys general regularly bring enforcement actions against companies related to information security breaches and privacy violations. Congress and several state legislatures are considering the adoption of new data security and cyber security legislation that could result in additional network and information security requirements for our business.

On February 12, 2014, the National Institute for Standards and Technologies (NIST), in cooperation with other federal agencies and owners and operators of U.S. critical infrastructure, released a voluntary framework that provides a model for organizations to identify and manage cyber risks. The NIST cybersecurity framework was designed to supplement, not supersede, existing cybersecurity regulations and requirements. Several government agencies have encouraged compliance with the NIST cybersecurity framework, including the FCC, which is also considering expansion of its cybersecurity guidelines or the adoption of new cybersecurity requirements.

***Environmental Regulations***

Our business operations are subject to environmental laws and regulations, including regulations governing the use, storage, disposal of, and exposure to, hazardous materials, the release of pollutants into the environment and the remediation of contamination. In part as a result of the increasing public awareness concerning the importance of environmental regulations, these regulations have become more stringent over time. Amended or new regulations could impact our operations and costs.

### Intellectual Property

We rely on our copyrights, trademarks and trade secrets, as well as licenses and other agreements with our vendors and other parties, to use our technologies, conduct our operations and sell our products and services. We believe we own or have the right to use all of the intellectual property that is necessary for the operation of our business as we currently conduct it.

### Employees

As of December 31, 2014, we had 6,425 employees, including 43 part-time employees. None of our employees are represented by labor unions. We consider our relations with our employees to be good.

## ITEM 1A. RISK FACTORS

### Risks Related to our Substantial Indebtedness

***We have substantial indebtedness, which could have a negative impact on our financing options and liquidity position and prevent us from fulfilling our obligations under the Notes and our other debt obligations.***

As of December 31, 2014, we had approximately $5.092 billion of total debt outstanding. In addition, as of December 31, 2014, we had $482.0 million available for borrowing under the $500.0 million revolving credit facility of the Credit Facility (net of $18.0 million of letters of credit, which reduce the availability under the revolving credit facility).

Our overall leverage and the terms of our financing arrangements could:

- make it more difficult for us to satisfy obligations under the Notes and the Credit Facility;
- limit our ability to obtain additional financing in the future for working capital, capital expenditures or acquisitions;
- limit our ability to refinance our indebtedness on terms acceptable to us or at all;
- limit our ability to adapt to changing market conditions;
- restrict us from making strategic acquisitions or cause us to make non-strategic divestitures;
- require us to dedicate a significant portion of our cash flow from operations to paying the principal of and interest on our indebtedness, thereby limiting the availability of our cash flow to fund future capital expenditures, working capital and other corporate purposes;
- limit our flexibility in planning for, or reacting to, changes in our business and the communications industry generally;
- place us at a competitive disadvantage compared with competitors that have a less significant debt burden; and
- make us more vulnerable to economic downturns and limit our ability to withstand competitive pressures.

In addition, a substantial portion of our indebtedness, consisting of borrowings under the Credit Facility, bears interest at variable rates. If market interest rates increase, variable-rate debt will create higher debt service requirements, which could adversely affect our cash flow. While we may enter into agreements limiting our exposure to higher interest rates, these agreements may not offer complete protection from this risk.

***Despite our indebtedness levels, we may be able to incur substantially more debt. Any such indebtedness could further exacerbate the risks associated with our substantial indebtedness.***

We may be able to incur substantial additional indebtedness in the future. The terms of the Credit Agreement and Indentures do not fully prohibit us from doing so. If new debt is added to our current debt levels, the related risks we could face would be magnified. Any decrease in our revenues (and corresponding reduction in our cash flow) would further increase our leverage.

***To service our indebtedness and meet our other cash needs, we will require a significant amount of cash, which may not be available to us.***

Our ability to make payments on, or repay or refinance, our debt, and to fund capital expenditures, working capital and other cash needs will depend largely upon our future operating performance. Our future operating performance, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control. In addition, our ability to borrow funds in the future to make payments on our indebtedness will depend on the satisfaction of the covenants in the Credit Agreement, the Indentures and our other financing arrangements, and other agreements we may enter into in the future. Specifically, we will need to maintain specified financial ratios and satisfy financial condition tests, including a maximum senior secured leverage ratio. We cannot assure you that our business will generate sufficient cash flow from operations, that future borrowings will be available to us under the Credit Facility or from other sources in an amount sufficient to enable us to make payments on our indebtedness, or to fund our other liquidity needs.

The revolving credit facility of the Credit Facility is scheduled to mature on February 14, 2017 and the term loan facility of the Credit Facility is scheduled to mature on February 14, 2019. We cannot assure you that we would be able to refinance any of our indebtedness, including the Credit Facility, on commercially reasonable terms, or at all. If we are unable to make payments or refinance our debt or obtain new financing under these circumstances, we would have to consider other options, including:

- sales of assets;

- reduction or delay of capital expenditures, strategic acquisitions, investments and alliances; or
- negotiations with our lenders to restructure the applicable debt.

The Credit Agreement and the Indentures may restrict, or market or business conditions may limit, our ability to take some of these actions or the effectiveness of these actions.

***Our financing arrangements subject us to various restrictions that could limit our operating flexibility and our ability to make payments on the Notes.***

Our financing arrangements contain restrictions, covenants and events of default that, among other things, require us to satisfy certain financial tests and maintain certain financial ratios and restrict our ability to incur additional indebtedness and to refinance our existing indebtedness. The terms of these financing arrangements impose, and any future indebtedness may impose, various restrictions on us that could limit our ability to pay dividends, respond to market conditions, provide for capital investment needs or take advantage of business opportunities by limiting the amount of additional borrowings we may incur. These restrictions may include compliance with, or maintenance of, certain financial tests and ratios, including a maximum senior secured leverage ratio, and may limit or prohibit our ability to, among other things:

- incur additional debt and issue preferred equity;
- create liens;
- redeem or prepay certain debt;
- make distributions on our equity interests, repurchase repay or redeem our equity interests or prepay subordinated indebtedness;
- make certain investments;
- engage in specified sales of assets;
- enter into transactions with affiliates;
- enter new lines of business;
- engage in consolidation, mergers and acquisitions; and
- make certain capital expenditures.

These restrictions on our ability to operate our business could seriously harm our business by, among other things, limiting our ability to take advantage of financing, merger and acquisition and other corporate opportunities.

Various risks, uncertainties and events beyond our control could affect our ability to comply with these covenants and maintain these financial tests and ratios. Failure to comply with any of the covenants in our existing or future financing arrangements would result in a default under those arrangements and under other arrangements containing cross-default provisions. A default would permit lenders to accelerate the maturity for the debt under these agreements and to foreclose upon any collateral securing the debt owed to these lenders and to terminate any commitments of these lenders to lend. Under these circumstances, we might have insufficient funds or other resources to satisfy all our obligations, including our obligations under the Notes. In addition, the limitations imposed by any financing arrangements on our ability to incur additional debt and to take other actions might significantly impair our ability to obtain other financing.

**Risks Related to the Notes**

***If the Issuers are unable to receive cash from their subsidiaries, they will be unable to service their indebtedness.***

The Issuers are holding companies and conduct no operations. Accordingly, the Issuers' ability to make payments on, or repay or refinance, indebtedness, including the Notes, and to fund other cash needs will depend largely upon the cash flows of their operating subsidiaries and the payment of funds by those subsidiaries to the Issuers in the form of dividends, distributions, repayment of loans, or otherwise. Distributions to the Issuers from their operating subsidiaries will depend on their respective operating results and will be subject to restrictions under, among other things,

- the laws of their jurisdiction of organization;
- the rules and regulations of state and federal regulatory authorities; and
- agreements of those subsidiaries, including agreements governing their indebtedness.

The ability of the Issuers' operating subsidiaries to make distributions and other payments to the Issuers will depend on their cash flows and earnings which, in turn, will be affected by all of the factors discussed in these "Risk Factors."

None of the Issuers' subsidiaries or affiliates are guarantors of the Issuers' obligations under the Notes or are otherwise required to make any distributions or payments to the Issuers with respect to the Issuers' obligations under the Notes, and the Issuers' obligations under the Notes are structurally subordinated to the indebtedness and other liabilities and commitments of their subsidiaries, including the Credit Facility and guarantees thereof. As of December 31, 2014, the Issuers' subsidiaries had approximately $2.3 billion of indebtedness outstanding (plus additional availability of $482.0 million under the $500.0 million revolving credit facility of the Credit Facility).

The terms of the Credit Agreement generally restrict Suddenlink and its restricted subsidiaries from making dividends or distributions and otherwise transferring assets to the Issuers. However, the Credit Agreement does permit Suddenlink to make dividends and distributions to Cequel subject to satisfaction of certain conditions, including pro forma compliance with a maximum senior secured leverage ratio of 4.0x and that no event of default has occurred and is continuing, or would be caused by the making of such dividends or other distributions, and based on, among other things, a restricted payment basket. In addition, the Credit Facility permits Suddenlink to make dividends and distributions to Cequel for the payment of regularly scheduled interest payments through maturity on indebtedness which was incurred by Cequel to refinance the 2017 Notes, including the 2020 Notes and the Initial 2021 Notes. We cannot assure you that the agreements governing the current and future indebtedness of the Issuers' subsidiaries will permit such subsidiaries to provide the Issuers with sufficient distributions or loans to fund the cash interest payments on or repay the Notes.

If the operating results of the Issuers' operating subsidiaries at any given time are not sufficient to make distributions or other payments to the Issuers or if such operating subsidiaries are not permitted to make such distributions or payments, the Issuers may not be able to make payments of principal or interest due under the Notes or the Issuers' other indebtedness. As a result, we currently anticipate that, in order to pay principal or interest due under the Notes or to repurchase the Notes upon a change of control (as defined in the Indentures), we may be required to adopt one or more alternatives, such as refinancing the Issuers' indebtedness, or that of their subsidiaries, at or before maturity, selling assets of the Issuers' subsidiaries, seeking capital contributions or loans from the Issuers' affiliates or reducing or delaying business activities and capital expenditures. There can be no assurance that any of the foregoing actions would enable the Issuers to refinance their indebtedness or that of their subsidiaries or pay principal or interest due under the Notes or that any of such actions would be permitted by the terms of the Indentures or any debt instrument of the Issuers' subsidiaries then in effect. Any inability to meet our debt service obligations or refinance our indebtedness would materially adversely affect our business, financial condition, results of operations and liquidity.

***The Notes are effectively subordinated to all the Issuers' future secured indebtedness, to the extent of the value of the assets securing such indebtedness.***

The Notes are not secured by the assets of the Issuers. Subject to the restrictions in the Indentures, future indebtedness that the Issuers incur may be secured by the Issuers' assets. If the Issuers become insolvent, or are liquidated, or if payment of any secured indebtedness is accelerated, the holders of any secured indebtedness will be entitled to exercise the remedies available to secured lenders under applicable laws, including the ability to foreclose on and sell the Issuers' collateral securing the indebtedness in order to satisfy the secured indebtedness. In such circumstances, the Issuers may not have sufficient assets to repay the Notes.

***Many of the covenants contained in the Indentures will be suspended if the Notes are rated investment grade by Standard & Poor's and Moody's, which would reduce limitations on actions that are permitted to be taken by us.***

Many of the covenants in the Indentures governing the Notes will be suspended if the Notes are rated investment grade by Standard & Poor's and Moody's. These covenants include restrictions on our ability to pay dividends, to incur debt and to enter into certain other transactions. There can be no assurance that the Notes will ever be rated investment grade. However, suspension of these covenants would allow us to engage in certain transactions that would not be permitted while these covenants were in force, and the effects of any such transactions will be permitted to remain in place even if the Notes are subsequently downgraded below investment grade.

***Ownership interests in Suddenlink and its subsidiaries are pledged as collateral under the Credit Facility and may not be available to holders of the Notes.***

All ownership interests in Suddenlink and its subsidiaries are pledged as collateral under the Credit Facility. Therefore, if we were unable to pay principal or interest on the Notes, the ability of the holders of the Notes to proceed against the ownership interests in Suddenlink and its subsidiaries to satisfy such amounts would be subject to the prior satisfaction in full of all amounts owing under the Credit Facility. Any action to proceed against such interests by or on behalf of the holders of Notes prior to the repayment in full of the Credit Facility would constitute an event of default under the Credit Facility entitling the lenders thereunder to declare all amounts owing thereunder to be immediately due and payable. In addition, as secured creditors, the lenders under the Credit Facility would control the

disposition and sale of Suddenlink and its subsidiaries' interests after an event of default under the Credit Facility and would not be legally required to take into account the interests of our unsecured creditors, such as the holders of the Notes, with respect to any such disposition or sale. There can be no assurance that our assets after the satisfaction of claims of our secured creditors would be sufficient to satisfy any amounts owing with respect to the Notes.

***We may be unable to make a change of control offer required by the Indentures, which would cause defaults under the Indentures and the Credit Agreement.***

The terms of the 2021 Notes require the Issuers to make an offer to repurchase the 2021 Notes upon the occurrence of a "change of control triggering event" at a purchase price equal to 101% of the principal amount of the 2021 Notes, plus accrued and unpaid interest, if any, to the date of the purchase. The 2020 Indenture contains a similar provision. In addition, the terms of the Credit Agreement require, and other financing arrangements may require, repayment of amounts outstanding in the event of a "change of control" and limit our ability to fund the repurchase of Notes in certain circumstances. We may not have sufficient funds at the time of a "change of control" or a "change of control triggering event" to make the required repurchase of Notes or restrictions in the Credit Agreement and other financing arrangements may not allow the repurchase.

If we fail to repurchase Notes upon a "change of control" or a "change of control triggering event," we will be in default under the applicable Indenture or Indentures, which would also cause a default under the Credit Agreement. Any future indebtedness that we incur may also contain restrictions on repurchases in the event of a change of control or similar event. These repurchase requirements may delay or make it more difficult to effect a change of control of the Company.

The change of control provisions may not protect holders of Notes in a transaction in which we incur a large amount of indebtedness, including a reorganization, restructuring, merger or other similar transaction, because such a transaction may not involve any shift in voting power or beneficial ownership, may not involve a shift large enough to trigger a "change of control," may not result in a termination of the Management Agreement (as defined in Footnote 19 of the accompanying consolidated financial statements) or may not result in a ratings downgrade.

***We may experience a change in our equity ownership without triggering a "change of control" or "change of control triggering event" under the Indentures. Furthermore, a "change of control" may occur under the Credit Agreement without a "change of control" under the 2020 Indenture or a "change of control triggering event" occurring under the 2021 Indentures. In addition, a "change of control" may occur under the 2020 Indenture without a "change of control triggering event" occurring under the 2021 Indentures.***

Under the 2021 Indentures, prior to an initial public offering, a "change of control triggering event" will not occur upon the acquisition by third parties of a controlling interest in, or even the entirety of, our equity interests, unless the Management agreement is, or substantially all management services thereunder are, terminated, and a ratings downgrade occurs. The consummation of the Acquisition did not constitute a "change of control" under the Credit Agreement despite the acquisition by Cequel Corporation of all of the outstanding common equity interests in Cequel Holdings because the Management Agreement was not terminated. However, as a result of the Acquisition, for purposes of the Credit Agreement, and prior to an initial public offering, a "change of control" would occur upon the termination of the Management Agreement, or the termination of substantially all management services thereunder, while a "change of control" under the 2020 Indenture would require both the acquisition by a third party of a controlling interest and such termination of the Management Agreement or such services, and a "change of control triggering event" under the 2021 Indentures would require those two events and a ratings downgrade. Accordingly, a "change of control" under the Credit Agreement may occur without a "change of control" occurring under the 2020 Indenture or a "change of control triggering event" under the 2021 Indentures, and a "change of control" occurring under the 2020 Indenture may occur without a "change of control triggering event" occurring under the 2021 Indentures unless there is also a ratings downgrade.

***Under certain circumstances, federal and state laws may allow courts to void or subordinate claims with respect to the Notes or to modify the contractual or structural relationship between different classes of creditors.***

Under the U.S. Bankruptcy Code and comparable provisions of state fraudulent transfer laws, a court could void claims with respect to the Notes, or subordinate them, if, among other things, we, at the time the Notes were issued:

- received less than reasonably equivalent value or fair consideration for the Notes;
- were insolvent or rendered insolvent by reason of the incurrence;
- were engaged in a business or transaction for which our remaining assets constituted unreasonably small capital; or
- intended to incur, or believed that we would incur, debts beyond our ability to pay such debts as they became due.

The measures of insolvency for purposes of these fraudulent or preferential transfer laws vary depending upon the law applied in any proceeding to determine whether a fraudulent or preferential transfer has occurred. Generally, however, we would be considered insolvent if:

- the sum of our debts, including contingent liabilities, was greater than the fair saleable value of all of our assets;
- the present fair saleable value of our assets was less than the amount that would be required to pay the probable liability on our existing debts, including contingent liabilities, as they became absolute and mature; or
- we could not pay our debts as they became due.

Based upon information currently available to us, we believe that the Notes are being incurred for proper purposes and in good faith.

In addition, if there were to be a bankruptcy of our parent and/or its subsidiaries, creditors of our parent may attempt to make claims against us and our subsidiaries, including seeking substantive consolidation of our and our subsidiaries' assets and liabilities with the liabilities of our parent, which (if successful) could have an adverse effect on holders of the Notes and their recoveries in any bankruptcy proceeding.

**Risks Related to Our Business**

***We operate in a very competitive business environment which could materially adversely affect our business, financial condition, results of operations and liquidity.***

We operate in a highly competitive industry. In some instances, we compete against companies with fewer regulatory burdens, easier access to financing, greater resources, operating capabilities and efficiencies of scale, stronger brand name recognition, long-standing relationships with regulatory authorities and customers and greater access to programming or other services.

Our video business faces competition primarily from direct broadcast satellite, which we refer to as DBS, service providers, principally DirecTV and DISH. We have lost a significant number of video customers to DBS competition, and we face serious challenges in this area in the future. In addition, in many of our markets, DBS providers and telephone companies have entered into co-marketing agreements that allow them to offer service arrangements that combine video services provided by the applicable DBS provider with DSL, traditional telephone and, in some cases, wireless telephone services provided by the applicable telephone company. These service arrangements are designed to compete with our bundled product offerings.

High-speed Internet access facilitates the streaming of video into homes and businesses, thus resulting in the Company's residential video service facing competition from a number of different sources, including companies that deliver movies, television shows and other video programming over broadband Internet connections, such as Hulu.com, iTunes, Amazon Prime, Netflix and YouTube. Increasingly, content owners are utilizing Internet-based delivery of content directly to consumers, some without charging a fee for access to the content. Recently, HBO, CBS and Nickelodeon have announced plans to launch subscription based services to provide Internet delivered content to consumers without requiring a pay-TV subscription. Furthermore, due to consumer electronics innovations, consumers are able to watch such Internet-delivered content on television sets and mobile devices. DISH recently launched SlingTV, a service that offers a small selection of popular major cable channels, including ESPN, delivered over the Internet to smart TVs and mobile devices. If customers were to choose to receive video over the Internet rather than through our basic, expanded basic or digital video services, we could experience a reduction in our video revenues.

Telephone companies, including AT&T, CenturyLink, Frontier and Verizon, and utility companies are capable of offering video and other services in competition with us and we expect that they will increasingly do so in the future. Additional upgrades and product launches are expected in markets in which we operate. The large scale entry of major telephone companies as direct competitors in the video marketplace could adversely affect the profitability and valuation of our cable systems. With respect to our high-speed Internet service, we face competition from telephone companies and other providers of DSL. DSL service competes with our Internet service and is often offered at prices lower than our Internet services, although often at speeds lower than the speeds we offer. We also believe that DSL providers may currently be in a better position to offer Internet services to businesses since their networks tend to be more complete in commercial areas. They may also have the ability to combine telephone with Internet services for a higher percentage of their customers. In addition, the continuing deployment of fiber optics into telephone companies' networks will enable them to provide even higher bandwidth Internet services.

With respect to our telephone service, we face considerable competition from established telephone companies, including incumbent telephone companies, and other carriers, including wireless providers and voice over Internet protocol, which we refer to as VoIP, providers. In addition, competition in phone service is intensifying as more consumers are replacing their wireline service with wireless service.

We also face competition from other wireline video providers and cable system operators who conduct their business in the same

territory as we do, since our franchises are non-exclusive and local franchising authorities may grant competing franchises in our markets. The existence of more than one cable system operating in the same territory is referred to as an overbuild. We believe that the markets we serve are not significantly overbuilt. However, we cannot assure you that competition from overbuilders will not develop in other markets that we now serve or will serve after any future acquisitions. For example, the American Recovery and Reinvestment Act, which we refer to as ARRA, provides specific funding for broadband development as part of the economic stimulus package. We did not apply for any of these funds, but many other organizations did, including broadband services competitors and new entrants into such services. In addition, the FCC and some state regulatory commissions direct certain subsidies to telephone companies deploying broadband to areas deemed to be "unserved" or "underserved." We have generally opposed such subsidies when directed to areas that we serve and have deployed broadband capable networks. Despite those efforts, future subsidies may be directed to areas we serve, which could result in subsidized competitors operating in our service territories. We could be placed at a competitive disadvantage if recipients use these funds to subsidize services that compete with our broadband services.

In addition, mergers, joint ventures, and alliances among franchised, wireless, or private cable operators, DBS providers, local exchange carriers, and others, may provide additional benefits to some of our competitors, either through access to financing, resources, or efficiencies of scale, or the ability to provide multiple services in direct competition with us. In May 2014, AT&T announced its intention to acquire DirecTV, the nation's largest DBS provider. If completed, this transaction will create an even larger competitor for our cable services that will have the ability to offer services that include bundled wireless offerings, which may have an adverse impact on our business, operating results or financial condition.

We cannot assure you that the services we provide will allow us to compete effectively. Additionally, as we expand our offerings to include other communications services, and to introduce new and enhanced services, we will be subject to competition from other providers of such services. We also expect that future advances in communication technology could lead to the introduction of new competitors, products and services that may compete with our business.

We cannot predict the full extent to which competition may affect our business, financial condition, results of operation and liquidity. However, competition has in the past and may continue to cause us to:

- lose customers;
- reduce prices or offer promotional services;
- incur significant advertising expenses; and
- make additional capital expenditures.

Any of these and other effects on our business from competition could materially adversely affect our cash flows and ability to make payments on our indebtedness.

***We face risks relating to competition for the leisure and entertainment time of audiences, which has intensified in part due to advances in technology.***

In addition to the various competitive factors, our business is subject to risks relating to increasing competition for the leisure and entertainment time of consumers. Our business competes with all other sources of entertainment and information delivery, including broadcast television, movies, sporting or other live events, radio broadcasts, home video products, console games, print media and the Internet. Technological advancements, such as VOD, new video formats and Internet streaming and downloading, have increased the number of entertainment and information delivery choices available to consumers, and intensified the challenges posed by audience fragmentation. In particular, content owners, including our programmers, are increasingly utilizing Internet-based delivery of content directly to consumers and can reach consumers through other mobile data services, such as smartphones and tablets, often without charging a fee for access to the content. These technologies and services are also driving changes in consumer behavior as consumers seek more control over when, where and how they consume content and access communications services. The growing number of choices available to audiences could reduce the number of customers for certain of our services or negatively impact advertisers' willingness to purchase advertising from us. In addition, these competitors could cause our customers or advertisers to reduce the price they are willing to pay for such services or advertising expenditures, respectively. If we do not respond appropriately to further increases in the leisure and entertainment choices available to consumers, our competitive position could deteriorate, and our financial results could suffer.

***If we are unable to respond to technological developments and meet customer demand for new products and services, our ability to compete effectively could be limited.***

Our business is characterized by rapid technological change and the introduction of new products and services, some of which are bandwidth-intensive or require capacity greater than we possess to be cost effective. We cannot assure you that we will be able to fund

the capital expenditures necessary to keep pace with technological developments, or that we will successfully anticipate the demand of our customers for products and services requiring new technology or bandwidth beyond our expectations. Our inability to maintain and expand our upgraded systems and provide advanced services in a timely manner, or to anticipate the demands of the marketplace, could materially adversely affect our ability to attract and retain customers. Consequently, our business, financial condition, results of operations and liquidity could suffer materially.

***Increases in programming and retransmission costs or the inability to retain or obtain popular programming could adversely affect our business, financial condition, results of operations and liquidity. Furthermore, disputes with programmers could adversely affect our relationship with customers and lead to customer losses.***

Our programming costs have been, and are expected to continue to be, one of our largest single expense items. In recent years, the cost of programming in the cable and satellite video industries has significantly increased. This increase in programming costs is expected to continue and we may not be able to pass on all programming cost increases to our customers. In addition, as we continue to increase the channel capacity of our cable system and add programming, we may also face additional market constraints on our ability to pass the cost of such additional programming on to our customers. To the extent that we cannot pass on increased or additional programming costs to customers or offset such costs through the sale of additional services, our business, financial condition, results of operations and liquidity could be materially adversely affected. In addition, as of December 31, 2014, we purchased approximately 13% of our programming through the NCTC which, in certain cases, provides for more favorable pricing than we could negotiate independently with programmers. There can be no assurance that the cooperative will be able to continue to obtain such favorable pricing or that we will continue our relationship with the cooperative.

The expiration dates of our various programming contracts are staggered, which results in the expiration of a portion of our programming contracts every year, including programming contracts that have expired and others that will expire at or before the end of 2015. Several companies provide significant percentages of our programming, and our negotiations could affect some or all of the programing we receive from those companies. Upon expiration of these programming contracts, we have historically carried certain programming under short-term arrangements while we attempt to negotiate new long-term programming arrangements. Negotiation of new programming arrangements may lead to disputes with programmers that could result in temporary periods during which we do not carry a particular programming service or services. Such disputes may inconvenience some of our customers and could lead to customer dissatisfaction and, in certain cases, the loss of customers, which could have a material adverse effect on our business, financial condition, results of operations and liquidity. In addition, to the extent that we are unable to reach agreement with certain programmers on terms that we believe are reasonable, we may be forced, or determine for strategic or business reasons, to remove such programming channels from our line-up and may decide to replace them with other programming, which may not be available on acceptable terms or be as attractive to customers. The removal or replacement of programming could lead to customer dissatisfaction and, in certain cases, the loss of customers, and could have a material adverse effect on our business, financial condition, results of operations and liquidity. There can be no assurance that our expiring programming contracts will be renewed on favorable or comparable terms or at all, or that the rights we negotiate will be adequate for us to execute our business strategy.

We were unable to reach agreement with Viacom on acceptable economic terms for a long-term contract renewal, and effective October 1, 2014, all Viacom networks were removed from our channel lineups. We expected this change to result in the loss of some video customers, and to date those losses have been less than expected and have not had a material impact on our business, operating results or financial condition. Furthermore, most of the customers who disconnected video service because of the loss of Viacom channels chose to keep their other, non-video services with us. However, the removal of other programming in the future could materially adversely affect our business, operating results or financial condition.

We also may be subject to increasing financial and other demands by broadcast stations for carriage of other services or payments to those broadcasters in order to obtain the required consent for the retransmission of broadcast programming. Federal law allows commercial television broadcast stations to make an election between “must-carry” rights and an alternative “retransmission consent” regime. When a station opts for the latter, cable operators are not allowed to carry the station’s signal without the station’s permission. In 2015, some of our retransmission agreements are scheduled to expire. Several companies own significant percentages of these broadcast stations, and our negotiations could affect some or all of these stations. Upon expiration of these agreements, we may carry some stations under short-term arrangements while we attempt to negotiate new long-term retransmission agreements. In connection with our negotiation of new retransmission agreements, we expect that we may be subject to increasing costs associated with such agreements, which costs we may not be able to pass on to our customers. To the extent that we cannot pass on increased or additional retransmission agreement costs to customers or offset such costs through the sale of additional services, our business, financial condition, results of operations and liquidity could be materially adversely affected. In addition, if negotiations with these broadcasters prove unsuccessful, we may be required, or determine for strategic or business reasons, to cease carrying their signals, possibly for an indefinite period. Any loss of

broadcast stations could make our video service less attractive to customers, which could result in a loss of customers, which could have a material adverse effect on our business, financial condition, results of operations and liquidity. There can be no assurance that our expiring retransmission agreements will be renewed on favorable or comparable terms or at all.

***If our required capital expenditures exceed our expectations, we may not have sufficient funding, which could materially adversely affect our growth, financial condition and results of operations.***

During the year ended December 31, 2014, we had approximately $417.3 million of capital purchases (see Footnote 8). For 2015, we expect our capital expenditures will be approximately $480 million to $490 million, which includes capital expenditures for Operation GigaSpeed and known commercial success based opportunities. This guidance could increase if incremental commercial success based opportunities are identified. The actual amount of our capital expenditures is impacted by, among other things, the level of growth in advanced video, high-speed Internet and telephone customers and the delivery of advanced broadband services such as additional high-definition channels, faster high-speed Internet services, VOD programming and DVRs and other customer premise equipment, extensions of our existing network to new areas and upgrades to existing network capacity, as well as the cost of introducing any new services. We may need additional capital if there is an increased need to respond to competitive pressures by expanding the delivery of other advanced services or increasing our marketing efforts and related marketing expenses. If we cannot provide for such capital spending from increases in our cash flow from operating activities, additional borrowings, proceeds from asset sales or other sources, our growth, competitiveness, financial condition and results of operations could suffer materially.

In addition, if we decide to introduce other new advanced products and services or the cost for these services increases, we may need to make unplanned capital expenditures. No assurance can be given that we will be able to implement our business plan or that demand for these new products and services will exist after these capital expenditures are made, or that our customers will accept these new products and services as superior to the products and services already available in the market. It is possible that shortly after making these capital expenditures, our competitors may develop and provide superior products and services, rendering our new products and services obsolete, or requiring us to make further significant capital expenditures in order to provide similar products and services.

***We face risks inherent in our telephone business that could affect our operations differently than our other businesses.***

We face heightened customer expectations for the reliability of telephone services as compared with our video and high-speed Internet services. We have undertaken significant training of customer service representatives and technicians, and we will continue to need a highly trained workforce, which may not be available. In addition, the competitive landscape for telephone services is intense. We face competition from providers of Internet telephone services, as well as incumbent telephone companies. We also face increasing competition for residential telephone services as more consumers in the United States are replacing traditional telephone service with wireless service. If our telephone service is not sufficiently reliable or we otherwise fail to meet customers' expectations, our telephone business could be adversely affected. Finally, we cannot predict the effect that ongoing or future developments in the communications industry, particularly with respect to technology, the applicable regulatory and legislative environment and the consumer marketplace, might have on our telephone business and operations.

***We rely on network and information systems and other technologies to conduct our business, and a disruption or failure of such networks, systems or technologies as a result of computer hacking, computer viruses, "cyber-attacks," misappropriation of data, outages, natural disasters and other material events could materially adversely affect our business, financial condition, results of operations and liquidity.***

Network and information systems and other technologies are critical to our operating activities, both to our internal uses and in supplying services to customers. Network or information system shutdowns caused by events such as computer hacking, dissemination of computer viruses, worms and other destructive or disruptive software, "cyber-attacks," process breakdowns, denial of service attacks and other malicious activity pose increasing risks. Both unsuccessful and successful "cyber-attacks" on companies have continued to increase in frequency, scope and potential harm in recent years and, because the techniques used to obtain unauthorized access, disable or degrade service, or sabotage systems have become more sophisticated and change frequently, we may be unable to anticipate these techniques or implement adequate preventative measures. While from time to time attempts are made to access our network, these attempts have not as yet resulted in any material release of information, degradation or disruption to our network and information systems.

Our network and information systems are also vulnerable to damage or interruption from power outages, natural disasters (including extreme weather arising from short-term weather patterns or any long-term changes), terrorist attacks and similar events. Any of these events could have a material adverse effect on our business and our customers, including degradation of service, service disruption, excessive call volume to call centers and damage to our plant, equipment, data and reputation. Operational or business delays may result

from the disruption of network or information systems and the subsequent remediation activities. Any such event also could result in large expenditures necessary to repair or replace such networks or information systems or to protect them from similar events in the future. Further, the impacts associated with extreme weather or any long-term changes, such as rising sea levels or increased and intensified storm activity, may cause increased business interruptions or may require the relocation of some of our facilities. Significant incidents and subsequent remediation activities could result in a disruption of our operations, customer dissatisfaction, negative publicity, brand damage or a loss of customers or revenue, in addition to increased costs to service our customers to protect our network. Any significant loss of video, high-speed Internet or telephone customers or revenue, or a significant increase in costs could materially adversely affect our business, financial condition, results of operations and liquidity.

For example, in August 2011, certain of our cable systems in North Carolina were damaged by Hurricane Irene, and in July 2012, certain of our cable systems in West Virginia were damaged by severe storms. These storms impacted us to varying degrees and caused property damage, service interruptions, loss of customers and customer refunds.

In addition, our operating activities could be subject to risks caused by misappropriation, misuse, leakage, falsification, theft, and release or loss of information maintained in our information technology systems and networks, including customer, personnel, vendor data and intellectual property. We could also be subject to employee error or malfeasance or other disruptions. We could be exposed to significant costs if such risks were to materialize, and such events could damage our reputation and credibility and our business and have a negative impact on our revenues. We also could be required to expend significant capital and other resources to remedy any such security breach and we may not be able to remedy these problems in a timely manner, or at all. Moreover, the amount and scope of insurance we maintain against losses resulting from unauthorized access or security breaches may not be sufficient to cover our losses or otherwise adequately compensate us for any disruptions to our businesses that may result. As a result of the increasing awareness concerning the importance of safeguarding personal information, the potential misuse of such information and legislation that has been adopted or is being considered regarding the protection, privacy and security of personal information, information-related risks are increasing, particularly for businesses like ours that handle a large amount of personal customer data. We could be subject to regulatory actions, fines and claims made by consumers in private litigations involving privacy issues related to consumer data collection and use practices.

***Weak economic conditions may negatively impact our ability to attract new customers, increase rates and maintain or increase revenues.***

A substantial portion of our revenue comes from customers whose spending patterns may be affected by prevailing economic conditions. Weak economic conditions, or increases in price levels generally due to inflationary pressures, could lead to further reductions in demand for our services, especially premium and digital services, DVRs, HDTV and certain commercial services, and a continued increase in the number of homes that replace their traditional telephone service with wireless service, which would negatively impact our ability to attract new customers, increase rates and maintain or increase subscription revenues. In addition, weak economic conditions could lead to reduced advertising revenues and adversely affect our cash flow, results of operations and financial condition.

Providing basic video services is an established and highly penetrated business. Our ability to achieve incremental growth in basic video customers is dependent to a large extent on growth in occupied housing in our service areas, which is influenced by both national and local economic conditions. If growth in the number of occupied homes declines, it may negatively impact our ability to gain new basic video customers.

***We may not be able to obtain necessary hardware, software, communications equipment and services and other items from our vendors at reasonable costs or at all, which could materially adversely affect our business, financial condition, results of operations and liquidity.***

We depend on third parties to provide certain programming and billing services, as well as for equipment, software, services and other items that are critical for the operation of our business. These include, but are not limited to, digital set-top converter boxes and other customer premises equipment, DVRs and VOD equipment; routers, provisioning and other software; the telecommunications network, interconnection agreements and e-mail platform for our high-speed Internet and telephone services; fiber optic cable and construction services for expansion and upgrades of our cable systems; and our customer billing platform. Certain of these vendors and suppliers may have leverage over us considering that there are limited suppliers of certain products and services, or that there is a long lead time and/or significant expense required to transition to another provider. In addition, some of these vendors and suppliers do not have a long operating history or may not be able to continue to supply the equipment and services we desire. Some of our hardware, software and operational support vendors and some of our service providers represent our sole source of supply or have, either through contract or as a result of intellectual property rights, a position of some exclusivity. Any delays or the termination or disruption in these relationships as a result of contractual disagreements, operational or financial failures on the part of suppliers, or other adverse events that prevent such vendors and suppliers from providing the equipment or services we need in a timely manner and at reasonable prices

could result in significant costs to us and have a negative effect on our ability to provide services and roll out advanced services, and our business, financial condition, results of operations and liquidity could be materially adversely affected.

In that regard, we currently purchase set-top boxes from a limited number of vendors because each of our cable systems uses one of two proprietary schemes. In most cases, our systems only operate with set-top boxes from one vendor. We believe that the proprietary nature of these schemes makes other manufacturers reluctant to produce set-top boxes for these systems. Accordingly, we believe that our reliance on a limited number of set-top box vendors subjects our business to additional risk because we may not be able to replace our source of set-top boxes if such vendors were to fail or if our relationships with these vendors were to terminate and we would face significant cost to rebuild our networks to allow them to operate with different types of set-top boxes.

***The acquisition and integration of additional cable systems could materially adversely affect our business and results of operations.***

Our business has grown significantly as a result of acquisitions. We expect that a portion of our future growth will result from additional acquisitions. Acquisitions entail numerous risks, including:

- strain on our financial, management and operational resources, including the distraction of our management team in identifying potential acquisition targets, conducting due diligence and negotiating acquisition agreements;
- difficulties in integrating the operations, personnel, products, technologies and systems of acquired businesses;
- difficulties in enhancing our customer support resources to adequately service our existing customers and the customers of acquired businesses;
- the potential loss of key employees or customers of the acquired businesses;
- unanticipated liabilities or contingencies of acquired businesses;
- unbudgeted costs which we may incur in connection with pursuing potential acquisitions which are not consummated;
- failure to achieve projected cost savings or cash flow from acquired businesses;
- fluctuations in our operating results caused by incurring considerable expenses to acquire businesses before receiving the anticipated revenues expected to result from the acquisitions; and
- difficulties in obtaining regulatory approvals required to consummate acquisitions.

If we make acquisitions in the future, we may incur more debt, contingent liabilities and amortization expenses, which could materially adversely affect our operating results and financial condition. We also participate in competitive bidding processes, some of which may involve significant cable systems. If we are the winning bidder in any such process involving significant cable systems, we could require substantial additional equity and debt financing to consummate such an acquisition.

If our acquisitions do not result in the anticipated operating efficiencies, are not effectively integrated, or result in costs which exceed our expectations, our operating results and financial condition could be materially adversely affected.

***Significant unanticipated increases in the use of bandwidth-intensive Internet-based services could increase our costs.***

The rising popularity of bandwidth-intensive Internet-based services poses special risks for our high-speed Internet services. Examples of such services include peer-to-peer file sharing services, gaming services and the delivery of video via streaming technology and by download. If heavy usage of bandwidth-intensive services grows beyond our current expectations, we may need to incur more expenses than currently anticipated to expand the bandwidth capacity of our systems or our customers could have a suboptimal experience when using our high-speed Internet service. In order to continue to provide quality service at attractive prices, we need the continued flexibility to develop and refine business models that respond to changing consumer uses and demands and to manage bandwidth usage efficiently. Our ability to do these things could be restricted by regulatory and legislative efforts to impose so-called "net neutrality" requirements on cable operators like us that provide high-speed Internet services.

***Our business depends on intellectual property rights and on not infringing on the intellectual property rights of others.***

We rely on our copyrights, trademarks and trade secrets, as well as licenses and other agreements with our vendors and other parties, to use our technologies, conduct our operations and sell our products and services. Third parties have in the past, and may in the future, assert claims or initiate litigation related to exclusive patent, copyright, trademark, and other intellectual property rights to technologies and related standards that are relevant to us. These assertions have increased over time as a result of our growth and the general increase in the pace of patent claims assertions, particularly in the United States. Because of the existence of a large number of patents in the networking field, the secrecy of some pending patents and the rapid rate of issuance of new patents, it is not economically practical or even possible to determine in advance whether a product or any of its components infringes or will infringe on the patent rights of others.

Asserted claims and/or initiated litigation can include claims against us or our manufacturers, suppliers, or customers, alleging infringement of their proprietary rights with respect to our existing or future products and/or services or components of those products and/or services. Regardless of the merit of these claims, they can be time-consuming, result in costly litigation and diversion of technical and management personnel, or require us to modify our business, develop a non-infringing technology, use alternate technology or enter into license agreements. There can be no assurance that licenses will be available on acceptable terms and conditions, if at all, or that our indemnification by our suppliers will be adequate to cover our costs if a claim were brought directly against us or our customers. Furthermore, because of the potential for high court awards that are not necessarily predictable, it is not unusual to find even arguably unmeritorious claims settled for significant amounts. If any infringement or other intellectual property claim made against us by any third party is successful, if we are required to indemnify a customer with respect to a claim against the customer, or if we fail to modify our business, develop non-infringing technology, use alternate technology or license the proprietary rights on commercially reasonable terms and conditions, our business, results of operations, and financial condition could be materially adversely affected.

***We may be liable for the material that content providers distribute over our networks.***

The law relating to the liability of private network operators for information carried on, stored or disseminated through their networks is still unsettled. As such, we could be exposed to legal claims relating to content disseminated on our networks. Claims could challenge the accuracy of materials on our network or could involve matters such as defamation, invasion of privacy or copyright infringement. If we need to take costly measures to reduce our exposure to these risks or are required to defend ourselves against such claims, our business, results of operations and financial condition could be materially adversely affected.

***The loss of any of our key executive officers or the termination of the Management Agreement could materially adversely affect our ability to manage our business.***

Our success is substantially dependent upon the retention and the continued performance of our executive officers, including Jerald L. Kent, our Chief Executive Officer, who is employed by our manager and whose services are provided pursuant to the Management Agreement. Our executive officers are not employed pursuant to employment agreements and our Chief Executive Officer and other officers are uniquely qualified in their areas of expertise, making it difficult to replace their services. In addition, Cequel Holdings is the party to the Management Agreement which requires our manager to provide certain services to us. However, we have no rights to enforce the Management Agreement upon a breach or otherwise, including the failure of our manager to provide the services that it is required to provide us. The loss of the services of one or more of these executive officers or the termination of the Management Agreement, which would result in the loss of our Chief Executive Officer, could materially adversely affect our growth, financial condition and results of operations. In addition, if the Management Agreement is, or substantially all management services thereunder are, terminated, it may impact, in certain instances, whether a “change of control” or a “change of control triggering event” under the Indentures or the Credit Agreement would occur.

***We are controlled by affiliates of the Sponsors, as well as certain members of existing management.***

All of our equity interests are effectively controlled by the limited partnerships affiliated with each of CIE Management IX Limited (“BC Partners”), the CPP Investment Board (USRE II) Inc. (“CPPIB” and together with BC Partners, each a “Sponsor” and collectively the “Sponsors”), and Jerald L. Kent, our Chairman and Chief Executive Officer, Thomas P. McMillin, our Executive Vice President and Chief Operating Officer, and Mary E. Meduski, our Executive Vice President and Chief Financial Officer (collectively, the “Management Investors”), and the board of directors of Cequel Corporation (the “Cequel Board of Directors”) governs our affairs, including the appointment of management and the entering into of mergers, sales of substantially all of our assets and other extraordinary transactions. The interests of the equity holders could conflict with your interests in material respects. Furthermore, the Sponsors are in the business of making investments in companies and may in certain instances from time to time acquire and hold interests in businesses that compete directly or indirectly with us, as well as businesses that represent major customers of our businesses. The Sponsors may also pursue acquisition opportunities that may be complementary to our business, and as a result, those acquisition opportunities may not be available to us. So long as the Sponsors continue to control a significant amount of our membership interests, the Sponsors will continue to be able to strongly influence or effectively control our decisions.

***Our long-lived assets may become impaired in the future, which could cause a non-cash charge to our earnings.***

As a result of the Acquisition, we engaged a third party to complete a valuation of our assets to assist us in determining our new enterprise value resulting from the Acquisition. This valuation resulted in increases to the book value of long-lived assets, including property, plant and equipment, and intangible assets. Amortizable long-lived assets must be reviewed for impairment whenever indicators

of impairment exist. Non-amortizable long-lived assets are required to be reviewed for impairment on an annual basis or more frequently whenever indicators of impairment exist. Indicators of impairment could include, but are not limited to:

- an inability to perform at levels that were forecasted;
- a permanent decline in market capitalization;
- implementation of restructuring plans;
- changes in industry trends; and/or
- unfavorable changes in our capital structure, cost of debt, interest rates or capital expenditures levels.

Situations such as these could result in an impairment that would require a material non-cash charge to our results of operations and could have a material adverse effect on our consolidated results of operations.

**Risks Related to Regulatory and Legislative Matters**

***Our business is subject to extensive governmental legislation and regulation, which could adversely affect our business, increase our operational and administrative expenses and limit our revenues.***

Regulation of the cable industry has increased cable operators' operational and administrative expenses and limited their revenues. Cable operators are subject to, among other things:

- rules governing the provisioning and marketing of cable equipment and compatibility with new digital technologies;
- rules and regulations relating to customer and employee privacy;
- rules establishing limited rate regulation of video service;
- rules governing the copyright royalties that must be paid for retransmitting broadcast signals;
- rules governing when a cable system must carry a particular broadcast station and when it must first obtain retransmission consent to carry a broadcast station;
- rules governing the provision of channel capacity to unaffiliated commercial leased access programmers;
- rules limiting the ability to enter into exclusive agreements with MDUs, and control inside wiring;
- rules, regulations and regulatory policies relating to the provision of high-speed Internet service, including new "net neutrality" requirements;
- rules, regulations and regulatory policies relating to the provision of voice communications;
- rules for franchise renewals and transfers; and
- other requirements covering a variety of operational areas such as equal employment opportunity, emergency alert systems, disability access, technical standards and customer service and consumer protection requirements.

Additionally, many aspects of these regulations are currently the subject of judicial proceedings and administrative or legislative proposals. There are also ongoing efforts to amend or expand the federal, state and local regulation of some of our cable systems, which may compound the regulatory risks we already face, and proposals that might make it easier for our employees to unionize. The federal Internet Tax Freedom Act, which prohibits many taxes on Internet access service, will expire in September 2015, unless it is renewed by Congress. Certain states and localities are considering new cable and telecommunications taxes that could increase operating expenses. Certain states are also considering adopting energy efficiency regulations governing the operation of equipment that we use, which could constrain innovation. Congress is considering whether to rewrite the entire Communications Act of 1934, as amended (the "Communications Act") to account for changes in the communications marketplace or to adopt more focused changes. In response to recent data breaches and increasing concerns regarding the protection of consumers' personal information, Congress and regulatory agencies are considering the adoption of new privacy and data security laws and regulations that could result in additional privacy, as well as network and information security, requirements for our business. These new laws, as well as existing legal and regulatory obligations, could require significant expenditures.

***Our cable system franchises are subject to non-renewal or termination. The failure to renew a franchise in one or more key markets could adversely affect our business.***

Our cable systems generally operate pursuant to franchises, permits and similar authorizations issued by a state or local governmental authority controlling the public rights-of-way. Some franchises establish comprehensive facilities and service requirements, as well as specific customer service standards and monetary penalties for non-compliance. In many cases, franchises are terminable if the franchisee

fails to comply with significant provisions set forth in the franchise agreement governing system operations. Franchises are generally granted for fixed terms and must be periodically renewed. Franchising authorities may resist granting a renewal if either past performance or the prospective operating proposal is considered inadequate. Franchise authorities often demand concessions or other commitments as a condition to renewal. In some instances, local franchises have not been renewed at expiration, and we have operated and are operating under either temporary operating agreements or without a franchise while negotiating renewal terms with the local franchising authorities.

The traditional cable franchising regime is currently undergoing significant change as a result of various federal and state actions. Some state franchising laws do not allow incumbent operators like us to immediately opt into favorable statewide franchising as quickly as new entrants, and often require us to retain certain franchise obligations that are more burdensome than those applied to new entrants.

We cannot assure you that we will be able to comply with all significant provisions of our franchise agreements and certain of our franchisors have from time to time alleged that we have not complied with these agreements. Additionally, although historically we have renewed our franchises without incurring significant costs, we cannot assure you that we will be able to renew, or to renew on terms as favorable, our franchises in the future. A termination of or a sustained failure to renew a franchise in one or more key markets could adversely affect our business in the affected geographic area.

***Our cable system franchises are non-exclusive. Accordingly, local and state franchising authorities can grant additional franchises and create competition in market areas where none existed previously, resulting in overbuilds, which could adversely affect results of operations.***

Our cable system franchises are non-exclusive. Consequently, local and state franchising authorities can grant additional franchises to competitors in the same geographic area or operate their own cable systems. In some cases, local government entities and municipal utilities may legally compete with us without securing a local franchise or on more favorable franchise terms. There are federal legislative and regulatory proposals now pending regarding the ability of municipalities to construct and deploy broadband facilities that could compete with our cable systems. In addition, certain telephone companies are seeking authority to operate in communities without first obtaining a local franchise. As a result, competing operators may build systems in areas in which we hold franchises.

The FCC has adopted rules that streamline entry for new competitors (including those affiliated with telephone companies) and reduce franchising burdens for these new entrants. At the same time, a substantial number of states have adopted new franchising laws. Again, these laws were principally designed to streamline entry for new competitors, and they often provide advantages for these new entrants that are not immediately available to existing operators. As a result of these new franchising laws and regulations, we have seen an increase in the number of competitive cable franchises or operating certificates being issued, and we anticipate that trend to continue.

The FCC also administers a program that collects Universal Service Fund contributions from telecommunications service providers and uses them to subsidize the provision of telecommunications services in high-cost areas and to low-income consumers and the provision of Internet and telecommunications services to schools, libraries and certain health care providers. The FCC has begun to redirect some of this funding to broadband deployment in ways that could assist competitors in competing with our services.

***Local franchising authorities have the ability to impose additional regulatory constraints on our business, which could reduce our revenues or increase our expenses.***

In addition to the franchise agreement, local franchising authorities in some jurisdictions have adopted cable regulatory ordinances that further regulate the operation of cable systems. This additional regulation increases the cost of operating our business. For example, some local franchising authorities impose minimum customer service standards on our operations. There are no assurances that the local franchising authorities will not impose new and more restrictive requirements. Local franchising authorities who are certified to regulate rates generally have the power to reduce rates and order refunds on the rates charged for basic service and equipment, which could reduce our revenues.

***Further regulation of the cable industry could restrict our marketing options or impair our ability to raise rates to cover our increasing costs.***

The cable industry has operated under a federal rate regulation regime for approximately two decades. Currently, rate regulation is strictly limited to the basic service tier and associated equipment and installation activities. However, the FCC and Congress continue to be concerned that cable rate increases are exceeding inflation. It is possible that either the FCC or Congress will adopt more extensive rate regulation for our video services or regulate our other services, such as high-speed Internet and telephone services, which could impede our ability to raise rates, or require rate reductions. To the extent we are unable to raise our rates in response to increasing costs, or are required to reduce our rates, our business, financial condition, results of operations and liquidity will be materially adversely affected.

There has been legislative and regulatory interest in requiring cable operators to offer historically bundled programming services on an á la carte basis. It is possible that new marketing restrictions could be adopted in the future. These restrictions could affect how we provide, and limit, customer equipment used in connection with our service and how we provide access to video programming beyond conventional cable delivery. Such restrictions could adversely affect our operations.

***We may be materially adversely affected by regulatory changes related to pole attachment costs.***

Pole attachments are cable wires that are attached to utility poles. Cable system pole attachments to utility poles historically have been regulated at the federal or state level, generally resulting in favorable pole attachment rates for attachments used to provide cable service. Any changes in the current pole attachment approach could result in a substantial increase in our pole attachment costs.

***Increasing regulation of our Internet service product could adversely affect our ability to provide new products and services.***

On January 14, 2014, the D.C. Circuit Court of Appeals, in Verizon v. FCC, struck down major portions of the FCC's 2010 "net neutrality" rules governing the operating practices of broadband Internet access providers like us. The FCC originally designed the rules to ensure an "open Internet" and included three key requirements for broadband providers: (1) a prohibition against blocking websites or other online applications; (2) a prohibition against unreasonable discrimination among Internet users or among different websites or other sources of information; and (3) a transparency requirement compelling the disclosure of network management policies. The Court struck down the first two components, concluding that they constitute "common carrier" restrictions that are not permissible given the FCC's earlier decision to classify Internet access as an "information service," rather than a "telecommunications service." The Court simultaneously upheld the FCC's transparency requirement, concluding that this final requirement does not amount to impermissible common carrier regulation.

On May 15, 2014, the FCC initiated a new rulemaking to issue new network neutrality regulations, potentially including a reclassification of broadband services as Title II common carrier services, which could subject our services to far more extensive and burdensome federal and state regulation. On February 4, 2015, the Chairman of the FCC released a fact sheet describing his proposed new rules. The Chairman's proposal reclassifies wireline and wireless broadband services as Title II common carrier services, and asserts legal authority to regulate broadband service offered by ISPs under Title II, Title III, and Section 706 of the Communications Act. In an effort to protect consumers and edge providers, the new rules would prohibit ISPs from engaging in blocking, throttling, and paid prioritization, and the existing transparency rules would be enhanced. Reasonable network management activities would remain permitted. For the first time, the FCC would have authority to hear complaints and take enforcement action if it determines that the interconnection activities of ISPs are not just and reasonable, or if ISPs fail to meet a new general obligation not to harm consumers or edge providers. The Chairman has proposed forbearing from certain Title II regulation, such as rate regulation, tariffs and last-mile unbundling. He does not propose assessment of USF fees on broadband services at this time. The Chairman has indicated he intends to have the FCC commissioners vote on his proposal at the end of February 2015. Given the political composition of the FCC, it is likely the FCC will adopt the Chairman's proposed rules. If adopted, several leading broadband providers have already indicated their intention to challenge the regulations in court. There are also legislative proposals in Congress to preempt the Chairman's proposed "utility-style" regulation, while still addressing many of the underlying concerns. We do not know at the current time if the new regulations proposed by the Chairman will go into effect, nor do we know how they would be administered, but they could limit our ability to efficiently manage our cable systems and respond to operational and competitive challenges.

***Changes in channel carriage regulations could impose significant additional costs on us.***

Cable operators also face significant regulation affecting the carriage of broadcast and other programming channels. We can be required to devote substantial capacity to the carriage of programming that we might not otherwise carry voluntarily, including certain local broadcast signals; local public, educational and governmental access programming; and unaffiliated, commercial leased access programming (channel capacity designated for use by programmers unaffiliated with the cable operator). Regulatory changes in this area could disrupt existing programming commitments, interfere with our preferred use of limited channel capacity and limit our ability to offer services that would maximize our revenue potential. It is possible that other legal restraints will be adopted limiting our discretion over programming decisions.

***Offering telephone services may subject us to additional regulatory burdens, causing us to incur additional costs.***

We offer telephone services over our broadband network and continue to develop and deploy interconnected VoIP services. The FCC has ruled that competitive telephone companies that support VoIP services, such as those that we offer to our customers, are entitled

to interconnect with incumbent providers of traditional telecommunications services, which ensures that our VoIP services can operate in the market. However, the scope of these interconnection rights are being reviewed in a current FCC proceeding, which may affect our ability to compete in the provision of voice services or result in additional costs. It remains unclear precisely to what extent federal and state regulators will subject VoIP services to traditional telephone service regulation. Expanding our offering of these services may require us to obtain certain authorizations, including federal and state licenses. We may not be able to obtain such authorizations in a timely manner, or conditions could be imposed upon such licenses or authorizations that may not be favorable to us. The FCC has already extended certain traditional telecommunications requirements, such as E911 capabilities, Universal Service Fund contribution, Communications Assistance for Law Enforcement Act ("CALEA"), measures to protect Customer Proprietary Network Information and customer privacy, disability access, number porting, network outage reporting, rural call completion reporting, and other regulatory requirements to many VoIP providers such as us. If additional telecommunications regulations are applied to our VoIP service, it could cause us to incur additional costs and may otherwise materially adversely impact our operations.

In November 2011, the FCC released an order significantly changing the rules governing intercarrier compensation for the origination and termination of telephone traffic between interconnected carriers. The Tenth Circuit Court of Appeals upheld the rules in May 2014, although one aspect of the order remains under appeal. The new rules will result in a substantial decrease in interstate compensation payments over a multi-year period. Further, the FCC's initiative to collect data concerning certain point to point transport ("special access") services we provide could result in additional regulatory burdens and additional costs.

***We may be materially adversely affected by regulatory, legal and economic changes relating to our physical plant.***

Our systems depend on physical facilities, including transmission equipment and miles of fiber and coaxial cable. Significant portions of those physical facilities occupy public rights-of-way and are subject to local ordinances and governmental regulations. Other portions occupy private property under express or implied easements, and many miles of the cable are attached to utility poles governed by pole attachment agreements. No assurances can be given that we will be able to maintain and use our facilities in their current locations and at their current costs. Changes in governmental regulations or changes in these relationships could have a material adverse effect on our business and our results of operations.

## ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

## ITEM 2. PROPERTIES

Our principal physical assets consist of cable operating plant and equipment, including signal receiving, encoding and decoding devices, headend facilities, fiber optic transport networks, coaxial and distribution systems and equipment at or near customers' homes or places of business for each of the systems. The signal receiving apparatus typically includes a tower, antenna, ancillary electronic equipment and earth stations for reception of satellite signals. Headend facilities are located near the receiving devices. Our distribution system consists primarily of coaxial and fiber optic cables and related electronic equipment. Customer premise equipment consists of set-top devices, cable modems, wireless devices and media terminal adapters for telephone. Our cable plant and related equipment generally are attached to utility poles under pole rental agreements with local public utilities; although in some areas the distribution cable is buried in underground ducts or trenches. The physical components of the cable systems require maintenance and periodic upgrading to improve system performance and capacity. In addition, we operate a network operations center that monitors our network 24 hours a day, seven days a week, helping to ensure a high quality of service and reliability for both our residential and commercial customers.

We own or lease the real property housing our regional call centers, corporate facilities, business offices and warehouses throughout our operating areas. Our headend facilities and signal reception sites are located on owned and leased parcels of land. We own most of our service vehicles. We believe that our properties, both owned and leased, are in good condition and are suitable and adequate for our operations.

## ITEM 3. LEGAL PROCEEDINGS

### Legal Proceedings

***Patent Litigation***

From time to time, the Company receives notices from third parties and, in some cases, is party to litigation alleging that certain of the Company's services or technologies infringe the intellectual property rights of others. Other industry participants are also defendants in certain of these cases, and, in certain of these cases, we expect that any potential liability would be in part or in whole the responsibility of our equipment and technology vendors pursuant to applicable contractual indemnification provisions. Claims of intellectual property infringement could require Suddenlink to enter into royalty or licensing agreements on unfavorable terms, incur substantial monetary liability, modify certain products and services we offer to our customers or be enjoined preliminarily or permanently from further use of the intellectual property in question. In addition, certain agreements entered into by the Company may require it to indemnify the other party for certain third-party intellectual property infringement claims, which could increase the Company's damages and its costs of defending against such claims. We intend to defend these claims vigorously, but can give no assurance that any adverse outcome would not be material to our consolidated financial condition, results of operations, or liquidity. Whether or not we ultimately prevail in any particular lawsuit or claim, litigation can be time consuming and costly and injure our reputation.

***Other Proceedings***

From time to time, the Company is involved in other litigation and regulatory proceedings arising in the ordinary course of conducting our business. Although the ultimate outcome of these other proceedings cannot be predicted, Management believes that the Company is not currently a party to any other legal or regulatory proceedings, the adverse outcome of which, individually or in the aggregate, would materially adversely affect its business, financial position, results of operations or liquidity. Whether or not we ultimately prevail in any particular lawsuit or claim, litigation can be time consuming and costly and injure our reputation.

## ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

## PART II

### ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

There is no public trading market for Cequel's common equity securities, all of which are held by Cequel Holdings.

For disclosure regarding securities authorized for issuance under equity compensation plans see "Item 11. - Executive Compensation - Summary of Material Compensation Plans or Arrangements."

### ITEM 6. SELECTED FINANCIAL DATA

The information in the following table should be read together with Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and accompanying notes included in Item 8. "Financial Statements and Supplementary Data". The following selected financial historical financial data have been derived from our audited consolidated financial statements.

On November 15, 2012, Cequel Corporation acquired all of the outstanding common equity interests in Cequel Holdings pursuant to the Purchase Agreement, and all other equity interests in Cequel Holdings (including preferred equity interests), and rights to purchase equity interests in Cequel Holdings, were retired, redeemed or otherwise terminated.

Combined results for 2012 include the accounts of Cequel and its subsidiaries for the periods through November 15, 2012 ("Predecessor"), and of Cequel and its subsidiaries for the period following November 15, 2012 ("Successor"). We believe the combined results of operations for the twelve months ended December 31, 2012 provide management and investors with a more meaningful perspective on our ongoing financial and operational performance and trends than if we did not combine the results of operations of the Predecessor and the Successor in this manner.

The following table details selected historical financial data for the years ended December 31, 2014, 2013, 2012, 2011 and 2010.

| *(dollars in thousands)* | 2014 Successor | 2013 Successor | 2012 Combined (1) | 2011 Predecessor | 2010 Predecessor |
|---|---|---|---|---|---|
| **Statement of Operations Data (1):** | | | | | |
| Revenue | $2,330,697 | $2,183,301 | $ 2,054,784 | $ 1,900,736 | $ 1,689,145 |
| Costs and expenses: | | | | | |
| Operating (excluding depreciation and amortization) | 930,085 | 877,386 | 839,836 | 788,775 | 707,124 |
| Selling, general and administrative | 543,377 | 481,846 | 455,272 | 407,409 | 370,053 |
| Depreciation and amortization | 594,459 | 635,754 | 432,206 | 415,486 | 362,114 |
| Loss/(gain) on disposal of cable assets | 4,277 | 3,647 | 1,416 | (736) | (4,051) |
| Total costs and expenses | 2,072,198 | 1,998,633 | 1,728,730 | 1,610,934 | 1,435,240 |
| Income from operations | 258,499 | 184,668 | 326,054 | 289,802 | 253,905 |
| Interest expense, net | (230,156) | (243,270) | (287,002) | (297,194) | (259,626) |
| Loss on termination of derivative instruments | — | — | (6,565) | — | (17,774) |
| Loss on extinguishment of debt | — | (6,525) | (33,147) | — | (16,344) |
| Transaction fees and expenses related to the Acquisition | — | — | (46,045) | — | — |
| Income/(loss) before income taxes | 28,343 | (65,127) | (46,705) | (7,392) | (39,839) |
| (Provision)/benefit for income taxes | (8,861) | 16,691 | 3,428 | (7,585) | (3,781) |
| Net income/(loss) | $ 19,482 | $ (48,436) | $ (43,277) | $ (14,977) | $ (43,620) |
| **Balance Sheet Data:** | | | | | |
| Cash | $ 146,922 | $ 192,014 | $ 208,482 | $ 128,663 | $ 289,685 |
| Total assets (2) | $7,138,319 | $7,305,654 | $ 7,555,426 | $ 4,082,554 | $ 3,914,238 |
| Long-term debt | $5,092,010 | $4,751,861 | $ 4,915,262 | $ 3,786,729 | $ 3,166,121 |
| **Other Data (1):** | | | | | |
| Cash interest expense (3) | $ 233,193 | $ 252,394 | $ 282,229 | $ 287,074 | $ 255,864 |
| Capital expenditures (4) | $ 420,605 | $ 359,307 | $ 354,964 | $ 365,644 | $ 367,784 |
| Equity Distribution | $ 600,000 | $ 64,600 | $ 960,001 | $ 491,849 | $ — |
| Adjusted EBITDA (4) | $ 887,916 | $ 839,555 | $ 763,020 | $ 706,658 | $ 617,299 |

(1) Combined results for 2012 include the accounts of Predecessor and Successor.

(2) Total assets for 2012 includes an adjustment made in 2013 related to the Acquisition (see Footnote 4 of the accompanying consolidated financial statements).

(3) Cash interest expense is defined as interest expense, net, less interest income, less amortization of deferred financing fees and payment-in-kind interest.

(4) Capital expenditures for the Predecessor year ended December 31, 2011 includes an adjustment of $2.4 million to include cash inflows related to the increase in accounts payable and accrued expenses related to capital expenditures from the Predecessor year ended December 31, 2010 to the Predecessor year ended December 31, 2011. Capital expenditures for the Predecessor year ended December 31, 2010 includes an adjustment of $13.7 million to include cash outflows related to the decrease in accounts payable and accrued expenses related to capital expenditures from the Predecessor year ended December 31, 2009 to the Predecessor year ended December 31, 2010. See Footnote 23 for discussion of adjustments related to the Successor year ended December 31, 2013, the Successor period from November 16, 2012 through December 31, 2012, and the Predecessor period from January 1, 2012 through November 15, 2012.

(5) Adjusted EBITDA, as used herein, is defined as net loss plus interest expense, provision for income taxes, depreciation, amortization, non-cash share based compensation expense, (gain)/loss on disposal of cable assets, loss on swap contract termination, loss on extinguishment of debt and other expenses. Certain financial covenants in the Credit Facility contain ratios based on a similar calculation of Adjusted EBITDA and the restricted payment and debt incurrence covenants in the Indentures are based on a similar calculation of Adjusted EBITDA. Adjusted EBITDA for purposes of the Credit Facility and the Indentures differs from what is presented herein as such definitions in those documents permit us to exclude certain non-recurring costs and expenses and include interest income and the pro forma results of certain acquisitions and dispositions, among other things. Adjusted EBITDA for purposes of the Credit Facility and the Indentures for the years ended December 31, 2014, 2013 and 2012 was approximately $905.0 million, $847.8 million and $792.2 million, respectively. We believe that Adjusted EBITDA may be useful for investors in assessing our operating performance and our ability to meet our debt services requirements. Adjusted EBITDA, as used herein, is not necessarily comparable to similarly titled measures of other companies. Furthermore, Adjusted EBITDA has limitations as an analytical tool and should not be considered in isolation from, or as an alternative to, net income or loss, operating income, cash flow or other combined income or cash flow data prepared in accordance with generally accepted accounting principles in the United States ("GAAP").

A reconciliation of Adjusted EBITDA to net loss is provided below:

| (dollars in thousands) | Year Ended December 31, Successor 2014 | Successor 2013 | Combined 2012 (a) | Predecessor 2011 | Predecessor 2010 |
|---|---|---|---|---|---|
| **Reconciliation of net loss to Adjusted EBITDA** | | | | | |
| Net income/(loss) | $ 19,482 | $ (48,436) | $ (43,277) | $ (14,977) | $ (43,620) |
| Add back: | | | | | |
| Interest expense, net | 230,156 | 243,270 | 287,002 | 297,194 | 259,626 |
| Provision/(benefit) for income taxes | 8,861 | (16,691) | (3,428) | 7,585 | 3,781 |
| Depreciation and amortization | 594,459 | 635,754 | 432,206 | 415,486 | 362,114 |
| Non-cash share based compensation | 30,681 | 15,486 | 3,344 | 2,106 | 5,331 |
| Loss/(gain) on disposal of cable assets | 4,277 | 3,647 | 1,416 | (736) | (4,051) |
| Loss on termination of derivative instruments | — | — | 6,565 | — | 17,774 |
| Loss on extinguishment of debt | — | 6,525 | 33,147 | — | 16,344 |
| Transaction fees and expenses related to the Acquisition | — | — | 46,045 | — | — |
| Adjusted EBITDA | 887,916 | 839,555 | 763,020 | 706,658 | 617,299 |

(a) Combined results for 2012 include the accounts of Predecessor and Successor.

## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Reference is made to the "Risk Factors" in Item 1A for a discussion of important factors that could cause actual results to differ from expectations and any of our forward-looking statements contained herein. The following discussion should be read in conjunction with our audited consolidated financial statements as of and for the years ended December 31, 2014, 2013 and 2012.

### Overview

We are the seventh largest cable system operator in the United States, making our services available over our advanced hybrid-fiber coaxial network to approximately 3.16 million homes in the United States as of December 31, 2014. We support the information, communication and entertainment demands of approximately 1,427,200 customers as of December 31, 2014. Our customer base is clustered geographically with approximately 96% of our customers located in the ten states of Texas, West Virginia, Louisiana, Arkansas, North Carolina, Oklahoma, Arizona, California, Missouri and Ohio, and 91% of our customers located within our top 20 primary systems.

We believe we are the leading integrated communications provider in our coverage areas, serving approximately 1,138,400 basic video customers as of December 31, 2014. Our cable video services include traditional basic and digital video service and, in most areas, advanced digital video services such as video on demand ("VOD"), high definition television ("HDTV") and both TiVo and traditional digital video recorders ("DVRs"). Approximately 871,900 of our basic video customers were also digital video customers. As of December 31, 2014, we provided high speed Internet services to approximately 1,149,100 residential high-speed Internet customers, provided telephone services to approximately 547,700 residential telephone customers, and provided home automation and security services to 23,100 home automation and security customers. In addition to residential subscription services, we provide high-speed Internet and telephone services, and a variety of other services such as cell tower backhaul, last mile Ethernet, Primary Rate Interface ("PRI") and regional transport services, to commercial and carrier customers and sell advertising inventory to a variety of local, regional and national customers.

As of December 31, 2014, we served approximately 3,707,100 revenue generating units ("RGUs") and 2,835,200 primary service units ("PSUs"), representing an increase of 2.4% and 3.1%, respectively, over the prior year. In addition, as of December 31, 2014, we served approximately 63,700 commercial high-speed data and 40,000 commercial telephone customers, not included in our RGU or PSU totals. Including commercial customers, our RGUs increased 2.8% and our PSUs increased 3.5% over the prior year.

We reported net income of $19.5 million for the Successor year ended December 31, 2014, and net losses of $48.4 million, $17.6 million and $25.7 million for the Successor year ended December 31, 2013, the Successor period from November 16, 2012 through December 31, 2012 and the Predecessor period from January 1, 2012 through November 15, 2012, respectively.

As of December 31, 2014, we had approximately $4.78 billion of indefinite lived intangible assets, including goodwill of $1.53 billion, franchise rights of $3.07 billion and trade names of $188.7 million on our consolidated balance sheets. These intangible assets represented approximately 67% of our total assets. Accounting guidance for intangible assets requires that goodwill and other intangible assets deemed to have indefinite useful lives, such as cable franchise rights and trade names are not amortized, but instead are tested at least annually for impairment.

Our business is subject to extensive governmental legislation and regulation. Such regulation has led to increases in our operational and administrative expenses. In addition, our business could be dramatically impacted by changes to the existing regulatory framework, whether triggered by legislative, administrative or judicial rulings.

Cequel Holdings is a party to the Management Agreement (as defined in Footnote 19 of the accompanying consolidated financial statements) , pursuant to which our manager provides certain services to us, including the services of our Chief Executive Officer, our corporate development function and certain legal and regulatory functions, in exchange for management fees, expense reimbursement and long-term incentive compensation.

### Acquisition and Divestiture Activity

We continue to evaluate and selectively pursue acquisitions that we believe will add value to our existing residential and commercial business. Our strategy focuses on residential opportunities that either build upon our existing clusters or are large enough to form a new cluster of systems, and, in each case, enable us to achieve strong financial performance across our systems. Our pursuit of acquisitions may include participation in competitive bidding processes, some of which may involve significant cable systems. We also evaluate opportunities to expand our commercial business in areas that may not be limited to our existing residential footprint.

On December 31, 2012, we completed the divestiture of systems in Indiana and Illinois serving approximately 2,800 basic video customers. Cash proceeds from this transaction were approximately $4.8 million. The Company recognized an immaterial net loss on

the sale of these systems.

On January 2, 2014, we acquired three cable systems from Northland Communications ("Northland") for approximately $40.6 million using cash on hand (the "Northland Acquisition"). The cable systems involved in the Northland Acquisition serve nearly 12,000 residential and more than 500 commercial customers and are located in Texas near our existing markets, which allowed efficient integration with our existing systems.

On October 1, 2014, the Company acquired two cable systems in Nevada from NewWave Communications ("New Wave") for $6.1 million, using cash on hand (the "New Wave Acquisition"). The cable systems involved in the New Wave Acquisition serve nearly 3,000 residential and less than 100 commercial customers and are located in Nevada near our existing markets, which allowed efficient integration with our existing systems.

**The Acquisition**

On November 15, 2012, Cequel Corporation acquired all of the outstanding common equity interests in Cequel Holdings (the "Acquisition") pursuant to the Purchase and Sale Agreement, dated as of July 18, 2012 (the "Purchase Agreement"), by and among Cequel Holdings, Cequel Corporation, the sellers named therein and our manager, and all other equity interests in Cequel Holdings (including preferred equity interests), and rights to purchase equity interests in Cequel Holdings, were retired, redeemed or otherwise terminated. Cequel Corporation is owned by limited partnerships affiliated with each of CIE Management IX Limited ("BC Partners"), the CPP Investment Board (USRE II) Inc. ("CPPIB" and together with BC Partners, each a "Sponsor" and collectively the "Sponsors"), and Jerald L. Kent, our Chairman and Chief Executive Officer, Thomas P. McMillin, our Executive Vice President and Chief Operating Officer, and Mary E. Meduski, our Executive Vice President and Chief Financial Officer (collectively, the "Management Investors"). See Footnote 4 of the accompanying consolidated financial statements for further information.

We applied business combination accounting for the Acquisition. In accordance with GAAP, the accompanying consolidated statements of operations and cash flows contained in "Item 8. Financial Statements and Supplementary Data" present the results of operations and the sources and uses of cash for (i) the period from January 1, 2012 through November 15, 2012 of the Predecessor and (ii) the period from November 16, 2012 to December 31, 2012 of the Successor. However, for purposes of this "Management's Discussion and Analysis of Financial Condition and Results of Operations," we have combined the current year results of operations for the Predecessor and Successor. Certain results of operations of the Predecessor and Successor, including depreciation and amortization and interest expense, are not comparable due to the change in basis resulting from business combination accounting. This combined presentation is being made solely to explain the changes in results for the twelve months ended December 31, 2012 with other corresponding periods.

We believe the combined results of operations for the twelve months ended December 31, 2012 provide management and investors with a more meaningful perspective on our ongoing financial and operational performance and trends than if we did not combine the results of operations of the Predecessor and the Successor in this manner.

**Revenues**

Video service, our largest service in terms of revenues generated, grew 1.6% in 2014 and grew 2.0% in 2013, and represented approximately 49.9%, 52.5% and 54.7% of our total revenues for the years ended December 31, 2014, 2013 and 2012, respectively. Video service revenues primarily represent monthly subscription fees charged to residential and commercial customers for our basic, digital and premium programming services, pay-per-view and VOD charges, converter rental revenues and certain recurring fees passed through to our residential and commercial customers, including franchise fees and broadcast retransmission fees. Although providing video services is a competitive and highly penetrated business, we expect to continue to increase video revenues through the offering of advanced digital video services to meet increasing demand, as well as through video price increases, which we expect to be offset in part by decreasing demand for basic video services.

High-speed Internet services grew 16.9% in 2014 and grew 14.1% in 2013, and represented approximately 32.1%, 29.3% and 27.3% of our total revenues for the years ended December 31, 2014, 2013 and 2012, respectively. High-speed Internet service revenue is comprised of residential and commercial revenues. Residential high-speed Internet service revenues primarily represent monthly fees charged to residential customers for our high-speed Internet services, including equipment rental and in-home Wi-Fi services. Commercial high-speed data service revenues primarily represent monthly fees charged to small to medium sized commercial establishments for our high-speed data services, including equipment rental, and fees charged to medium to large sized businesses for our broadband service via fiber optic connections and fees charged to carriers for cell tower backhaul. We expect continued growth in residential and commercial high-speed data customers and revenues for the foreseeable future as the demand for these services continues to increase. However, the rate of growth of residential and commercial customers and revenues is expected to slow over time as high-speed Internet services become increasingly penetrated.

Telephone services grew 2.3% in 2014 and grew 5.7% in 2013, and represented approximately 8.8%, 9.2% and 9.2% of our total revenues for each of the years ended December 31, 2014, 2013 and 2012, respectively. Telephone service revenues primarily represent monthly fees charged to residential and commercial customers, including telephone regulatory fees. We expect increases in both residential and commercial telephone customers for the foreseeable future as the demand for these services continues to increase. However, the rate of growth of residential and commercial customers and service revenues is expected to slow over time as our telephone services become increasingly penetrated and as an increasing number of homes in the U.S. replace their traditional telephone service with wireless telephone service.

We generate revenues from selling advertising time to national, regional and local customers. As part of the agreements under which we acquire video programming, we typically receive an allocation of scheduled advertising time during such programming (generally two minutes per hour) into which our systems can insert commercials, subject, in some instances, to certain subject matter limitations. We also offer advanced advertising technologies to our customers, including interactive TV advertising, and online advertising, including display and pre-roll video, on thousands of the most popular websites. Advertising revenues, which represented approximately 4.3%, 4.1% and 4.3% of our total revenues for the years ended December 31, 2014, 2013 and 2012, respectively, is cyclical, benefiting in years that include political elections as a result of political candidate and issue-related advertising.

Other revenues include equipment sales, installation charges, wire maintenance charges, security revenues and other miscellaneous revenue streams, and represented approximately 4.8%, 4.9% and 4.5% of our total revenues for the years ended December 31, 2014, 2013 and 2012, respectively.

**Operating Costs and Expenses**

Our significant operating expenses include: video programming costs; employee expenses related to wages and benefits of technical personnel who maintain our cable network, perform customer installation activities and provide customer support; high-speed Internet costs, including costs of bandwidth connectivity and customer provisioning; telephone service costs, including delivery and other expenses; and field operating costs, including outside contractors, vehicle, utilities and pole rental expenses. Our significant selling, general and administrative expenses include: wages and benefits for our call centers, customer service and support and administrative personnel; marketing; franchise fees and taxes; bad debt and collections expenses; billing; advertising; and facilities costs.

***Viacom Contract***

We were unable to reach agreement with Viacom on acceptable economic terms for a long-term programming contract renewal, and effective October 1, 2014, all Viacom networks were removed from our channel lineups, and we launched alternative networks offered by other programmers under new long-term contracts. We expected this change to result in the loss of some video customers, and to date those losses have been less than expected and have not had a material impact on our business, operating results or financial condition. Furthermore, most of the customers who disconnected video service because of the loss of Viacom channels chose to keep their other, non-video services with us.

***Operation Reliant***

Under a multi-year agreement that expired in December 2014, a third-party provider performed certain functions and services necessary to provide our telephone service, such as carrying traffic to and from destinations outside our network via the public switched telephone network, delivering E911 service and assisting in local number portability and long-distance traffic carriage. In March 2013, we began “Operation Reliant,” an initiative to replace our use of the third-party provider with our own internal platform and resources. The majority of the migration activity relating to Operation Reliant began in the third quarter of 2014, and we substantially migrated all residential and commercial lines by the end of 2014. We significantly reduced telephone operating expenses upon completion of Operation Reliant. For the year ended December 31, 2014, we incurred $14.6 million in non-recurring operating expenses, which are included in operating costs and expenses on our consolidated statements of operations, and $11.0 million in capital expenditures related to Operation Reliant. Since the inception of Operation Reliant, we have incurred $16.7 million in non-recurring operating expenses and $17.3 million in capital expenditures.

***Operation GigaSpeed***

Starting in the second half of 2014 and extending through 2017, we expect to invest up to an additional $230 million of capital expenditures to significantly enhance our Internet speeds in markets serving 94% of our high-speed Internet customers and ultimately position our network to offer speeds of up to 1 Gbps in markets serving nearly 85% of our high-speed Internet customers. Internally known as "Operation GigaSpeed," this initiative will include expenditures to upgrade data network headend equipment, replace any remaining deployed DOCSIS 2.0 customer premises equipment with DOCSIS 3.0 equipment, and complete our all-digital video conversion

that began with Project Imagine. We expect to complete these enhancements in a phased, market-by-market approach, focusing first on our largest and most competitive markets. Once fully phased in, the plan calls for our flagship Internet speed to increase from 15 to 200 Mbps and our top Internet speed to increase from over 100 Mbps to 1 Gbps in a vast majority of our markets. In 2014, we completed the initial phases of Operation GigaSpeed in 26 markets, which serve approximately 49% of our residential high-speed Internet customers. Those investments allowed us to increase the flagship Internet speed from 15 Mbps to 50 Mbps and to increase our top Internet speed to up to 150 Mbps to 300 Mbps in those markets. For the year ended December 31, 2014, we spent approximately $35.2 million of the total capital expenditures related to Operation GigaSpeed in the second half of 2014, and expect to spend $85 million in 2015, with the remainder expected to be invested during 2016 and 2017.

**Customer Data**

During 2014, we added 85,000 PSUs, representing 3.1% growth, from December 31, 2013, which is primarily due to growth in residential high-speed Internet customers as a result of continued increases in demand for these services, offset by a decline of 39,000 basic video customers as a result of declining demand for basic video services and the removal of Viacom programming from our channel lineup. Including commercial, we added approximately 99,600 PSUs in 2014, representing 3.5% growth from December 31, 2013, reflecting growth in commercial data and commercial telephone customers resulting from increased market share in those areas.

We added approximately 88,200 RGUs in 2014, representing 2.4% growth from December 31, 2013, which is primarily due to growth in residential high-speed Internet customers as discussed above, as well as growth in digital video customers as a result of increasing demand for these services, offset in part by a decline in basic video customers as discussed above. Including commercial, we added approximately 102,800 RGUs in 2014, representing 2.8% growth from December 31, 2013, reflecting growth in commercial data and commercial telephone customers as discussed above.

These growth rates include the impact of the acquisition of cable systems from Northland and New Wave, which added a total of 27,400 RGUs and 23,300 PSUs in 2014.

The following table provides an overview of selected customer data for our cable systems for the time periods specified:

| | Approximate as of | | | Growth Rates | |
|---|---|---|---|---|---|
| **Customer Counts** | **December 31, 2014 (11)** | **December 31, 2013** | **December 31, 2012 (12)** | **December 31, 2014** | **December 31, 2013** |
| Basic video customers (1) | 1,138,400 | 1,177,400 | 1,211,200 | (3.3%) | (2.8%) |
| Residential high-speed Internet customers (2) | 1,149,100 | 1,059,500 | 1,002,100 | 8.5% | 5.7% |
| Residential telephone customers (3) | 547,700 | 513,300 | 471,700 | 6.7% | 8.8% |
| **Total PSUs (4)** | 2,835,200 | 2,750,200 | 2,685,000 | 3.1% | 2.4% |
| Digital video customers (5) | 871,900 | 868,700 | 837,500 | 0.4% | 3.7% |
| **Total RGUs (6)** | 3,707,100 | 3,618,900 | 3,522,500 | 2.4% | 2.7% |
| Commercial data (7) | 63,700 | 57,300 | 51,900 | 11.2% | 10.4% |
| Commercial telephone (8) | 40,000 | 31,800 | 24,100 | 25.8% | 32.0% |
| **Total PSUs, including commercial (9)** | 2,938,900 | 2,839,300 | 2,761,000 | 3.5% | 2.8% |
| **Total RGUs, including commercial (10)** | 3,810,800 | 3,708,000 | 3,598,500 | 2.8% | 3.0% |

(1) Basic video customers include all residential customers who receive video cable services. Also included are commercial or multi-dwelling accounts that are converted to equivalent basic units ("EBUs") by dividing the total bulk billed basic revenues of a particular system by the most prevalent retail rate paid by non-bulk basic customers in that market for a comparable level of service. This conversion method is consistent with methodology used in determining costs paid to programmers. Our methodology of calculating the number of basic video customers may not be identical to those used by other companies offering similar services.

(2) Residential high-speed Internet customers include all residential customers who subscribe to our high-speed Internet service. Excluded from these totals are all commercial high-speed data customers, including small and medium sized commercial cable modem accounts, customers who take our broadband service optically, via fiber connections, and customers who receive our services via bulk Ethernet.

(3) Residential telephone customers include all residential customers who subscribe to our telephone service. Residential customers who take multiple telephone lines are only counted once in the total. Excluded from these totals are all commercial telephone customers.

(4) Total PSUs represents the sum of basic video, residential high-speed Internet and residential telephone customers, not counting additional outlets within one household. This statistic is computed in accordance with guidelines of the National Cable and Telecommunications Association ("NCTA").

(5) Digital video customers include all basic video customers that have one or more digital set-top boxes or cable cards deployed.

(6) Total RGUs represents the sum of basic video, digital video, residential high-speed Internet and residential telephone customers, not counting additional outlets within one household. This statistic is computed in accordance with guidelines of the NCTA.

(7) Commercial data customers consist of commercial accounts that receive high-speed Internet service via a cable modem and commercial accounts that receive broadband service optically, via fiber connections. Excluded from these totals are all customers who receive our services via bulk Ethernet.

(8) Commercial telephone customers are commercial accounts that subscribe to our telephone service, and on average have 2.8, 2.8 and 2.9 telephone lines per customer as of December 31, 2014, 2013 and 2012, respectively.

(9) Total PSUs, including commercial, represent the sum of total PSUs, commercial data and commercial telephone customers.

(10) Total RGUs, including commercial, represents the sum of total RGUs, commercial data and commercial telephone customers.

(11) Includes a total of approximately 10,300 basic video, 10,600 residential high-speed Internet, 2,400 residential telephone, 4,100 digital video, 400 commercial data and 200 commercial telephone customers acquired from Northland and New Wave in 2014.

(12) On December 31, 2012, we sold approximately 6,500 RGUs in certain small cable systems in Illinois and Indiana consisting of approximately 2,800 basic video, 900 digital video and 2,800 residential high-speed Internet customers.

***Residential Customer Relationships***

In a continued effort to grow our customer relationships and diversify our sources of revenue, we added approximately 46,500 residential customer relationships in 2014, representing 3.4% growth from December 31, 2013. We also added 87,600 non-video customers, representing 30.5% growth over the prior year, offset in part by video customer losses. In addition, while our total bundled penetration decreased from 66.0% as of December 31, 2013 to 64.8% as of December 31, 2014, our net gain of 22,400 triple play customers in 2014 represents our continued effort to provide multiple services to our customers. These growth rates include the impact of the acquisition of cable systems from Northland and New Wave, which added a total of approximately 14,600 customer relationships in 2014.

The following table presents selected statistical data regarding our residential customer relationships, excluding EBUs, and residential double play and triple play customers for the periods specified:

| | Approximate as of December 31, | | |
|---|---|---|---|
| **Residential Customer Relationships:** | **2014 (9)** | **2013** | **2012** |
| | **(in thousands, except percentages)** | | |
| Customer relationships (1) | 1,427,200 | 1,380,700 | 1,371,700 |
| Double play (2) | 528,400 | 536,900 | 542,700 |
| Double play penetration (3) | 37.0% | 38.9% | 39.6% |
| Triple play (4) | 396,800 | 374,400 | 342,200 |
| Triple play penetration (5) | 27.8% | 27.1% | 24.9% |
| Total bundled penetration (6) | 64.8% | 66.0% | 64.5% |
| Non-video customer relationships (7) | 374,800 | 287,200 | 246,800 |
| Non-video as a % of total customer relationships (8) | 26.3% | 20.8% | 18.0% |

(1) Residential customer relationships represent the number of residential customers who pay for at least one level of service, encompassing video, high-speed Internet or telephone services, without regard to the number of services purchased. For example, a residential customer who purchases only high-speed Internet service and no basic video service will count as one customer relationship, and a residential customer who purchases both basic video and high-speed Internet services will also count as only one customer relationship.

(2) Residential double play customer numbers reflect residential customers who subscribe to two of our primary services (video, high-speed Internet and telephone).

(3) Residential double play penetration represents double play residential customers as a percentage of customer relationships.

(4) Residential triple play customer numbers reflect residential customers who subscribe to all three of our primary services (video, high-speed Internet and telephone).

(5) Residential triple play penetration represents triple play residential customers as a percentage of customer relationships.

(6) Total residential bundled penetration represents the sum of residential double play and residential triple play residential customers as a percentage of customer relationships.

(7) Non-video customer relationships represent the number of residential customers who receive at least one level of service, encompassing high-speed Internet or telephone services, but do not receive video services.

(8) Non-video as a percent of total customer relationships represents non-video customer relationships divided by total customer relationships.

(9) Includes approximately 14,600 total customer relationships, 4,700 double play relationships, and 1,500 triple play relationships acquired from Northland and New Wave in 2014.

***Commercial Customer Relationships***

During 2014, we added 6,700 total commercial customer relationships, representing growth of 8.1% from the prior year. In addition, we added 4,200 double play customers and 2,600 triple play customers, and we increased our total bundled penetration from 44.4% as of December 31, 2013 to 48.6% as of December 31, 2014, reflecting our continued success with our sales channels and bundle offers in the commercial market. These growth rates include the impact of the acquisition of cable systems from Northland and New Wave, which added a total of approximately 500 customer relationships in 2014.

The following table presents selected statistical data regarding our commercial customer relationships and commercial double play and triple play customers for the periods specified:

| | **Approximate as of December 31,** | | |
|---|---|---|---|
| **Commercial Customer Relationships:** | **2014 (7)** | **2013** | **2012** |
| | **(in thousands, except percentages)** | | |
| Customer relationships (1) | 89,900 | 83,200 | 77,700 |
| Double play (2) | 32,200 | 28,000 | 23,800 |
| Double play penetration (3) | 35.8% | 33.7% | 30.6% |
| Triple play (4) | 11,500 | 8,900 | 6,700 |
| Triple play penetration (5) | 12.8% | 10.7% | 8.8% |
| Total bundled penetration (6) | 48.6% | 44.4% | 39.4% |

(1) Commercial customer relationships represent the number of commercial customers who pay for at least one level of service, encompassing video, high-speed data or telephone services, without regard to the number of services purchased. For example, a commercial customer who purchases only high-speed data service and no video service will count as one customer relationship, and a commercial customer who purchases both basic video and high-speed data services will also count as only one customer relationship. National carrier accounts are excluded from customer relationships.

(2) Commercial double play customer numbers reflect commercial customers who subscribe to two of our core services (video, high-speed Internet and telephone).

(3) Commercial double play penetration represents double play commercial customers as a percentage of customer relationships.

(4) Commercial triple play customer numbers reflect commercial customers who subscribe to all three of our core services (video, high-speed Internet and telephone).

(5) Commercial triple play penetration represents triple play commercial customers as a percentage of customer relationships.

(6) Total commercial bundled penetration represents the sum of commercial double play and commercial triple play residential customers as a percentage of customer relationships.

(7) Includes approximately 500 total customer relationships, 200 double play relationships and less than 100 triple play relationships acquired from Northland and New Wave in 2014.

**Results of Operations**

The following discussion provides an analysis of our results of operations and should be read in conjunction with the accompanying consolidated financial statements and notes thereto.

The following table sets forth our consolidated statements of operations and the percentages of revenue that each item constituted for the periods presented (dollars in thousands):

| | Year Ended December 31, | | | | | | Growth Rates | |
|---|---|---|---|---|---|---|---|---|
| | Successor 2014 | % of Revenue | Successor 2013 | % of Revenue | Combined 2012 | % of Revenue | 2014 | 2013 |
| Revenue | $ 2,330,697 | 100.0% | $ 2,183,301 | 100.0% | $ 2,054,784 | 100.0% | 6.8 % | 6.3 % |
| Costs and expenses: | | | | | | | | |
| Operating (excluding depreciation and amortization) | 930,085 | 39.9% | 877,386 | 40.2% | 839,836 | 40.9% | 6.0 % | 4.5 % |
| Selling, general and administrative | 543,377 | 23.3% | 481,846 | 22.1% | 455,272 | 22.2% | 12.8 % | 5.8 % |
| Depreciation and amortization | 594,459 | 25.5% | 635,754 | 29.1% | 432,206 | 21.0% | (6.5)% | 47.1 % |
| Loss/(gain) on disposal of cable assets | 4,277 | 0.2% | 3,647 | 0.2% | 1,416 | 0.1% | 17.3 % | 157.6 % |
| Total costs and expenses | 2,072,198 | 88.9% | 1,998,633 | 91.5% | 1,728,730 | 84.1% | 3.7 % | 15.6 % |
| Income from operations | 258,499 | 11.1% | 184,668 | 8.5% | 326,054 | 15.9% | 40.0 % | (43.4)% |
| Interest expense, net | (230,156) | | (243,270) | | (287,002) | | 5.4 % | 15.2 % |
| Loss on termination of derivative instruments | — | | — | | (6,565) | | — % | 100.0 % |
| Loss on extinguishment of debt | — | | (6,525) | | (33,147) | | 100.0 % | 80.3 % |
| Transaction fees and other expenses related to the Acquisition | — | | — | | (46,045) | | — % | 100.0 % |
| Income/(loss) before income taxes | 28,343 | | (65,127) | | (46,705) | | 143.5 % | (39.4)% |
| (Provision)/benefit for income taxes | (8,861) | | 16,691 | | 3,428 | | (153.1)% | 386.9 % |
| Net income/(loss) | $ 19,482 | | $ (48,436) | | $ (43,277) | | 140.2 % | (11.9)% |

***Revenue.*** Total revenue rose $147.4 million, or 6.8% in the year ended December 31, 2014 as compared to 2013, $15.3 million of which was attributable to asset acquisitions, and grew $128.5 million, or 6.3%, in the year ended December 31, 2013 as compared to 2012. Revenue growth primarily reflects increases in residential high-speed Internet, telephone and advanced digital video customers; growth in commercial high-speed data and telephone customers, including carrier customers; an increase in the penetration of these services with existing customers; customers subscribing to higher level Internet services; annual rate increases; and incremental service revenues from DVR and HDTV services as more customers purchased advanced video services from us. These increase were offset by a decrease in basic video customers, the impact of bundling and promotional discounts and digital customers purchasing fewer digital tiers of service during the trailing twelve months. Further discussion of changes in revenue by service offering is included below.

For residential services, average monthly revenue was as follows for the periods presented:

| | Year Ended December 31, | | | Growth Rates | |
|---|---|---|---|---|---|
| | 2014 | 2013 | 2012 | 2014 | 2013 |
| Total Revenue per Basic Video Customer ("ARPU") (a) | $ 165.90 | $ 152.24 | $ 138.67 | 9.0% | 9.8% |
| Residential Revenue per Residential Customer Relationship (b) | $ 111.77 | $ 109.00 | $ 103.23 | 2.5% | 5.6% |

(a) ARPU represents total revenue, divided by twelve, divided by the average number of basic video customers, including EBUs, during the respective period.

(b) Residential revenue per residential customer relationship represents total residential revenue, divided by twelve, divided by the average number of residential customer relationships during the respective period.

Revenue by service offering and the percentages of revenue that each item constituted was as follows for the periods presented (dollars in thousands):

| | Year Ended December 31, | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Successor 2014 | | Successor 2013 | | Combined 2012 | | 2014 vs. 2013 | | 2013 vs. 2012 | |
| | Revenues | % of Revenues | Revenues | % of Revenues | Revenues | % of Revenues | Change | % Change | Change | % Change |
| Video | $ 1,163,892 | 49.9% | $1,145,882 | 52.5% | $ 1,123,430 | 54.7% | $ 18,010 | 1.6% | $ 22,452 | 2.0 % |
| High-speed Internet | 748,842 | 32.1% | 640,576 | 29.3% | 561,531 | 27.3% | 108,266 | 16.9% | 79,045 | 14.1 % |
| Telephone | 204,693 | 8.8% | 200,032 | 9.2% | 189,179 | 9.2% | 4,661 | 2.3% | 10,853 | 5.7 % |
| Advertising sales | 101,197 | 4.3% | 88,798 | 4.1% | 89,102 | 4.3% | 12,399 | 14.0% | (304) | (0.3)% |
| Other | 112,073 | 4.8% | 108,013 | 4.9% | 91,542 | 4.5% | 4,060 | 3.8% | 16,471 | 18.0 % |
| Total revenues | $ 2,330,697 | 100.0% | $2,183,301 | 100.0% | $ 2,054,784 | 100.0% | $147,396 | 6.8% | $128,517 | 6.3 % |

Video services revenues consist primarily of revenues from basic and digital video services provided to residential and commercial customers, as well as revenues from premium video services, pay-per-view services, VOD services, retransmission revenue, and converter rental revenue for high-definition HDTV and DVR capable digital converters. Video service revenues increased $18.0 million, or 1.6%, in 2014 and increased $22.5 million, or 2.0%, in 2013. The changes in video revenues are attributable to the following (dollars in millions):

| | 2014 compared to 2013 | 2013 compared to 2012 |
|---|---|---|
| Increase in residential rates and impact of incremental video services | $ 37.6 | $ 48.4 |
| Increase in digital video customers | 2.6 | 4.1 |
| Decrease in basic video customers | (21.0) | (24.2) |
| Decrease in premium, pay-per-view and VOD purchases | (8.4) | (5.8) |
| Asset acquisitions, net | 7.2 | — |
| Total | $ 18.0 | $ 22.5 |

High-speed Internet service revenues increased $108.3 million, or 16.9%, in 2014 and increased $79.0 million, or 14.1%, in 2013. The increases in high-speed Internet revenues are attributable to the following (dollars in millions):

| | 2014 compared to 2013 | 2013 compared to 2012 |
|---|---|---|
| Increase in residential rates and impact of residential service level changes | 35.3 | 26.2 |
| Increase in residential high-speed Internet customers | 31.6 | 18.2 |
| Increase in residential home networking revenue | 10.1 | 8.3 |
| Increase in commercial high-speed Internet customers | 12.2 | 9.7 |
| Increase in commercial rates | 4.7 | 6.2 |
| Increase in commercial carrier services | 7.7 | 10.4 |
| Asset acquisitions, net | 6.7 | — |
| Total | $ 108.3 | $ 79.0 |

Telephone service revenues grew $4.7 million, or 2.3%, in 2014 and grew $10.9 million, or 5.7%, in 2013. The increases in telephone revenues are attributable to the following (dollars in millions):

| | 2014 compared to 2013 | 2013 compared to 2012 |
|---|---|---|
| Increase in residential telephone customers | $ 13.0 | $ 9.6 |
| Decrease in residential rates | (15.9) | (6.0) |
| Increase in commercial telephone customers | 10.4 | 9.1 |
| Decrease in commercial rates | (3.6) | (1.8) |
| Asset acquisitions, net | 0.8 | — |
| Total | $ 4.7 | $ 10.9 |

Advertising revenues consist primarily of revenues from selling advertising inventory to commercial advertising customers, programmers and other vendors. Advertising revenues increased $12.4 million, or 14.0%, in 2014. $0.7 million of the increase is related to asset acquisitions, and the remaining increase was primarily as a result of an increase in national and local political ad sales of $9.3 million and $1.7 million, respectively, and national advertising of $0.7 million. In 2013, advertising revenues decreased $0.3 million, or 0.3%, primarily as a result of a decrease national and local political ad sales of $4.0 million and $1.0 million, respectively, offset by an increase in automotive advertising of $2.3 million, other national and local advertising of $2.1 million, and Internet advertising of $0.6 million.

Other revenues consist primarily of installation, security service, wire maintenance fees, tower construction management services, administrative fees and other miscellaneous revenues. Other revenues increased $4.1 million, or 3.8%, in 2014. $0.7 million of the increase is related to asset acquisitions, and the remaining increase was primarily as a result of an increase in administrative fee revenue, revenues from our tower services business, installation revenue and state cost recovery fees. The increase in 2013 of $16.5 million, or 18.0%, was primarily as a result of revenues from tower construction management services of $9.5 million, and increases in state cost recovery fees and administrative fee revenues.

***Costs and expenses.*** Costs and expenses, including depreciation and amortization, as a percentage of revenues were 88.9%, 91.5% and 84.1% for the years ended December 31, 2014, 2013 and 2012, respectively. Total costs and expenses consist of the following:

***Operating expenses (excluding depreciation and amortization)***

Operating expenses (excluding depreciation and amortization) as a percentage of revenues were 39.9%, 40.2% and 40.9% for the years ended December 31, 2014, 2013 and 2012, respectively. The increase in our operating costs and expenses (excluding depreciation and amortization) are attributable to the following (dollars in thousands):

| | Year Ended December 31, | | | | | | 2014 vs. 2013 | | 2013 vs. 2012 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Successor 2014 | | Successor 2013 | | Combined 2012 | | 2014 compared to 2013 | % Change | 2013 compared to 2012 | % Change |
| Programming | $ 617,410 | 66.4% | $ 590,047 | 67.3% | $ 571,760 | 68.1% | $ 27,363 | 4.6 % | $ 18,287 | 3.2% |
| High-speed Internet | 52,716 | 5.7% | 51,858 | 5.9% | 48,138 | 5.7% | $ 858 | 1.7 % | $ 3,720 | 7.7% |
| Telephony | 54,295 | 5.8% | 57,901 | 6.6% | 54,896 | 6.5% | $ (3,606) | (6.2)% | $ 3,005 | 5.5% |
| Plant and Operating | 205,664 | 22.1% | 177,580 | 20.2% | 165,042 | 19.7% | $ 28,084 | 15.8 % | $ 12,538 | 7.6% |
| Total | $ 930,085 | 100.0% | $ 877,386 | 100.0% | $ 839,836 | 100.0% | $ 52,699 | 6.0 % | $ 37,550 | 4.5% |

Programming costs consist primarily of costs paid to programmers for basic, digital, premium, video on demand and pay-per-view programming. Programming costs grew $27.4 million, or 4.6%, and $18.3 million, or 3.2%, for each of the years ended December 31, 2014 and 2013, respectively. $4.2 million of the increase in 2014 is related to asset acquisitions. The remaining increases in programming costs for 2014 and 2013 are primarily as a result of higher contractual rates charged by our programming and broadcast vendors, as well as an increased number of digital customers. We expect programming expenses to continue to increase due to a variety of factors, including increased demands by owners of some broadcast stations for carriage of other services or payments to those broadcasters for retransmission consent, annual increases imposed by programmers with additional selling power as a result of media consolidation, and additional programming, including new services and non-linear programming for online and video on demand programming. We have been unable to fully pass these increases on to our customers and we do not expect to be able to do so in the future without a potential loss of customers.

High-speed Internet costs primarily consist of costs for bandwidth connectivity. High-speed Internet costs increased $0.9 million, or 1.7%, and $3.7 million, or 7.7%, for each of the years ended December 31, 2014 and 2013, respectively. The increases in high-speed Internet costs in 2014 and 2013 were primarily to support growth in our fiber to the tower and commercial high-speed data business.

Telephone service costs, including delivery and other costs, decreased $3.6 million, or 6.2%, for the year ended December 31, 2014 and increased $3.0 million, or 5.5%, for the year ended December 31, 2013. Telephone service costs decreased in 2014 primarily as a result of the decrease in subscriber line costs associated with Operation Reliant. The increase in 2013 was a result of residential and commercial telephone customer growth.

Plant and operating costs consist primarily of employee costs related to wages and benefits of technical personnel who maintain our cable network and provide customer support, outside labor costs, vehicle, utilities and pole rental expenses. Plant and operating costs increased $28.1 million, or 15.8%, and $12.5 million, or 7.6%, for each of the years ended December 31, 2014 and 2013, respectively. $12.6 million of the increase in 2014 is related to migration costs associated with Operation Reliant, and $1.6 million of the increase is related to asset acquisitions. The remaining increase of $13.9 million is primarily as a result of headcount additions, the impact of annual salary increases and increased overtime levels, an increase in technical costs, and an increase in contract labor. The increase in 2013 was primarily as a result of headcount additions, the impact of annual salary increases and increased overtime levels, offset in part by decreased contract labor. In addition, operating costs for tower construction management services increased $5.4 million, which were not fully present in 2012.

***Selling, general and administrative expenses***

Selling, general and administrative expenses as a percentage of revenues were 23.3%, 22.1% and 22.2% for years ended December 31, 2014, 2013 and 2012, respectively. The increase in our selling, general and administrative expenses are attributable to the following (dollars in thousands):

| | Year Ended December 31, | | | | | | 2014 vs. 2013 | | 2013 vs. 2012 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Successor 2014 | | Successor 2013 | | Combined 2012 | | Change | % Change | Change | % Change |
| General and administrative | $ 393,135 | 72.4% | $ 348,537 | 72.3% | $ 336,202 | 73.8% | $ 44,598 | 12.8% | $ 12,335 | 3.7 % |
| Marketing and sales | 91,237 | 16.8% | 75,560 | 15.7% | 58,493 | 12.8% | $ 15,677 | 20.7% | $ 17,067 | 29.2 % |
| Corporate overhead and management fees | 59,005 | 10.9% | 57,749 | 12.0% | 60,578 | 13.3% | $ 1,256 | 2.2% | $ (2,829) | (4.7)% |
| Total | $ 543,377 | 100.0% | $ 481,846 | 100.0% | $ 455,273 | 100.0% | $ 61,531 | 12.8% | $ 26,573 | 5.8 % |

General and administrative expenses consist primarily of wages and benefits for our call centers, customer service and support and administrative personnel; bad debt and collection expenses; billing; advertising; facilities costs; non-cash stock compensation expenses and other non-recurring expenses. General and administrative expenses increased $44.6 million, or 12.8%, and $12.3 million, or 3.7%, for each of the years ended December 31, 2014 and 2013, respectively. $15.2 million and $12.1 million of these increases are related to increases in non-cash stock compensation expenses for the profits interest plan in 2014 and 2013, respectively. The remaining increases in 2014 and 2013 were primarily as a result of headcount additions and the impact of salary and commission and benefit expense increases, offset in part by decreases in third party call center labor expenses and expenses related to transaction fees and acquisition due diligence (discussed below).

Marketing and sales expenses primarily consist of wages and benefits for our sales force and costs for marketing and promotional materials. Marketing and sales expenses increased $15.7 million, or 20.7%, and $17.1 million, or 29.2%, for each of the years ended December 31, 2014 and 2013, respectively, primarily as a result of increases in direct mail advertising and an increase in our door to door sales force to grow our customer base, as well as investments in brand marketing.

Corporate overhead and management fees primarily consist of wages and benefits for our corporate personnel, legal fees, accounting and audit fees and other corporate expenses, and transaction and acquisition due diligence expenses. Corporate overhead and management fees increased $1.3 million, or 2.2%, and decreased $2.8 million, or 4.7%, for each of the years ended December 31, 2014 and 2013, respectively. Corporate overhead and management fees increased in 2014 as a result of increases in corporate wages and employee benefits, offset in part by a decrease in legal fees and acquisition due diligence expenses (discussed below). The decrease in 2013 was primarily as a result of decreases in transaction fees and acquisition due diligence expenses, offset in part by increases in corporate wages and employee benefits, legal fees and other corporate expenses.

Transaction and acquisition due diligence expenses were $2.1 million, $6.6 million and $28.9 million for the years ended December

31, 2014, 2013 and 2012, respectively. 2014 expenses primarily consisted of costs related to acquisition due diligence. 2013 expenses consisted primarily of costs related to senior debt financing and acquisition due diligence. 2012 expenses consisted of $19.9 million of compensation and other transaction expenses related to the Acquisition, $8.2 million of compensation expense related to our March and May 2012 equity distributions and $0.8 million related to other miscellaneous due diligence activities.

***Depreciation and amortization***

Depreciation and amortization decreased $41.3 million, or 6.5%, in 2014 and increased $203.5 million, or 47.1%, in 2013. The decrease in 2014 was primarily as a result of decreased amortization expenses for customer relationships, offset in part by increased depreciation resulting from increased capital expenditures primarily associated with Operation GigaSpeed. The increase in 2013 was largely as a result of amortization expense for customer relationships intangible assets established in the Acquisition, as well as increased depreciation resulting from increased capital expenditures.

***Income from Operations.*** Income from operations increased $73.8 million, or 40.0%, in 2014 and decreased $141.4 million, or 43.4%, in 2013. The increase in 2014 is primarily as a result of revenue increases outpacing costs and expenses increases, as well as increased amortization expense. The decrease in 2013 is primarily as a result of amortization expenses for customer relationship intangible assets established in the Acquisition, offset in part by revenue increases outpacing costs and expenses increases.

***Interest Expense, net.*** Changes in net interest expense are attributable to the following:

| | 2014 compared to 2013 | 2013 compared to 2012 |
|---|---|---|
| Decrease in effective interest rate from 5.16% to 4.80% and from 6.56% to 5.16%, respectively | $ (17.5) | $ (59.6) |
| (Decrease)/Increase in weighted average debt outstanding | (1.7) | 31.3 |
| Changes in amortization of debt issuance costs and deferred financing fees | 6.1 | (15.4) |
| | $ (13.1) | $ (43.7) |

***Loss on Termination of Derivative Instruments.*** There was no loss on termination of derivative instruments for the years ended December 31, 2014 and 2013. For the year ended December 31, 2012, we recorded $6.6 million of expenses related to the voluntary termination of our interest rate cap agreements, which were previously designated as hedging instruments.

***Loss on Extinguishment of Debt.*** Loss on extinguishment of debt consists of the following for the years ended December 31, 2013, 2012 and 2011 (dollars in millions):

| | Year ended December 31, | | |
|---|---|---|---|
| | Successor 2014 | Successor 2013 | Combined 2012 |
| 2017 Notes repayments | $ — | $ 6.5 | $ — |
| Repayment of $2.525 billion credit facility (the "Old Credit Facility") | — | — | 14.2 |
| Repayment of revolving credit facility | — | — | 14.0 |
| Partial tender of the 2017 Notes | — | — | 4.9 |
| | $ — | $ 6.5 | $ 33.1 |

***Transaction Fees and Expenses Related to the Acquisition.*** There were no transactions fees or expenses related to the Acquisition for the years ended December 31, 2014 and 2013. For the year ended December 31, 2012, we recorded $46.0 million of transaction fees and expenses related to the Acquisition. These fees consisted primarily of lender acknowledgment fees, bond consent fees, bridge commitment fees, legal and other Acquisition transaction related expenses.

***Provision/Benefit for Income Taxes.*** We recorded an income tax provision of $8.9 million for the year ended December 31, 2014. The provision for current year taxes is driven by the Texas Gross Margin tax of $5.4 million which is reflected in the total. The provision of $8.9 million is at an effective tax rate of 31.3% for the year ended December 31, 2014, as compared to a benefit of income taxes of $16.7 million for current and deferred income taxes at an effective tax rate of 25.6% for the year ended December 31, 2013. The change to income tax provision for the year ended December 31, 2014 was materially impacted by the tax treatment of the non-cash equity compensation expense, offset by the elimination of the Company's uncertain tax position and benefit recognized for state income tax

credits.

***Net Income/Loss.*** As a result of the factors described above, we incurred net income of $19.5 million for the year ended December 31, 2014, and a net loss of $48.4 million and $43.3 million for the years ended December 31, 2013 and 2012.

**Use of Adjusted EBITDA and Free Cash Flow**

We use certain measures that are not defined by GAAP to evaluate various aspects of our business. Adjusted EBITDA and free cash flow are non-GAAP financial measures and should be considered in addition to, not as a substitute for, net income/(loss) and net cash flows from operating activities reported in accordance with GAAP. These terms, as defined by us, may not be comparable to similarly titled measures used by other companies. Adjusted EBITDA and free cash flow are reconciled to net income/(loss) and net cash flows from operating activities, respectively, below.

Adjusted EBITDA is defined as net income/(loss) plus net interest expense, provision/(benefit) for income taxes, depreciation and amortization, non-cash share based compensation expense, (gain)/loss on disposal of cable assets, loss on termination of derivative instruments, loss on extinguishment of debt, and transaction fees and expenses related to the Acquisition. As such, it eliminates the significant non-cash depreciation and amortization expense that results from the capital-intensive nature of our businesses as well as other non-cash or special items, and is unaffected by our capital structure or investment activities. Adjusted EBITDA is used by management and board of directors to evaluate the performance of our business. However, this measure is limited in that it does not reflect the periodic costs of certain capitalized tangible and intangible assets used in generating revenues and our cash cost of financing. Management evaluates these costs through other financial measures.

Free cash flow is defined as Adjusted EBITDA, less capital expenditures, plus or minus changes in accounts payable and accrued expenses related to capital expenditures, less cash interest expense.

We believe that Adjusted EBITDA and free cash flow provide information useful to investors in assessing our performance and our ability to service our debt, fund operations and make additional investments with internally generated funds. In addition, certain financial covenants in the Credit Facility contain ratios based on a similar calculation of Adjusted EBITDA and the restricted payment and debt incurrence covenants in the Indentures are based on a similar calculation of Adjusted EBITDA. Adjusted EBITDA for purposes of the Credit Facility and the Indentures differs from what is presented herein as such definitions in those documents permit us to exclude certain non-recurring costs and expenses and include interest income and the pro forma results of certain acquisitions and dispositions, among other things. Adjusted EBITDA for purposes of the Credit Facility and the Indentures for the years ended December 31, 2014, 2013 and 2012 were approximately $905.0 million, $847.8 million and $792.2 million, respectively. Adjusted EBITDA and free cash flow, as used herein, are not necessarily comparable to similarly titled measures of other companies. Furthermore, Adjusted EBITDA and free cash flow have limitations as analytical tools and should not be considered in isolation from, or as an alternative to, net income or loss, operating income, cash flow or other combined income or cash flow data prepared in accordance with GAAP.

A reconciliation of net income/(loss) to Adjusted EBITDA and free cash flow is as follows (dollars in thousands):

| | Year ended December 31, | | |
|---|---|---|---|
| | 2014 | 2013 | 2012 |
| Net income/(loss) | $ 19,482 | $ (48,436) | $ (43,277) |
| Plus: | | | |
| Interest expense, net | 230,156 | 243,270 | 287,002 |
| (Benefit)/provision for income taxes | 8,861 | (16,691) | (3,428) |
| Depreciation and amortization | 594,459 | 635,754 | 432,206 |
| Non-cash share based compensation | 30,681 | 15,486 | 3,344 |
| Loss/(gain) on disposal of cable assets | 4,277 | 3,647 | 1,416 |
| Loss on extinguishment of debt | — | 6,525 | 33,147 |
| Loss on termination of derivative instruments | — | — | 6,565 |
| Transaction fees and expenses related to the Acquisition | — | — | 46,045 |
| Adjusted EBITDA | $ 887,916 | $ 839,555 | $ 763,020 |
| Less: | | | |
| Purchases of property, plant and equipment (1) | (420,605) | (359,307) | (354,964) |
| Change in accounts payable and accrued expenses related to capital expenditures | 3,330 | (12,127) | 6,188 |
| Cash interest expense | (233,193) | (252,394) | (280,602) |
| Free cash flow | $ 237,448 | $ 215,727 | $ 133,642 |

(1) See Footnote 8 of the accompanying consolidated financial statements.

**Liquidity and Capital Resources**

***General***

Our primary sources of liquidity and capital resources have been cash flow from operating and financing activities. We expect to utilize free cash flow and availability under the Credit Facility as well as future refinancing transactions to further extend the maturities of, or reduce the principal on, our debt obligations. The timing and terms of any refinancing transactions will be subject to, among other factors, market conditions. Additionally, we may, from time to time, depending on market conditions and other factors, use cash on hand and the proceeds from other borrowings to repay the Notes through open market purchases, privately negotiated purchases, tender offers, or redemption provisions. We have negative working capital, which is primarily due to the payment terms we have with our vendors. We believe that existing cash balances, operating cash flows and availability under the revolving credit facility of the Credit Facility will provide adequate funds to support our current operating plan, make planned capital expenditures and for debt service requirements for the next 12 months. However, our ability to fund our operations, make planned capital expenditures, make scheduled payments on our indebtedness and repay our indebtedness depends on our future operating performance and cash flows, which, in turn, are subject to prevailing economic conditions and to financial, business and other factors, some of which are beyond our control. Further, there can be no assurance that we will be able to generate sufficient cash flows to repay our outstanding indebtedness. At December 31, 2014, we had approximately $146.9 million of cash on hand and approximately $18.0 million of outstanding letters of credit, which reduced the availability under the $500.0 million revolving credit facility of the Credit Facility to approximately $482.0 million.

The Issuers are holding companies and conduct no operations. Accordingly, the Issuers will depend on the cash flow of their subsidiaries in order to make payments on, or repay or refinance, the Notes. The terms of the Credit Agreement generally restrict Suddenlink and its restricted subsidiaries from making dividends and other distributions to the Issuers except under certain circumstances. The Credit Agreement permits Suddenlink to make dividends and distributions to Cequel subject to satisfaction of certain conditions, including pro forma compliance with a maximum senior secured leverage ratio of 4.0x and that no event of default has occurred and is continuing, or would be caused by the making of such dividends or other distributions, and based on, among other things, a restricted payment basket. In addition, the Credit Agreement permits Suddenlink to make dividends and distributions to Cequel for payment of regularly scheduled interest payments through maturity on indebtedness which was incurred by Cequel to refinance the 2017 Notes, including the 2020 Notes and the Initial 2021 Notes.

***Long-Term Debt and Derivative Instruments***

The following table details debt and capital leases outstanding at December 31, 2014 (dollars in thousands):

| | As of December 31, 2014 | | |
|---|---|---|---|
| | **Principal Amount** | **Accreted Value (a)** | **Schedule Maturity Date** |
| Term loan facility | 2,318,852 | 2,327,948 | February 14, 2019 |
| 6.375% Senior Notes | 1,500,000 | 1,527,331 | September 15, 2020 |
| 5.125% Senior Notes (b) | 1,250,000 | 1,236,731 | December 15, 2021 |
| Subtotal - credit facility and notes | 5,068,852 | 5,092,010 | |
| Capital leases and other obligations | 26,541 | 26,541 | Varies |
| Total debt and capital leases | $ 5,095,393 | $ 5,118,551 | |

(a) The accreted values presented above generally represent the face value of the notes and/or Credit Facility including original issuance premiums, minus the accretions to the balance sheet date of December 31, 2014.

(b) Includes the Initial 2021 Notes and the 2021 Mirror Notes.

*Credit Facility*

On February 14, 2012, Suddenlink, Holdings II, certain subsidiaries of Suddenlink and a syndicate of lenders entered into the Credit Agreement, which provides for up to $2.7 billion of loans in the aggregate, consisting of a $2.2 billion term loan facility funded at closing and a $500.0 million revolving credit facility. The revolving credit facility is scheduled to mature on February 14, 2017. The term loan facility is scheduled to mature on February 14, 2019. The interest rate on the term loans outstanding under the Credit Agreement (prior to the amendment described below) equaled the prime rate plus 2.00% or the LIBOR rate plus 3.00%, with a LIBOR floor of 1.00%, while the interest rate on the revolver loans will equal the prime rate plus 1.50% or the LIBOR rate plus 2.50%. The term loan facility requires quarterly repayments in annual amounts equal to 1.00% of the original principal amount, with the remainder due at maturity, as well as an annual principal payment equal to a portion of excess cash flow, as defined in the Credit Agreement (the "Excess Cash Flow Sweep"). The debt under the Credit Agreement is secured by a first priority security interest in the capital stock of Suddenlink and substantially all of the present and future assets of Suddenlink and its restricted subsidiaries, and is guaranteed by Holdings II, as well as all of Suddenlink's existing and future direct and indirect subsidiaries, subject to certain exceptions set forth in the Credit Agreement. The Credit Agreement contains customary representations, warranties and affirmative covenants. In addition, the Credit Agreement contains restrictive covenants that limit, among other things, the ability of Suddenlink and its subsidiaries to incur indebtedness, create liens, engage in mergers, consolidations and other fundamental changes, make investments or loans, engage in transactions with affiliates, pay dividends, and make acquisitions and dispose of assets. The Credit Agreement also contains a maximum senior secured leverage maintenance covenant. Additionally, the Credit Agreement contains customary events of default, including failure to make payments, breaches of covenants and representations, cross defaults to other indebtedness, unpaid judgments, changes of control and bankruptcy events. The lenders' commitments to fund amounts under the revolving credit facility are subject to certain customary conditions.

Suddenlink used the proceeds from the term loan facility of the Credit Facility to repay in full and terminate the $2.525 billion Old Credit Facility, which had a balance of $1.941 billion as of February 14, 2012. We also used a portion of the proceeds from the term loan facility of the Credit Facility plus additional borrowings of $160.0 million under the revolving credit facility of the Credit Facility to make a distribution to Cequel Holdings of $370.0 million in March 2012. Cequel Holdings used this distribution to repay a portion of the capital contributions made by holders of common units of Cequel Holdings and to make certain payments to holders of options and restricted units of Cequel Holdings.

In connection with the Acquisition, we received an acknowledgment from the lenders under the Credit Facility that an amendment to the termination provisions of the Management Agreement was not materially adverse to them. This amendment to the Management Agreement was entered into on November 15, 2012. In exchange for this acknowledgment, we paid the lenders who executed the acknowledgment an aggregate fee of approximately $12.9 million.

On April 12, 2013, Suddenlink amended the term loan facility of the Credit Facility to reduce the interest rate on the term loans to the prime rate plus 1.75% or the LIBOR rate plus 2.75%, with a LIBOR floor of 0.75%.

On April 26, 2013, the Company borrowed $300.0 million of incremental term loans (the "Incremental Term Loans"). The Incremental Term Loans have the same terms as the existing term loans under our Credit Facility. The proceeds from the Incremental Term Loans were used to redeem $400.0 million aggregate principal amount of the outstanding 2017 Notes on May 16, 2013.

On April 30, 2014, the Company was required to make an excess cash flow recapture payment of $72.7 million in accordance with the terms of the Credit Agreement. Lenders holding approximately 16.4% of the outstanding term loans under the Credit Facility waived their right to receive this payment. Accordingly, the Company made an excess cash flow recapture payment of $60.8 million

to the other lenders under the Credit Facility and retained $11.9 million related to the waived excess cash flow recapture payment.

On December 29, 2014, the Company made a voluntary principal prepayment in the amount of $55.0 million, using cash on hand. No additional amounts will be owed in 2015 other than our normal quarterly payments on the Credit Facility.

*Senior Notes*

On October 25, 2012, Cequel Communications Escrow I, LLC and Cequel Communications Escrow Capital Corporation (collectively, the "Escrow Issuers"), each subsidiaries of Cequel, issued $500.0 million aggregate principal amount of the 2020 Notes. The 2020 Notes were sold at an offering price of 100%. Interest is payable on the 2020 Notes semi-annually in cash on March 15 and September 15, commencing on March 15, 2013. The proceeds from the sale were placed in an escrow account along with interest payable through March 11, 2013. Upon consummation of the Acquisition, Cequel and Cequel Capital become obligors under the 2020 Notes.

On December 13, 2012, the Company commenced a tender offer (the "Tender Offer") for up to $750.0 million of the 2017 Notes. The Tender Offer expired on January 11, 2013, and included an early settlement date of December 28, 2012. The Tender Offer was for a price of 104.057%. However, any 2017 Notes tendered prior to December 28, 2012 received a tender price of 107.057%. At December 28, 2012, the Company paid $712.4 million in connection with tendered 2017 Notes, and paid a tender call premium of approximately $50.3 million, which is included in the calculation of loss on extinguishment of debt. No additional 2017 Notes were tendered by the tender close date of January 11, 2013.

On December 28, 2012, the Issuers issued $1.0 billion aggregate principal amount of the 2020 Notes. The 2020 Notes were sold at an offering price of 103%. Interest is payable on the 2020 Notes semi-annually in cash on March 15 and September 15. The Issuers used the net proceeds from the sale to (i) purchase $712.4 million aggregate principal amount of the Issuers' 2017 Notes pursuant to the Tender Offer, (ii) make a capital contribution to Suddenlink, which was used to repay all outstanding borrowings under Suddenlink's revolving credit facility and for working capital and general corporate purposes, and (iii) pay related costs, fees and expenses.

On May 16, 2013, the Issuers issued $750.0 million aggregate principal amount of the Initial 2021 Notes. The proceeds from the sale of the Initial 2021 Notes and cash on hand were used to redeem the remaining $712.6 million aggregate principal amount of the outstanding 2017 Notes (see discussion below) and pay related fees and expenses.

On May 16, 2013, the Issuers redeemed $400.0 million aggregate principal amount of the outstanding 2017 Notes and paid the applicable redemption premium of approximately $25.9 million, which was financed using the proceeds from the Incremental Term Loans and cash on hand. The carrying amount of the redeemed 2017 Notes was $423.8 million, thus resulting in a loss on extinguishment of debt of $2.1 million.

On June 17, 2013, the Issuers redeemed the remaining $712.6 million aggregate principal amount of the outstanding 2017 Notes and paid the applicable redemption premium of approximately $46.1 million, which was financed using the proceeds from the issuance of the Initial 2021 Notes. The carrying amount of the remaining 2017 Notes was $754.3 million, thus resulting in a loss on extinguishment of debt of $4.4 million.

On September 9, 2014, the Issuers issued $500.0 million aggregate principal amount of the 2021 Mirror Notes. The proceeds from the sale, plus cash on hand, were used to make a distribution in the amount of $600 million to our parent (see Footnote 22 of the Consolidated Financial Statements) and pay related fees and expenses. The 2021 Mirror Notes mature on December 15, 2021. Interest is payable on the 2021 Mirror Notes semi-annually in cash on June 15 and December 15 of each year. The 2021 Mirror Notes have substantially the same terms as the Initial 2021 Notes.

The Issuers have no ability to service interest or principal on the Notes, other than through any dividends or distributions received from Suddenlink. Suddenlink is restricted in certain circumstances, from paying dividends or distributions to the Issuers by the terms of the Credit Agreement. However, the Credit Agreement permits Suddenlink to make dividends and distributions subject to satisfaction of certain conditions, including pro forma compliance with a maximum senior secured leverage ratio, and that no event of default has occurred and is continuing, or would be caused by the making of such dividends or other distributions, and based on, among other things, availability under a restricted payment basket. The Notes are unsecured and are not guaranteed by any subsidiaries of the Issuers, including Suddenlink.

The Indentures contain certain covenants, agreements and events of default which are customary with respect to non-investment grade debt securities, including limitations on our ability to incur additional indebtedness, pay dividends on or make other distributions or repurchase our capital stock, make certain investments, enter into certain types of transactions with affiliates, create liens and sell certain assets or merge with or into other companies.

*Financial Covenant Compliance*

As of December 31, 2014, we were in compliance with the maximum senior secured leverage ratio of 4.00x under the senior secured leverage maintenance covenant of the Credit Agreement with a calculated senior secured leverage ratio of 2.48x. We expect

to remain in compliance with this financial covenant for at least the next twelve months.

In addition, our total leverage ratio, as defined in the indenture governing our Senior Notes, was 5.51x at December 31, 2014, compared to a maximum ratio of 7.50x at the incurrence of new indebtedness.

***Off Balance Sheet Arrangements***

We are not aware of any off-balance sheet arrangements, other than immaterial operating leases and similar commitment contracts.

***Contractual Obligations and Commitments***

The following table summarizes our contractual obligations and commitments as of December 31, 2014 and for the subsequent five years and thereafter.

| | Payments Due by Period (dollars in millions) | | | | |
|---|---|---|---|---|---|
| | **Total** | **Less Than 1 Year** | **1-3 Years** | **3-5 Years** | **More Than 5 Years** |
| **Contractual obligations:** | | | | | |
| Debt and notes principal payments (1) | $ 5,068.8 | $ 24.4 | $ 48.8 | $ 2,245.6 | $ 2,750.0 |
| Debt and notes interest payments (2) | 1,424.8 | 241.6 | 524.1 | 466.0 | 193.1 |
| Capital and operating lease obligations | 43.2 | 13.2 | 17.7 | 7.3 | 5.0 |
| Other commitments (3) | 13.2 | 7.5 | 5.5 | — | 0.2 |
| Total contractual obligation | $ 6,550.0 | $ 286.7 | $ 596.1 | $ 2,718.9 | $ 2,948.3 |

(1) See Footnote 11 of our consolidated financial statements for further discussion of our debt and notes.

(2) Interest payments on variable debt are estimated using amounts outstanding at December 31, 2014 and the average implied forward LIBOR rates applicable for the period during the interest rate reset based on the yield curve in effect at December 31, 2014. Actual interest payments will differ based on actual LIBOR rates and actual amounts outstanding for applicable periods.

(3) 'Other commitments' represents programming fees and vendor service agreements (see Footnote 14 of our accompanying consolidated financial statements).

The following items are not included as contractual obligations due to various factors discussed below. However, the Company incurs these costs as part of its operations:

- The Company rents utility poles used in its operations. Generally, pole rentals are cancelable on short notice, but the Company anticipates that such rentals will recur. Rent expense for pole rental attachments was approximately $12.9 million, $12.4 million, $1.7 million and $10.2 million for the successor years ended December 31, 2014 and 2013, the successor period from November 16, 2012 through December 31, 2012, and the predecessor period from January 1, 2012 through November 15, 2012, respectively.

- The Company pays franchise fees under multi-year franchise agreements based on a percentage of revenues generated from video service per year. Franchise fees and other franchise-related costs included in the accompanying consolidated statements of operations were $48.2 million, $46.2 million, $5.7 million and $38.7 million for the successor years ended December 31, 2014 and 2013, the successor period from November 16, 2012 through December 31, 2012, and the predecessor period from January 1, 2012 through November 15, 2012, respectively.

- The Company has cable franchise agreements containing provisions requiring the construction of cable plant and the provision of services to customers within the franchise areas. In connection with these obligations under existing franchise agreements, the Company obtains letters of credit guaranteeing performance to municipalities and public utilities and payment of insurance premiums. Such letters of credit as of December 31, 2014 and 2013 totaled $18.0 million and $19.5 million, respectively, which reduced the availability under the $500.0 million revolving credit facility of the Credit Facility to approximately $482.0 million and $480.5 million, respectively. Payments under these arrangements are required only in the event of nonperformance. The Company does not expect that these contingent commitments will result in any amounts being paid within at least the next twelve months.

We do not expect significant payments related to our deferred tax liabilities or our liability for uncertain tax positions to be made within the next twelve months. We are not able to estimate the timing of future payments relating to these non-current obligations, and thus, have not included these within the 'Contractual Obligations and Commitments' table above.

***Distributions to Parent***

The Credit Agreement and the Indentures permit in certain instances distributions to holders of equity interests in Cequel Holdings and Cequel Corporation.

On March 13, 2012, we used a portion of the proceeds from the term loan facility of the Credit Facility plus additional borrowings of $160.0 million under the revolving credit facility of the Credit Facility to make a distribution to Cequel Holdings of $370.0 million. Cequel Holdings used such distribution to repay a portion of the capital contributions made by holders of common units of Cequel Holdings and to make certain bonus payments and certain payments to holders of options and restricted units of Cequel Holdings.

On May 11, 2012, we used cash on hand to make a distribution to Cequel Holdings of $70.0 million. Cequel Holdings used this distribution to repay a portion of the capital contributions made by holders of common units of Cequel Holdings and to make certain payments to holders of options and restricted units of Cequel Holdings.

On November 16, 2012, the Company distributed $520.0 million to Cequel Holdings, which was used in part to fund a portion of the purchase price of the Acquisition, pay for certain transaction fees and expenses related to the Acquisition, and for general corporate purposes.

On April 1, 2013, we used cash on hand to make a distribution to Cequel Holdings of $64.6 million (the "Deferred Fee"). Cequel Holdings then made a distribution to Cequel Corporation of $64.6 million. Cequel Corporation used this distribution to pay the Deferred Fee (see Footnote 19).

On September 10, 2014, the Issuers used the proceeds from the sale of the 2021 Mirror Notes, plus cash on hand, to make a distribution to Cequel Holdings in the amount of $600.0 million. Cequel Holdings then made a distribution to Cequel Corporation in the amount of $600.0 million. Cequel Corporation used this distribution to make a distribution in the amount of $600.0 million to holders of equity interests in Cequel Corporation.

***Operating, Investing and Financing Activities***

*Operating Activities*

Net cash provided by operating activities increased $180.1 million from $510.6 million for the year ended December 31, 2013 to $690.7 million for the year ended December 31, 2014, primarily due to the 2017 Notes redemption premium of $72.0 million in 2013 that was not present in 2014, as well as improved operating results excluding depreciation and amortization.

Net cash provided by operating activities increased $82.8 million from $427.8 million for the year ended December 31, 2012 to $510.6 million for the year ended December 31, 2013, primarily due to 2012 transaction expenses related to the Acquisition that were not present in 2013, as well as improved operating results excluding depreciation and amortization.

*Investing Activities*

Net cash used in investing activities increased $107.3 million from $358.3 million for the year ended December 31, 2013 to $465.6 million for the year ended December 31, 2014, which is primarily due to the acquisition of Northland and increased capital expenditures.

Net cash used in investing activities decreased $3.8 million from $362.1 million for the year ended December 31, 2012 to $358.3 million for the year ended December 31, 2013, which is primarily due to the acquisitions that occurred in 2012, offset in part by an increase in capital expenditures.

*Financing Activities*

Net cash used in financing activities was $270.1 million, $168.8 million and $14.2 million for the years ended December 31, 2014, 2013 and 2012, respectively. The net cash used in financing activities of $270.1 million at December 31, 2014 primarily included cash outflows related to the $600.0 million distribution to our parent (see Footnote 22), the excess cash flow recapture payment of $60.8 million in accordance with the terms of the Credit Agreement, the voluntary principal prepayment on our Credit Facility of $55.0 million, regular principal payments on our Credit Facility of $24.4 million, the discount on our issuance of the 2021 Mirror Notes of $13.7 million, capital lease payments of $9.8 million, and cash paid for financing costs of $6.2 million, offset in part by cash inflows from the issuance of the $500.0 million aggregate principal amount of the 2021 Mirror Notes (see Footnote 11).

The net cash used in financing activities of $168.8 million at December 31, 2013 primarily included the redemption of the 2017 Notes and term loan repayments, offset in part by the issuance of the Initial 2021 Notes and the Incremental Term Loans under the Credit Facility.

The net cash provided by financing activities of $14.2 million at December 31, 2012 primarily included the proceeds of the $2.2 billion term loan facility, of which a portion of these proceeds were used to repay the Old Credit Facility, which had a balance of $1.9 billion at February 14, 2012. A portion of the remaining proceeds from the $2.2 billion term loan facility plus a $160.0 million borrowing under the revolving credit facility of the Credit Facility were used to fund the $370.0 million distribution to Cequel Holdings in March 2012. In May 2012, we used cash on hand to make a distribution to Cequel Holdings of $70.0 million. Additionally, in October 2012 the Issuers issued $500.0 million aggregate principal amount of the 2020 Notes. On November 16, 2012, we distributed

$520.0 million to Cequel Holdings from the proceeds from the 2020 Notes offering and cash on hand, which was used by Cequel Holdings to fund a portion of the purchase price of the Acquisition, pay for certain transaction fees and expenses of the Sponsor related to the Acquisition, and for general corporate purposes. In December 2012 the Issuers issued an additional $1.0 billion aggregate principal amount of the 2020 Notes, the proceeds of which were used to repay the $160.0 million of borrowings then outstanding under the revolving credit facility, as well as repurchase $712.4 million of the 2017 Notes in the Tender Offer.

***Free Cash Flow***

Free cash flow was $237.4 million, $215.7 million and $133.6 million for the years ended December 31, 2014, 2013 and 2012, respectively. The increase in free cash flow in 2014 compared to 2013 is primarily due to an increase in Adjusted EBITDA of $48.4 million, a decrease in cash interest expense of $19.2 million primarily due to a decrease in the effective interest rate with the completion of refinancings and the change in accounts payable and accrued expenses related to capital expenditures, offset in part by an increase in property, plant and equipment purchases of $61.3 million. The increase in free cash flow in 2013 compared to 2012 is primarily due to an increase of $76.5 million of Adjusted EBITDA, a decrease of $28.2 million in cash interest expense primarily due to a decrease in our effective interest rate with the completion of refinancings, offset in part by increases in property, plant and equipment purchases of $4.3 million, an increase in our weighted average debt outstanding and the change in accounts payable and accrued expenses related to capital expenditures. See "- Use of Adjusted EBITDA and Free Cash Flow" above for a reconciliation of net income/(loss) to free cash flow.

***Capital Expenditures***

We have significant ongoing capital expenditure requirements. Our capital expenditures are funded primarily by cash on hand and cash flows from operating activities. Capital purchases were $417.3 million, $371.4 million, and $348.8 million for the years ended December 31, 2014, 2013 and 2012, which includes $11.0 million of capital expenditures related to Operation Reliant and $35.2 million of capital expenditures related to Operation GigaSpeed (described below). See the table below for more details. During 2015, we expect capital expenditures to be approximately $480 million to $490 million, which includes $85 million of capital expenditures for Operation GigaSpeed, and known commercial success based opportunities. This guidance could increase if incremental commercial success based opportunities are identified.

Starting in the second half of 2014 and extending through 2017, we expect to invest up to $230 million of capital expenditures to significantly enhance our Internet speeds in markets serving 94% of our high-speed Internet customers and ultimately position our network to offer speeds of up to 1 Gbps in markets serving nearly 85% of our high-speed Internet customers. Internally known as "Operation GigaSpeed," this initiative will include expenditures to upgrade data network headend equipment, replace any remaining deployed DOCSIS 2.0 customer premises equipment with DOCSIS 3.0 equipment, and complete our all-digital video conversion that began with Project Imagine. We expect to complete these enhancements in a phased, market-by-market approach, focusing first on our largest and most competitive markets. Once fully phased in, the plan calls for our flagship Internet speed to increase from 15 to 200 Mbps and our top Internet speed to increase from over 100 Mbps to 1 Gbps in a vast majority of our markets. In 2014, we completed the initial phases of Operation GigaSpeed in 26 markets, which serve approximately 49% of our residential high-speed Internet customers. Those investments allowed us to increase the flagship Internet speed from 15 Mbps to 50 Mbps and to increase our top Internet speed to up to 150 Mbps to 300 Mbps in those markets. For the year ended December 31, 2014, we spent approximately $35.2 million of the total capital expenditures related to Operation GigaSpeed in the second half of 2014, and expect to spend $85 million in 2015, with the remainder expected to be invested during 2016 and 2017.

We have adopted capital expenditure disclosure guidance as supported by the NCTA. These disclosures are not required under GAAP, nor do they impact our accounting for capital expenditures under GAAP.

The following table presents our major capital purchases categories in accordance with NCTA disclosure guidelines for the years ended December 31, 2014, 2013 and 2012. Figures below are shown in thousands.

| | Years Ended December 31, | | |
|---|---|---|---|
| | Successor 2014 | Successor 2013 | Combined 2012 |
| Customer Premises Equipment | $ 108,462 | $ 109,075 | $ 101,664 |
| Scalable infrastructure | 48,058 | 25,701 | 32,120 |
| Line extensions | 21,233 | 8,678 | 7,541 |
| Upgrade/rebuild | 20,285 | 9,388 | 8,574 |
| Commercial | 34,398 | 54,293 | 35,505 |
| Support capital | 184,839 | 164,299 | 163,372 |
| Total capital purchases | $ 417,275 | $ 371,434 | $ 348,776 |
| Change in accounts payable and accrued expenses related to capital expenditures | 3,330 | (12,127) | 6,188 |
| Total capital expenditures | $ 420,605 | $ 359,307 | $ 354,964 |

**Critical Accounting Policies**

The preparation of our financial statements requires us to make estimates and assumptions that may affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. Periodically, we evaluate our estimates, including those related to doubtful accounts, long-lived assets, capitalized costs and accruals. We base our estimates on historical experience and on various other assumptions that we believe are reasonable. Actual results may differ from these estimates under different assumptions or conditions. We believe that the application of the critical accounting policies discussed below requires significant judgments and estimates on the part of management.

***Business Combinations***

We applied business combination accounting for the Acquisition. This resulted in our having a new corporate structure, a new accounting basis in the identifiable assets and liabilities and no retained earnings or accumulated losses. Accordingly, the consolidated financial statements on or after November 16, 2012 are not comparable to the consolidated financial statements prior to that date. The financial statements for the periods ended prior to November 15, 2012 do not include the effect of any changes in our corporate structure or changes in the fair value of assets and liabilities as a result of business combination accounting.

November 16, 2012 was the effective date for the Acquisition. Business combination accounting provides, among other things, for a determination of the value to be assigned to the equity of the company as of a date selected for financial reporting purposes. The value of the Company was approximately $6.6 billion. The value was based upon the purchase price that the Sponsors and Management Investors paid for the Company on November 15, 2012, and includes liabilities assumed. Value is intended to approximate the amount a willing buyer would pay for the assets of the Company. For a summary of the application and valuation of business combination accounting, see Footnote 4.

***Revenue***

Revenues from video, high-speed Internet, telephone and security services are recognized when the related services are provided. Installation revenue is recognized in the period the service is performed to the extent of direct selling costs, with the remaining amount deferred over the life of the customer relationship. Subscriber services paid for in advance are recorded as income when earned. Advertising sales are recognized in the period that the advertisements are broadcast.

Local or state government authorities impose franchise fees on the majority of the Company's systems ranging up to a federally mandated maximum of 5% of gross revenues as defined in the franchise agreements. Such fees are collected on a monthly basis from the Company's customers and are periodically remitted to franchise authorities. Because franchise fees are the Company's obligation, the Company presents them on a gross basis in revenue with a corresponding operating expense.

***Long-Lived and Intangible Assets***

*Long-lived Assets*

A long-lived asset or asset group is tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Indicators of impairment may include:

- a significant decrease in the market value of the asset;
- a significant change in the extent or manner in which an asset is used or a significant change in the physical condition of the asset;

- a significant adverse change in legal factors or in the business climate that could affect the value of an asset, including an adverse action or assessment by a regulator;
- an accumulation of costs significantly in excess of the amount originally expected to acquire or construct an asset;
- a current period operating or cash flow loss combined with a history of operating or cash flow losses or a projection or forecast that demonstrates continuing losses associated with an asset; and
- a current expectation that, more likely than not, an asset will be sold or otherwise disposed of significantly before the end of its estimated useful life.

When an indicator of impairment is determined, the first step is to identify the future intent of the asset or asset group: hold for continued use, hold for sale, or dispose by a means other than sale. If the asset is held for continued use and the carrying amount exceeds the undiscounted sum of cash flows expected from the use and eventual disposition of the property, the impairment loss is recognized as the difference between the carrying amount and the estimated fair value of the asset or asset group, and the new cost basis is depreciated over the remaining useful life of the asset. If the intent is to hold the asset for sale and certain other criteria are met (e.g., the asset can be disposed of currently, appropriate levels of authority have approved the sale, and there is an active program to locate a buyer), the impairment test involves comparing the asset's carrying value to its estimated fair value. To the extent the carrying value is greater than the asset's estimated fair value, an impairment charge is recognized for the difference. If the asset is to be disposed by a means other than sale, the depreciation estimates are revised to reflect the use of the asset over its shortened useful life.

Significant judgments in this area involve determining whether an event has occurred, determining the future cash flows for the assets involved and selecting the appropriate discount rate to be applied in determining estimated fair value.

*Goodwill and Indefinite-lived Intangible Assets*

Goodwill is tested annually for impairment during the fourth quarter or earlier upon occurrence of a triggering event. Accounting guidance related to goodwill impairment testing provides an option to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If the Company performs a qualitative assessment, various events and circumstances are considered when evaluating whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount and whether the first step of the goodwill impairment test is necessary. If, after this qualitative assessment, the Company determines that it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then no further quantitative testing would be necessary.

If determined necessary as a result of the qualitative assessment described above, or if we do not perform the qualitative assessment as allowed under authoritative guidance from the FASB, goodwill impairment is determined using a two-step process. The first step involves a comparison of the estimated fair value of the Company to its carrying amount, including goodwill. In performing the first step, the Company determines the fair value using a discounted cash flow ("DCF") analysis corroborated by a market-based approach. Determining fair value requires the exercise of significant judgment, including judgment about appropriate discount rates, perpetual growth rates, the amount and timing of expected future cash flows, as well as relevant comparable company earnings multiples for the market-based approach. The cash flows employed in the DCF analyses are based on the Company's most recent budget and, for years beyond the budget, the Company's estimates, which are based on assumed growth rates. The discount rates used in the DCF analyses are intended to reflect the risks inherent in the future cash flows of the Company. If the estimated fair value of the Company exceeds its carrying amount, goodwill of the reporting unit is not impaired and the second step of the impairment test is not necessary. If the carrying amount of the Company exceeds its estimated fair value, then the second step of the goodwill impairment test must be performed. The second step of the goodwill impairment test compares the implied fair value of the goodwill with the goodwill carrying amount to measure the amount of impairment, if any. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination. In other words, the estimated fair value of the Company is allocated to all of the assets and liabilities of the Company (including any unrecognized intangible assets) as if the Company had been acquired in a business combination and the fair value of the Company was the purchase price paid. If the carrying amount of the Company's goodwill exceeds the implied fair value of that goodwill, an impairment charge is recognized in an amount equal to that excess.

Other intangible assets not subject to amortization, primarily cable franchise rights, are tested annually for impairment during the fourth quarter or earlier upon the occurrence of a triggering event. The impairment test for other intangible assets not subject to amortization involves a comparison of the estimated fair value of the intangible asset with its carrying value. If the carrying value of the asset group exceeds the estimated undiscounted cash flows, the asset would be deemed to be impaired. The impairment charge would then be measured as the difference between the estimated fair value of the asset and its carrying value. The estimates of fair value of intangible assets not

subject to amortization are determined using Greenfield Discounted Cash Flow Method ("Greenfield Method"), which entails identifying the projected discrete cash flows related to such cable franchise rights and discounting them back to the valuation date. Significant judgments inherent in this analysis include the selection of appropriate discount rates, estimating the amount and timing of estimated future cash flows attributable to cable franchise rights and identification of appropriate terminal growth rate assumptions. The discount rates used in the Greenfield Method are intended to reflect the risk inherent in the projected future cash flows generated by the respective intangible assets.

***Income Taxes***

Cequel is a single member limited liability company, and as such is disregarded for income tax purposes. The Company's operating activities are included in consolidated income tax returns filed by Cequel Corporation. As such, the Company's accounting policy is to provide for income taxes on a separate return basis in accordance with existing guidance from the FASB. Under this guidance, estimated income taxes are provided for amounts payable or refundable on current year income tax returns, as well as, the estimated future tax effects attributable to temporary differences and carryforwards. This guidance also requires that a valuation allowance be recorded against deferred tax assets when it is more likely than not that some portion or all of the deferred income tax asset will not be realized in the future. Significant management judgment is required in determining the provision for income taxes, deferred tax assets and liabilities and any valuation allowances required.

***Recently Issued Accounting Pronouncements***

In February 2013, the FASB issued amendments to previously issued guidance on the presentation of reclassification of items out of accumulated other comprehensive income. The amendments require an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income, but only if the amount reclassified is required under GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required under GAAP that provide additional detail about those amounts. For public entities, the amendments are effective prospectively for reporting periods beginning after December 15, 2012. For nonpublic entities, the amendments are effective prospectively for reporting periods beginning after December 15, 2013. Early adoption is permitted. This guidance did not have a material impact on the Company's consolidated financial statements.

In July 2013, the FASB issued Accounting Standards Update No. 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists ("ASU 2013-11"), as codified in Accounting Standards Codification ("ASC") 740, Income Taxes. The amendments in this update state that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. However, to the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. This ASU applies to all entities that have unrecognized tax benefits when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists at the reporting date. ASU 2013-11 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2014. Early adoption is permitted. The amendments should be applied prospectively to all unrecognized tax benefits that exist at the effective date. Retrospective application is permitted. The Company does not expect this update to have a material impact on its consolidated financial statements.

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers ("ASU 2014-09"), which supersedes the revenue recognition requirements in ASC 605, Revenue Recognition. The new guidance stipulates that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 is effective for annual reporting periods (including interim reporting periods within those periods) beginning after December 15, 2016. Early application is not permitted, and the standard permits the use of either the retrospective or cumulative effect transition method. The Company is evaluating the effect that ASU 2014-09 will have on its consolidated financial statements and related disclosures. The Company has not yet selected a transition method nor has it determined the effect of the standard on its ongoing operations or financial reporting.

In August 2014, the FASB issued Accounting Standards Update No. 2014-15, Disclosures of Uncertainties about an Entity's Ability to Continue as a Going Concern ("ASU 2014-15"), which requires management to evaluate whether there are conditions or events that raise substantial doubt about the entity's ability to continue as a going concern, and to provide certain disclosures when it is probable that

the entity will be unable to meet its obligations as they become due within one year after the date that the financial statements are issued. ASU 2014-15 is effective for the annual period ended December 31, 2016 and for annual periods and interim periods thereafter, with early adoption permitted. The adoption of ASU 2014-15 is not expected to materially impact the Company's consolidated financial statements.

**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

We are exposed to various market risks, including fluctuations in interest rates. We manage our exposure to fluctuations in interest rates by maintaining a mix of fixed and variable rate debt.

As of December 31, 2014, the Company had fixed-rate debt with an outstanding balance of $2.750 billion and an estimated fair value of $2.785 billion, and variable-rate debt with an outstanding balance of $2.319 billion and an estimated fair value of $2.290 billion.

We do not hold or issue derivative instruments for trading or speculative purposes.

The table set forth below summarizes the fair values and contract terms of financial instruments subject to interest rate risk maintained by us as of December 31, 2014 (dollars in millions):

| | 2015 | 2016 | 2017 | 2018 | 2019 | Thereafter | Total | Fair Value at December 31, 2014 |
|---|---|---|---|---|---|---|---|---|
| **Debt:** | | | | | | | | |
| Variable rate debt maturities - Credit Facility term loan facility | $ 24.4 | $ 24.4 | $ 24.4 | $ 24.4 | $ 2,221.2 | $ — | $ 2,318.8 | $ 2,289.9 |
| Average interest rate | 3.55% | 4.29% | 4.93% | 5.19% | 5.29% | 0.00% | 4.53% | |
| Fixed rate debt maturities | $ — | $ — | $ — | $ — | $ — | $ 1,500.0 | $ 1,500.0 | $ 1,560.0 |
| Average interest rate | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 6.375% | 6.375% | |
| Fixed rate debt maturities | $ — | $ — | $ — | $ — | $ — | $ 1,250.0 | $ 1,250.0 | $ 1,225.0 |
| Average interest rate | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 5.125% | 5.125% | |

Interest rates on variable debt are estimated using the average implied forward LIBOR for the year of maturity based on the yield curve in effect at December 31, 2014, as applicable, including applicable bank spread.

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

**Independent Auditor's Report**

To the Member and Board of Directors of
Cequel Communications Holdings I, LLC

We have audited the accompanying consolidated financial statements of Cequel Communications Holdings I, LLC and its subsidiaries ("Successor" or "Company"), which comprise the consolidated balance sheets as of December 31, 2014 and 2013, and the related consolidated statements of operations, comprehensive income/loss, changes in member's equity and cash flows for the years ended December 31, 2014 and 2013, and period from November 16, 2012 through December 31, 2012.

***Management's Responsibility for the Consolidated Financial Statements***

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Cequel Communications Holdings I, LLC and its subsidiaries (Successor) at December 31, 2014 and 2013, and the results of their operations and their cash flows for the years ended December 31, 2014 and 2013 and the period from November 16, 2012 through December 31, 2012 in accordance with accounting principles generally accepted in the United States of America.

/s/ PricewaterhouseCoopers LLP

St. Louis, Missouri
February 23, 2015

## Report of Independent Auditors

To the Member and Board of Directors of
Cequel Communications Holdings I, LLC

In our opinion, the accompanying consolidated statements of operations, comprehensive income, changes in member's equity and cash flows for the period from January 1, 2012 to November 15, 2012 present fairly, in all material respects, the results of the operations and cash flows of Cequel Communications Holdings I, LLC and its subsidiaries (Predecessor) (the "Company") for the period from January 1, 2012 to November 15, 2012 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP

St. Louis, Missouri
March 7, 2013

# Cequel Communications Holdings I, LLC

**Consolidated Balance Sheets**

*(in thousands)*

| **ASSETS** | **December 31, 2014** | **December 31, 2013** |
|---|---|---|
| Cash and cash equivalents | $ 146,922 | $ 192,014 |
| Accounts receivable, net of allowances of $15,567 and $13,323, respectively | 190,063 | 189,052 |
| Deferred tax asset | 14,021 | 10,404 |
| Prepaid expenses and other assets | 26,078 | 25,982 |
| Total current assets | 377,084 | 417,452 |
| Property, plant and equipment | 2,744,328 | 2,313,601 |
| Less - accumulated depreciation | (967,156) | (493,935) |
| Property, plant and equipment, net | 1,777,172 | 1,819,666 |
| Deferred financing costs, net | 25,681 | 22,353 |
| Intangible assets: | | |
| Subscriber relationships, net | 164,073 | 271,568 |
| Franchise rights, net | 3,068,543 | 3,048,899 |
| Trade Names | 188,676 | 188,676 |
| Goodwill | 1,526,071 | 1,518,041 |
| Total intangible assets, net | 4,947,363 | 5,027,184 |
| Other long-term assets | 11,019 | 18,999 |
| Total assets | $ 7,138,319 | $ 7,305,654 |
| **LIABILITIES AND MEMBER'S EQUITY** | | |
| Liabilities: | | |
| Accounts payable and accrued expenses | $ 225,453 | $ 199,562 |
| Due to affiliates | 3,523 | 1,764 |
| Deferred revenue | 148,251 | 147,038 |
| Accrued interest | 48,429 | 47,484 |
| Current portion of capital leases and other obligations | 13,169 | 5,743 |
| Current portion of long-term debt | 24,422 | 97,737 |
| Total current liabilities | 463,247 | 499,328 |
| Long-term deferred revenue | 1,381 | 996 |
| Long-term deferred tax liability | 684,376 | 677,316 |
| Long-term portion of capital leases and other obligations | 13,372 | 15,678 |
| Long-term debt | 5,067,588 | 4,654,124 |
| Other long-term liabilities | 280 | 300 |
| Total liabilities | $ 6,230,244 | $ 5,847,742 |
| Commitments and contingencies (Note 14) | | |
| Member's equity: | | |
| Member's equity | 954,591 | 1,523,910 |
| Accumulated deficit | (46,516) | (65,998) |
| Total member's equity | 908,075 | 1,457,912 |
| Total liabilities and member's equity | $ 7,138,319 | $ 7,305,654 |

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

# Cequel Communications Holdings I, LLC

**Consolidated Statements of Operations**

*(in thousands)*

| | Successor Year Ended December 31, 2014 | Successor Year Ended December 31, 2013 | Successor Period from November 16, 2012 to December 31, 2012 | Predecessor Period from January 1, 2012 to November 15, 2012 |
|---|---|---|---|---|
| Revenues | $ 2,330,697 | $ 2,183,301 | $ 264,504 | $ 1,790,280 |
| Costs and expenses: | | | | |
| Operating (excluding depreciation and amortization) | 930,085 | 877,386 | 106,354 | 733,482 |
| Selling, general and administrative | 543,377 | 481,846 | 51,132 | 404,140 |
| Depreciation and amortization | 594,459 | 635,754 | 82,007 | 350,199 |
| Loss on disposal of cable assets | 4,277 | 3,647 | 1,195 | 221 |
| Total costs and expenses | 2,072,198 | 1,998,633 | 240,688 | 1,488,042 |
| Income from operations | 258,499 | 184,668 | 23,816 | 302,238 |
| Interest expense, net | (230,156) | (243,270) | (33,270) | (253,732) |
| Loss on termination of derivative instruments | — | — | — | (6,565) |
| Loss on extinguishment of debt | — | (6,525) | (18,945) | (14,202) |
| Transaction fees and other expenses related to the Acquisition | — | — | — | (46,045) |
| Income/(loss) before income taxes | 28,343 | (65,127) | (28,399) | (18,306) |
| (Provision)/benefit for income taxes | (8,861) | 16,691 | 10,837 | (7,409) |
| Net income/(loss) | $ 19,482 | $ (48,436) | $ (17,562) | $ (25,715) |

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

# Cequel Communications Holdings I, LLC

**Consolidated Statements of Comprehensive Income/Loss**

*(in thousands)*

| | Successor Year Ended December 31, 2014 | Successor Year Ended December 31, 2013 | Successor Period from November 16, 2012 to December 31, 2012 | Predecessor Period from January 1, 2012 to November 15, 2012 |
|---|---|---|---|---|
| Net income/(loss) | $ 19,482 | $ (48,436) | $ (17,562) | $ (25,715) |
| Reclassification of comprehensive loss (1) | — | — | — | 25,705 |
| Change in fair value of derivative instruments (1) | — | — | — | 7,053 |
| Comprehensive income/(loss) | $ 19,482 | $ (48,436) | $ (17,562) | $ 7,043 |

(1) See Footnote 13.

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

# Cequel Communications Holdings I, LLC

## Consolidated Statements of Cash Flows

*(in thousands)*

| | Successor Year Ended December 31, 2014 | Successor Year Ended December 31, 2013 | Successor Period from November 16, 2012 to December 31, 2012 | Predecessor Period from January 1, 2012 to November 15, 2012 |
|---|---|---|---|---|
| **Cash flows from operating activities:** | | | | |
| Net income/(loss) | $ 19,482 | $ (48,436) | $ (17,562) | $ (25,715) |
| Adjustments to reconcile net loss to cash flows from operating activities: | | | | |
| Loss on disposal of cable assets | 4,277 | 3,647 | 1,195 | 221 |
| Depreciation and amortization | 594,459 | 635,754 | 82,007 | 350,199 |
| Amortization of deferred financing costs | 2,913 | 2,194 | 16 | 8,635 |
| Amortization of bond premium | (3,907) | (9,035) | (2,521) | (2,092) |
| Accretion of debt discounts | 481 | — | 350 | — |
| (Amortization)/Accretion of term loan premium/discount | (2,300) | (2,042) | (245) | 2,405 |
| Bond premium received | — | — | 30,000 | — |
| Bond call premium paid | — | (71,976) | (50,274) | — |
| Write-off of deferred financing costs | — | — | — | 14,202 |
| Non-cash equity compensation expense | 30,681 | 15,486 | — | 3,344 |
| Loss on termination of derivative instruments | — | — | — | 6,565 |
| Loss on extinguishment of debt | — | 6,525 | 18,945 | — |
| Deferred income tax provision/(benefit) | 3,443 | (22,178) | (11,562) | 1,538 |
| Changes in assets and liabilities, excluding acquisitions: | | | | |
| Accounts receivable, net | (945) | (7,269) | (10,624) | (958) |
| Prepaid expenses | 7,884 | 1,489 | 2,118 | 122 |
| Accounts payable and accrued expenses | 31,652 | 477 | (46,248) | 55,139 |
| Deferred revenue | 1,598 | 6,433 | 7,339 | 1,683 |
| Accrued interest | 945 | (464) | 38,333 | (28,803) |
| Net cash provided by operating activities | 690,663 | 510,605 | 41,267 | 386,485 |
| **Cash flows from investing activities:** | | | | |
| Cash paid for purchases of property, plant and equipment (Note 8) | (420,605) | (359,307) | (30,581) | (324,383) |
| Cash paid for acquisitions | (46,720) | — | (10,425) | (4,000) |
| Proceeds from disposal of assets | 1,713 | 1,020 | 4,851 | 2,432 |
| Other | (21) | (20) | (19) | (3) |
| Net cash used in investing activities | (465,633) | (358,307) | (36,174) | (325,954) |
| **Cash flows from financing activities:** | | | | |
| Issuance of long-term debt | 486,250 | 1,050,000 | 1,000,000 | 2,838,000 |
| Repayments of long-term debt | (140,375) | (1,136,874) | (877,899) | (1,952,397) |
| Repayments of capital lease obligations | (9,756) | (7,654) | (95) | (3,867) |
| Contribution from parent | — | — | — | 27,736 |
| Distribution to parent | (600,000) | (64,600) | (520,001) | (440,000) |
| Cash paid for financing costs | (6,241) | (9,638) | (14,925) | (42,357) |
| Net cash used in financing activities | (270,122) | (168,766) | (412,920) | 427,115 |
| (Decrease)/Increase in cash and cash equivalents | (45,092) | (16,468) | (407,827) | 487,646 |
| Cash and cash equivalents, beginning of period | 192,014 | 208,482 | 616,309 | 128,663 |
| Cash and cash equivalents, end of period | $ 146,922 | $ 192,014 | $ 208,482 | $ 616,309 |
| **Supplemental cash flow disclosures:** | | | | |
| Cash paid for interest | $ 232,248 | $ 252,858 | $ 8,507 | $ 273,722 |
| Cash paid for taxes | $ 5,851 | $ 5,617 | $ 5 | $ 7,029 |
| Notes/Debt call premium | $ — | $ — | $ 50,273 | $ — |
| Non-cash transactions: | | | | |
| Other obligations (Note 10) | $ 14,876 | $ 21,378 | $ — | $ — |
| Due to parent | $ — | $ — | $ 64,600 | $ — |

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

# Cequel Communications Holdings I, LLC

**Consolidated Statements of Changes in Member's Equity**

*(in thousands)*

| | Member's Equity | Accumulated Deficit | Accumulated Other Comprehensive Income/(Loss) | Total Member's Equity |
|---|---|---|---|---|
| **PREDECESSOR:** | | | | |
| Balance, December 31, 2011 | $ 448,000 | $ (542,701) | $ (32,758) | $ (127,459) |
| Net loss | — | (25,715) | — | (25,715) |
| Non-cash equity compensation | 3,344 | — | — | 3,344 |
| Distribution to parent | (440,000) | — | — | (440,000) |
| Contribution from parent | 27,736 | — | — | 27,736 |
| Change in fair value of derivative instruments | — | — | 7,053 | 7,053 |
| Reclassification of comprehensive loss | — | — | 25,705 | 25,705 |
| Balance, November 15, 2012 | $ 39,080 | $ (568,416) | $ — | (529,336) |
| **SUCCESSOR:** | | | | |
| Balance, November 16, 2012 | $ 2,093,025 | $ — | $ — | $ 2,093,025 |
| Net loss | — | (17,562) | — | (17,562) |
| Accrued distribution to parent | (64,600) | — | — | (64,600) |
| Distribution to parent | (520,001) | — | — | (520,001) |
| Balance, December 31, 2012 | $ 1,508,424 | $ (17,562) | $ — | $ 1,490,862 |
| Net loss | — | (48,436) | — | (48,436) |
| Non-cash equity compensation | 15,486 | — | — | 15,486 |
| Balance, December 31, 2013 | $ 1,523,910 | $ (65,998) | $ — | $ 1,457,912 |
| Net income | — | 19,482 | — | 19,482 |
| Non-cash equity compensation | 30,681 | — | — | 30,681 |
| Distribution to parent | $ (600,000) | $ — | $ — | (600,000) |
| Balance, December 31, 2014 | $ 954,591 | $ (46,516) | $ — | $ 908,075 |

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

# Cequel Communications Holdings I, LLC

**Notes to Consolidated Financial Statements**

**December 31, 2014, 2013 and 2012**

**(dollars in thousands, except where otherwise indicated)**

## 1. Organization

Cequel Communications Holdings I, LLC ("Cequel") through its subsidiaries (together with Cequel, the "Company") is a leading owner, operator and acquirer of broadband communication systems serving a diversified mix of markets. Cequel is a wholly owned subsidiary of Cequel Communications Holdings, LLC, a Delaware limited liability company ("Cequel Holdings") and our ultimate parent Cequel Corporation, a Delaware Corporation ("Cequel Corporation"). Cequel Capital Corporation is a wholly owned subsidiary of Cequel (and together with Cequel, the "Issuers"). Cequel Communications, LLC, a Delaware limited liability company, doing business as Suddenlink Communications ("Suddenlink") is an indirect wholly owned subsidiary of Cequel.

The Issuers are holding companies and conduct no operations. Accordingly, the Issuers depend on the cash flow of their subsidiaries in order to make payments on, or repay or refinance, the Notes, as defined herein. The terms of the Credit Agreement generally restrict Suddenlink and its restricted subsidiaries from making dividends and other distributions to the Issuers subject to satisfaction of certain conditions, including pro forma compliance with maximum senior secured leverage ratio, and that no event of default has occurred and is continuing, or would be caused by the making of such dividends or other distributions, and based on, among other things, availability under a restricted payment basket. However, the Credit Agreement permits Suddenlink to make dividends and distributions to Cequel for payment of regularly scheduled interest payments through maturity on indebtedness which was incurred by Cequel to refinance the Issuers' 8.625% Senior Notes due 2017 (the "2017 Notes"). The Issuers' 6.375% Senior Notes due 2020 (the "2020 Notes"), the Issuers' 5.125% Senior Notes due 2021, issued on May 16, 2013 (the "Initial 2021 Notes") and the Issuers' 5.125% Senior Notes due 2021, issued on September 9, 2014 (the "2021 Mirror Notes," and together with the Initial 2021 Notes, the "2021 Notes," and the 2021 Notes, together with the 2020 Notes, the "Notes"), are unsecured and are not guaranteed by any subsidiaries of the Issuers, including Suddenlink.

On November 15, 2012, Cequel Corporation acquired all of the outstanding common equity interests in Cequel Holdings (the "Acquisition") pursuant to the Purchase and Sale Agreement, dated as of July 18, 2012 (the "Purchase Agreement"), by and among Cequel Holdings, Cequel Corporation, the sellers named therein and our manager, and all other equity interests in Cequel Holdings (including preferred equity interests), and rights to purchase equity interests in Cequel Holdings, were retired, redeemed or otherwise terminated. Cequel Corporation is owned by limited partnerships affiliated with each of CIE Management IX Limited ("BC Partners"), the CPP Investment Board (USRE II) Inc. ("CPPIB" and together with BC Partners, each a "Sponsor" and collectively the "Sponsors"), and Jerald L. Kent, our Chairman and Chief Executive Officer, Thomas P. McMillin, our Executive Vice President and Chief Operating Officer, and Mary E. Meduski, our Executive Vice President and Chief Financial Officer (collectively, the "Management Investors"). The purchase price for the Acquisition was approximately $2.485 billion, comprised of an aggregate of approximately $1.92 billion of cash equity contributions by limited partnerships affiliated with the Sponsors, a $65.1 million contribution by a limited partnership affiliated with the Management Investors, consisting of approximately $53.1 million of cash equity contributions and an approximate $12 million contribution of all of the capital stock of Excell Communications, Inc. ("Excell"), and the remainder from Cequel Holdings, funded from the net proceeds from the sale of $500 million aggregate principal amount of the 2020 Notes issued on October 25, 2012 (the "October 2020 Notes") and cash on hand. The purchase price of $2.485 billion, plus debt assumed as of March 31, 2012, valued the Company at approximately $6.6 billion.

## 2. Liquidity and Capital Resources

The Company has significant indebtedness and generated net income of $19.5 million for the successor year ended December 31, 2014, and incurred net losses of $48.4 million, $17.6 million and $25.7 million for the successor year ended December 31, 2013, the successor period from November 16, 2012 through December 31, 2012, and the predecessor period from January 1, 2012 through November 15, 2012, respectively. The Company's net cash flows from operating activities were $690.7 million, $510.6 million, $41.3 million and $386.5 million for the successor years ended December 31, 2014 and 2013, the successor period from November 16, 2012 through December 31, 2012, and the predecessor period from January 1, 2012 through November 15, 2012, respectively.

The Company requires significant cash to fund debt service requirements, capital expenditures and ongoing operations. The Company also has negative working capital, which is primarily due to the payment terms it has with its vendors. The Company has historically funded these requirements through cash flows from operating activities, borrowings under its $2.7 billion credit facility (the "Credit Facility"), sales of assets, issuances of debt, and cash on hand. However, the mix of funding sources changes from period to period. For the year ended December 31, 2014, the Company generated $690.7 million of cash flows from operating activities after paying cash

interest of $232.2 million. In addition, the Company used $420.6 million for purchases of property, plant and equipment. For the year ended December 31, 2013, the Company generated $510.6 million of cash flows from operating activities after paying cash interest of $252.9 million. In addition, the Company used $359.3 million for purchases of property, plant and equipment in the year ended December 31, 2013.

The Company expects that cash on hand, cash flows from operating activities and available credit under its revolving credit facility will be adequate to meet its cash flow needs in 2015.

## 3. Summary of Significant Accounting Policies

### Basis of Preparation of Consolidated Financial Statements

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP"). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. All significant intercompany accounts and transactions have been eliminated in consolidation. However, in the opinion of management, such financial statements include all adjustments, which consist of only normal recurring adjustments, necessary for the fair statement of the results of the periods presented. Certain estimates and assumption have been made that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

The financial information set forth in this report, unless otherwise set forth or as the context otherwise indicates, includes the accounts of Cequel and its subsidiaries for the period from November 16, 2012 ("Successor"), and of Cequel and its subsidiaries for the periods through November 15, 2012 ("Predecessor"). Effective November 16, 2012, the Company applied business combination accounting which requires certain assets and liabilities to be reflected at fair value. For a summary of the application and valuation of business combination accounting, see Footnote 4.

### Revision of Prior Period Amounts

In September 2014, we revised our consolidated statements of cash flows for the nine months ended September 30, 2013 to properly eliminate non-cash capital expenditures. The results of this correction were a decrease in net cash used in investing activities of $1.5 million for the nine months ended September 30, 2013, with an offsetting decrease recorded to net cash provided by operating activities during the same period.

Management concluded that this classification error is not material to the previously issued financial statements, and, as a result, we revised the statements of cash flows for the year ended December 31, 2013; the Successor period from November 16, 2012 through December 31, 2012; the Predecessor period from January 1, 2012 through November 15, 2012; the six months ended June 30, 2014 and 2013; and the three months ended March 31, 2014 and 2013 for similar impacts on our cash flows used in investing activities and cash flows provided by operating activities (see Footnote 23).

There was no impact on previously reported total cash and cash equivalents, consolidated balance sheets or consolidated statements of operations.

### Revenue Recognition

Revenue by service offering consisted of the following:

| | Successor Year Ended December 31, 2014 | Successor Year Ended December 31, 2013 | Successor Period from November 16, 2012 to December 31, 2012 | Predecessor Period from January 1, 2012 to November 15, 2012 |
|---|---|---|---|---|
| Video | $ 1,163,892 | $ 1,145,882 | $ 141,833 | $ 981,597 |
| High-speed Internet | 748,842 | 640,576 | 74,082 | 487,449 |
| Telephone | 204,693 | 200,032 | 24,513 | 164,666 |
| Advertising sales | 101,197 | 88,798 | 11,350 | 77,752 |
| Other | 112,073 | 108,013 | 12,726 | 78,816 |
| Total revenues | $ 2,330,697 | $ 2,183,301 | $ 264,504 | $ 1,790,280 |

Video revenue includes subscriber fees received from residential and commercial customers for the Company’s various tiers or packages of video programming services, related equipment and rental charges, fees collected on behalf of local franchising authorities and the Federal Communications Commission, as well as revenue from the sale of premium networks, transactional video-on-demand (e.g. events and movies) and digital video recorder service. High-speed Internet revenue includes subscriber fees received from residential and commercial customers for the Company’s high-speed Internet services and related equipment rental charges, and wholesale transport revenue, including amounts generated by the sale of point-to-point transport services offered to wireless telephone providers (i.e. cell tower backhaul) and other carriers. Telephone revenue includes subscriber fees received from residential and commercial customers for the Company’s telephone services, as well as fees collected on behalf of governmental authorities. Advertising sales includes revenue generated from the sale of advertising time to national, regional and local customers. Other revenue includes revenue from the Company’s security services, installation charges, revenue from tower services, including site development and construction, and other residential and commercial subscriber-related fees.

Revenue from video, high-speed Internet, telephone and security services are recognized in the period during which the related services are provided. Revenue received from customers who purchase bundled services at a discounted rate is allocated to each product in a pro-rata manner based on the individual product’s selling price (generally, the price at which the product is regularly sold on a standalone basis). Installation revenue is recognized in the period the service is performed to the extent of direct selling costs, with the remaining amount deferred over the life of the customer relationship. Customer services paid for in advance are recorded as income when earned. Advertising sales are recognized in the period that the advertisements are broadcast.

Local or state government authorities impose franchise fees on the majority of the Company’s systems ranging up to a federally mandated maximum of 5% of gross revenues as defined in the franchise agreements. Such fees are collected on a monthly basis from the Company’s customers and are periodically remitted to franchise authorities. Because franchise fees are the Company’s obligation, the Company presents them on a gross basis in revenue with a corresponding operating expense. Franchise fees reported on a gross basis in revenue amounted to approximately $47.8 million, $46.5 million, $5.7 million and $38.9 million for the successor years ended December 31, 2014 and 2013, the successor period from November 16, 2012 through December 31, 2012, and the predecessor period from January 1, 2012 through November 15, 2012, respectively.

**Allowance for Doubtful Accounts**

The allowance for doubtful accounts represents the Company’s best estimate of uncollectible balances in the accounts receivable balance. The allowance is based on the number of days outstanding, customer balances, historical experience and other currently available information.

**Concentrations of Credit Risk**

Financial instruments that potentially subject the Company to concentrations of credit risk are primarily cash and accounts receivable. Concentration of credit risk with respect to the Company’s cash balance is limited. The Company maintains or invests its cash with highly qualified financial institutions. With respect to the Company’s receivables, credit risk is limited due to the large number of customers, individually small balances and short payment terms.

**Programming Costs**

The Company purchases certain analog, digital and premium programming provided by program suppliers whose compensation is typically based on a flat fee per customer at the negotiated rates included in the programming contracts. The cost of the right to provide network programming under such arrangements is recorded in operating expenses in the month the programming is distributed. Programming costs are paid each month based on calculations performed by the Company and are subject to adjustment based on periodic audits performed by the programmers. Net programming costs included in the operating costs line item in the accompanying consolidated statements of operations was $617.4 million, $590.0 million, $71.7 million and $500.1 million for the successor years ended December 31, 2014 and 2013, the successor period from November 16, 2012 through December 31, 2012, and the predecessor period from January 1, 2012 through November 15, 2012, respectively.

**Advertising Costs**

The Company expenses advertising costs as incurred. Advertising expense, included in the selling, general and administrative expense line item in the accompanying consolidated statements of operations, was approximately $58.7 million, $50.1 million, $3.7 million and $34.8 million for the successor years ended December 31, 2014 and 2013, the successor period from November 16, 2012 through December 31, 2012, and the predecessor period from January 1, 2012 through November 15, 2012, respectively.

**Equity Based Compensation**

Cequel Holdings, Cequel's parent, maintained a management unit option plan to award certain employees unit options of Cequel Holdings as an incentive to enhance their long-term performance as well as an incentive to join or remain with the Company. Unit options provided the holder the opportunity to acquire a nonvoting proprietary interest in Cequel Holdings pursuant to the terms and conditions of the plan. The Company accounted for the options in accordance with share-based payment financial accounting standards which requires all share-based payments to employees, including grants of employee equity awards, to be recognized in the consolidated financial statements based on their fair values (see Footnote 21). The plan was terminated on November 15, 2012.

In connection with the consummation of the Acquisition, the general partners of the partnerships that hold the shares of Cequel Corporation (collectively, the "Carry Interest Partnerships"), each adopted a separate carried interest plan. (see Footnote 21). The Company measures the cost of employee services received in exchange for carried interest units based on the fair value of the award at each reporting period. The Company uses the Monte Carlo Simulation Method to estimate the fair value of the awards. Because the Monte Carlo Simulation Method requires the use of subjective assumptions, changes in these assumptions can materially affect the fair value of the carried interest units granted. The time to liquidity event assumption is based on management's judgment. The equity volatility assumption is estimated using the historical weekly volatility of publicly traded comparable companies. The risk-free rate assumed in valuing the units is based on the U.S. Constant Maturity Treasury Rates for a period matching the expected time to liquidity event. The Company's total equity value is estimated by a third party using a range of indicated business enterprise values.

**Income Taxes**

Cequel is a single member limited liability company, and as such is disregarded for income tax purposes. The Company's operating activities are generally included in consolidated income tax returns filed by Cequel Corporation and thus the Company's accounting policy is to provide for income taxes on a separate return basis in accordance with existing guidance from the Financial Accounting Standards Board ("FASB"). Under this guidance, estimated income taxes are provided for amounts payable or refundable on current year income tax returns, as well as the estimated future tax effects attributable to temporary differences and carryforwards. This guidance also requires that a valuation allowance be recorded against deferred tax assets when it is more likely than not that all or some portion of the deferred income tax asset will not be realized in the future. Significant management judgment is required in determining the provision for income taxes, deferred tax assets and liabilities and any valuation allowances recorded (See Footnote 18).

On September 15, 2014, the Company filed its U.S. Corporation Income Tax Return for the calendar year 2013 reflecting an adjustment to a previously filed position which effectively eliminated the Company's uncertain tax position. The elimination of the uncertain tax position resulted in a corresponding adjustment to the Company's net deferred tax liabilities and deferred tax assets which resulted in a net benefit to income taxes of $13.0 million for the period.

**Cash and Cash Equivalents**

For financial reporting purposes, the Company considers all highly liquid investments with original maturities at purchase of three months or less to be cash equivalents. These investments are carried at cost, which approximates market value.

**Property, Plant and Equipment**

Property, plant and equipment are recorded at cost, including all material, labor and certain indirect costs associated with the construction of cable transmission and distribution facilities (or fair value at date of Acquisition). While the Company's capitalization is based on specific activities, once capitalized, costs are tracked by fixed asset category at the cable system level and not on a specific asset basis. For assets that are sold or retired, the estimated historical cost and related accumulated depreciation is removed. Costs associated with initial customer installations and the additions of network equipment necessary to enable advanced services are capitalized. Costs capitalized as part of initial customer installations include materials, labor and certain indirect costs. Indirect costs are associated with the activities of the Company's personnel who assist in connecting and activating the new service. Indirect costs include employee benefits and payroll taxes, direct variable costs associated with capitalizable activities, consisting of installation and construction vehicle costs, the cost of dispatch personnel and indirect costs directly attributable to capitalizable activities. Leasehold improvements are amortized over the shorter of their estimated life or the term of the related leases. Costs for repairs and maintenance are charged to operating expense as incurred, while plant and equipment replacements, including replacement of cable drops, are capitalized.

Depreciation is computed using the straight-line method over the following estimated useful lives of the assets:

| | |
|---|---|
| Buildings and improvements | 7-30 years |
| Customer equipment and installations | 3-7 years |
| Capitalized leases | 3-15 years |
| Vehicles | 3-5 years |
| Broadband distribution systems | 3-20 years |
| Office furniture, tools and equipment | 2-7 years |

**Capitalized Internal Costs**

Costs capitalized as part of new customer installations include materials, subcontractor costs and internal direct labor costs, including service technicians and internal overhead costs incurred to connect the customer to the plant from the time of installation scheduling through the time service is activated and functioning. The internal direct labor cost capitalized is based on a combination of the actual and estimated time to complete the installation. Overhead capitalized consists mainly of employee benefits, such as payroll taxes and health insurance, directly associated with that portion of the capitalized labor and vehicle operating costs related to capitalizable activities. Capitalized internal payroll costs were approximately $46.2 million, $45.0 million, $2.1 million and $39.9 million for the successor years ended December 31, 2014 and 2013, the successor period from November 16, 2012 through December 31, 2012, and the predecessor period from January 1, 2012 through November 15, 2012, respectively. Related capitalized overhead were approximately $29.0 million, $28.5 million, $1.6 million and $30.2 million for the successor years ended December 31, 2014 and 2013, the successor period from November 16, 2012 through December 31, 2012, and the predecessor period from January 1, 2012 through November 15, 2012, respectively.

**Deferred Financing Costs**

Deferred financing costs are being amortized to interest expense using the effective interest method over the terms of the related debt.

**Franchises**

Franchise rights are periodically reviewed to determine if each franchise has a finite life or an indefinite life in accordance with goodwill and other intangible asset financial accounting standards. Accordingly, the Company believes its franchises qualify for indefinite life treatment and are not amortized against earnings but instead are tested for impairment annually or more frequently as warranted by events or changes in circumstances (see Footnote 15). Costs incurred in negotiating and renewing broadband franchises are amortized on a straight-line basis over the life of the renewal period.

**Accounting for Long-Lived and Intangible Assets**

*Long-lived Assets*

Long-lived assets (e.g., property, plant and equipment) do not require that an annual impairment test be performed; instead, long-lived assets are tested for impairment upon the occurrence of a triggering event. Triggering events include the more likely than not disposal of a portion of such assets or the occurrence of an adverse change in the market involving the business employing the related assets. Once a triggering event has occurred, the impairment test is based on whether the intent is to hold the asset for continued use or to hold the asset for sale. If the intent is to hold the asset for continued use, the impairment test first requires a comparison of estimated undiscounted future cash flows generated by the asset group against the carrying value of the asset group. If the carrying value of the asset group exceeds the estimated undiscounted future cash flows, the asset would be deemed to be impaired. The impairment charge would then be measured as the difference between the estimated fair value of the asset and its carrying value. Fair value is generally determined by discounting the future cash flows associated with that asset. If the intent is to hold the asset for sale and certain other criteria are met (e.g., the asset can be disposed of currently, appropriate levels of authority have approved the sale, and there is an active program to locate a buyer), the impairment test involves comparing the asset's carrying value to its estimated fair value. To the extent the carrying value is greater than the asset's estimated fair value, an impairment charge is recognized for the difference. Significant judgments in this area involve determining whether a triggering event has occurred, determining the future cash flows for the assets involved and selecting the appropriate discount rate to be applied in determining estimated fair value. For the years ended December 31, 2014 and 2013, no triggering events have occurred and no impairment tests were performed.

*Goodwill and Indefinite-lived Intangible Assets*

Goodwill is tested annually for impairment during the fourth quarter or earlier upon occurrence of a triggering event. Accounting guidance related to goodwill impairment testing provides an option to first assess qualitative factors to determine whether it is more likely

than not that the fair value of a reporting unit is less than its carrying amount. If the Company performs a qualitative assessment, various events and circumstances are considered when evaluating whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount and whether the first step of the goodwill impairment test is necessary. If, after this qualitative assessment, the Company determines that it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then no further quantitative testing would be necessary.

If determined necessary as a result of the qualitative assessment described above, or if we do not perform the qualitative assessment as allowed under authoritative guidance from the FASB, goodwill impairment is determined using a two-step process. The first step involves a comparison of the estimated fair value of the Company to its carrying amount, including goodwill. In performing the first step, the Company determines the fair value using a discounted cash flow ("DCF") analysis corroborated by a market-based approach. Determining fair value requires the exercise of significant judgment, including judgment about appropriate discount rates, perpetual growth rates, the amount and timing of expected future cash flows, as well as relevant comparable company earnings multiples for the market-based approach. The cash flows employed in the DCF analyses are based on the Company's most recent budget and, for years beyond the budget, the Company's estimates, which are based on assumed growth rates. The discount rates used in the DCF analyses are intended to reflect the risks inherent in the future cash flows of the Company. If the estimated fair value of the Company exceeds its carrying amount, goodwill of the reporting unit is not impaired and the second step of the impairment test is not necessary. If the carrying amount of the Company exceeds its estimated fair value, then the second step of the goodwill impairment test must be performed. The second step of the goodwill impairment test compares the implied fair value of the goodwill with the goodwill carrying amount to measure the amount of impairment, if any. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination. In other words, the estimated fair value of the Company is allocated to all of the assets and liabilities of the Company (including any unrecognized intangible assets) as if the Company had been acquired in a business combination and the fair value of the Company was the purchase price paid. If the carrying amount of the Company's goodwill exceeds the implied fair value of that goodwill, an impairment charge is recognized in an amount equal to that excess.

Other intangible assets not subject to amortization, primarily cable franchise rights, are tested annually for impairment during the fourth quarter or earlier upon the occurrence of a triggering event. The impairment test for other intangible assets not subject to amortization involves a comparison of the estimated fair value of the intangible asset with its carrying value. If the carrying value of the asset group exceeds the estimated undiscounted cash flows, the asset would be deemed to be impaired. The impairment charge would then be measured as the difference between the estimated fair value of the asset and its carrying value. The estimates of fair value of intangible assets not subject to amortization are determined using Greenfield Discounted Cash Flow Method ("Greenfield Method"), which entails identifying the projected discrete cash flows related to such cable franchise rights and discounting them back to the valuation date. Significant judgments inherent in this analysis include the selection of appropriate discount rates, estimating the amount and timing of estimated future cash flows attributable to cable franchise rights and identification of appropriate terminal growth rate assumptions. The discount rates used in the Greenfield Method are intended to reflect the risk inherent in the projected future cash flows generated by the respective intangible assets.

For the Company's impairment analyses completed in the fourth quarters of 2014 and 2013 the Company did not perform a qualitative assessment for any of its six reporting units and instead began with the first step of the goodwill impairment analysis. The Company's impairment analyses for 2014 and 2013 indicated no impairment of its goodwill and other intangible assets not subject to amortization.

**Asset Retirement Obligations**

Accounting for asset retirement obligations requires that a liability be recognized for an asset retirement obligation in the period in which it is incurred if a reasonable estimate of fair value can be made. If a lease or franchise agreement is not renewed, certain of the Company's franchise agreements and leases contain provisions requiring the Company to remove equipment or restore facilities. The Company expects to continually renew its franchise agreements and has concluded that the related franchise right is an indefinite lived intangible asset. The Company could be required to incur substantial restoration or removal costs related to these franchise agreements in the unlikely event a franchise agreement containing such a provision were no longer expected to be renewed. The Company would record an estimated liability at the time that it became probable that a franchise agreement would not be renewed. The obligations related to the removal provisions contained in the Company's lease agreements or any disposal obligations related to the Company's operating assets are not material to the Company's consolidated financial condition or results of operation or are not estimable.

**Fair Value of Financial Instruments**

The carrying amounts of certain of the Company's financial instruments, including cash and cash equivalents, accounts receivable, accounts payable and other accrued liabilities, approximate fair value because of their short maturities (see Footnote 12).

### Derivative Financial Instruments

Accounting for derivative financial instruments requires that all derivative instruments be recognized on the balance sheet at fair value. Suddenlink previously used interest rate risk management derivative instruments, such as interest rate swap agreements and interest rate caps, as permitted under the terms of the Credit Facility. The Company's policy is to manage interest costs using a mix of fixed and variable rate debt. The Company does not hold or issue derivative instruments for trading or speculative purposes. See Footnote 13 for further discussion of accounting for derivative and hedging activities.

### Recently Issued Accounting Pronouncements

In February 2013, the FASB issued amendments to previously issued guidance on the presentation of reclassification of items out of accumulated other comprehensive income. The amendments require an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income, but only if the amount reclassified is required under GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required under GAAP that provide additional detail about those amounts. For public entities, the amendments are effective prospectively for reporting periods beginning after December 15, 2012. For nonpublic entities, the amendments are effective prospectively for reporting periods beginning after December 15, 2013. Early adoption is permitted and was adopted by the Company for the year ended December 31, 2012. This adoption did not have a material impact and is not expected to have a material impact on the Company's consolidated financial statements.

In July 2013, the FASB issued Accounting Standards Update No. 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists ("ASU 2013-11"), as codified in Accounting Standards Codification ("ASC") 740, Income Taxes. The amendments in this update state that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. However, to the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. This ASU applies to all entities that have unrecognized tax benefits when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists at the reporting date. ASU 2013-11 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2014. Early adoption is permitted. The amendments should be applied prospectively to all unrecognized tax benefits that exist at the effective date. Retrospective application is permitted. The Company does not expect this update to have a material impact on its consolidated financial statements.

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers ("ASU 2014-09"), which supersedes the revenue recognition requirements in ASC 605, Revenue Recognition. The new guidance stipulates that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 is effective for annual reporting periods (including interim reporting periods within those periods) beginning after December 15, 2016. Early application is not permitted, and the standard permits the use of either the retrospective or cumulative effect transition method. The Company is evaluating the effect that ASU 2014-09 will have on its consolidated financial statements and related disclosures. The Company has not yet selected a transition method nor has it determined the effect of the standard on its ongoing operations or financial reporting.

In August 2014, the FASB issued Accounting Standards Update No. 2014-15, Disclosures of Uncertainties about an Entity's Ability to Continue as a Going Concern ("ASU 2014-15"), which requires management to evaluate whether there are conditions or events that raise substantial doubt about the entity's ability to continue as a going concern, and to provide certain disclosures when it is probable that the entity will be unable to meet its obligations as they become due within one year after the date that the financial statements are issued. ASU 2014-15 is effective for the annual period ended December 31, 2016 and for annual periods and interim periods thereafter, with early adoption permitted. The adoption of ASU 2014-15 is not expected to materially impact the Company's consolidated financial statements.

## 4. Acquisition

On November 15, 2012, Cequel Corporation acquired all of the outstanding common equity interests in Cequel Holdings pursuant to the Purchase and Sale Agreement ("the Purchase Agreement"), and all other equity interests in Cequel Holdings (including preferred equity interests), and rights to purchase equity interests in Cequel Holdings, were retired, redeemed or otherwise terminated (the

“Acquisition”). Cequel Corporation is owned by limited partnerships affiliated with each of CIE Management IX Limited, (collectively “BC Partners”), CPP Investment Board (USRE II) Inc. (“CPPIB” and BC Partners each a “Sponsor” and collectively the “Sponsors”), and Jerald L. Kent, our Chairman and Chief Executive Officer, Thomas P. McMillin, our Executive Vice President and Chief Operating Officer and Mary E. Meduski, our Executive Vice President and Chief Financial Officer, (collectively, the “Management Investors”). Cequel Corporation beneficially owns 100% of the voting stock of Cequel Holdings.

On October 25, 2012, Cequel Communications Escrow I, LLC (“Escrow LLC”) and Cequel Communications Escrow Capital Corporation (“Escrow Corporation” and with Escrow LLC, the “Escrow Issuers”) issued $500.0 million aggregate principal amount of the October 2020 Notes. On November 15, 2012, (i) Escrow LLC merged with and into Cequel and Escrow Corporation merged with and into Cequel Capital, which mergers resulted in the surviving entities assuming each respective Escrow Issuer’s obligations under the Indenture governing the 2020 Notes (the “2020 Indenture”) and the October 2020 Notes (the “Notes Assumption”), (ii) the proceeds from the sale of the October 2020 Notes and other amounts deposited into the escrow account established pursuant to the Escrow and Security Agreement, dated as of October 25, 2012, (the “Escrow Agreement”), by and among the Escrow Issuers, Cequel and the U.S. Bank National Association, as escrow agent, were released to Cequel and (iii) following such release, the Escrow Agreement was terminated. Upon the release of the funds from the escrow account, Cequel used the net proceeds from the sale of the October 2020 Notes and cash on hand to make a distribution to Cequel Holdings, which used such distribution to fund a portion of the purchase price required to be paid by Cequel Holdings under the Purchase Agreement, to pay Cequel Holdings’ estimated fees and expenses relating to the Acquisition and for general corporate purposes.

Also, on November 15, 2012, all of the capital stock of Excell, a tower construction management services business, was contributed to Cequel Corporation by a limited partnership affiliated with the Management Investors, and Cequel Corporation contributed all of such capital stock of Excell to Suddenlink. Following such contribution, Excell became a subsidiary of Suddenlink.

We applied business combination accounting for the Acquisition. This resulted in the Company having a new accounting basis in the identifiable assets and liabilities and no retained earnings or accumulated losses. Accordingly, the consolidated financial statements on or after November 16, 2012 are not comparable to the consolidated financial statements prior to that date. The financial statements for the periods ended prior to November 15, 2012 do not include the effect of any changes in our corporate structure or changes in the fair value of assets and liabilities as a result of business combination accounting.

Business combination accounting provides, among other things, for a determination of the value to be assigned to the equity of the company as of a date selected for financial reporting purposes. The value of the Company was set forth at approximately $6.6 billion. The value was based upon the purchase price that BC Partners and CPPIB paid for the Company on November 15, 2012, and including liabilities assumed. Further, DCF analysis was completed for purchase price allocation purposes. A more detailed explanation of the DCF analysis is discussed below.

The basis for the DCF analysis was the Company’s projections. These seven-year projections were based on management’s assumptions including among others, penetration rates for basic and digital video, high speed Internet, and telephone; revenue growth rates; operating margins; and capital expenditures. The assumptions are derived based on the Company’s and its peers’ historical operating performance adjusted for current and expected competitive and economic factors surrounding the cable industry. The DCF analysis was completed using a discount rate of approximately 9.5% based on the Company’s cost of equity and after-tax cost of debt and perpetuity growth rates of 1.9% - 2.4%. The value is highly dependent on the achievement of the future financial results contemplated in the projections. The estimates and assumptions made in the valuation are inherently subject to significant uncertainties, many of which are beyond our control, and there is no assurance that these results can be achieved. The primary assumptions for which there is a reasonable possibility of the occurrence of a variation that would have significantly affected the value include the assumptions regarding revenue growth, programming expense growth rates, the amount and timing of capital expenditures and the discount rate utilized. The following table summarizes the estimates of the fair values of the assets acquired and liabilities assumed in the Acquisition (dollars in millions):

| | Amounts Recognized as of November 16, 2012 |
|---|---|
| Current Assets | $ 83.6 |
| Accounts Receivable | 171.4 |
| Property, plant and equipment | 1,924.7 |
| Goodwill | 1,518.0 |
| Intangible assets | 3,729.9 |
| Other non-current assets | 6.1 |
| Current liabilities | (368.5) |
| Long-term debt | (4,774.9) |
| Deferred income taxes | (710.9) |
| Other non-current liabilities | (6.4) |
| Total | $ 1,573.0 |

The significant assumptions related to the valuations of our assets and liabilities in connection with business combination accounting include the following:

Property, plant and equipment was valued at fair value of $1.9 billion as of November 16, 2012. In establishing fair value for the vast majority of the Company's property, plant and equipment, the cost approach was utilized. The cost approach considers the amount required to replace an asset by constructing or purchasing a new asset with similar utility, then adjusts the value in consideration of physical depreciation, and functional and economic obsolescence as of the appraisal date. The cost approach relies on management's assumptions regarding current material and labor costs required to rebuild and repurchase significant components of our property, plant and equipment along with assumptions regarding the age and estimated useful lives of our property, plant and equipment.

The Company identified the following intangible assets to be valued: franchise rights, trade names and subscriber relationships. Franchise rights were valued using the greenfield method and were valued at $3,048.9 million as of November 16, 2012. Trade names were valued using a deviation of the income approach, known as the royalty savings method, and were valued at $188.7 million as of November 16, 2012. Subscriber relationships were valued using a deviation of the excess earnings method and were valued at $492.4 million as of November 16, 2012. (See Footnote 15)

Long-term debt was valued at fair value as of November 16, 2012 using quoted market prices.

The carrying value of most other assets and liabilities approximated fair value as of November 16, 2012. The contractual value of accounts receivable as of November 16, 2012 is approximately $185.0 million, compared to a fair value of $171.4 million.

As a result of applying business combination accounting, the Company recorded goodwill of $1.6 billion, which represented the excess of organization value over amounts assigned to the other identifiable tangible and intangible assets, arising from expectations of future operational performance and cash generation.

**5. Acquisitions of Broadband Systems**

On January 2, 2014, the Company consummated its acquisition of three cable systems from Northland Communications ("Northland"), for a purchase price of $40.6 million (the "Northland Acquisition"). The Northland Acquisition was funded by cash on hand. The Company also incurred acquisition related costs of approximately $0.2 million and $0.2 million for the years ended December 31, 2014 and 2013, respectively, which are included in selling, general and administrative expense in the consolidated statements of operations.

The Company accounted for the Northland Acquisition in accordance with ASC Topic 805, and the operating results of Northland have been consolidated from the date of acquisition. The total estimated purchase price was allocated to the identifiable tangible and intangible assets acquired based on their fair values using Level 3 inputs (see Footnote 12). The excess of the estimated purchase price over those fair values was recorded as goodwill, which represents the value of expected synergies and other intangible assets that do not qualify for separate recognition. The fair value assigned to the identifiable tangible and intangible assets acquired are based upon a third party valuation using the assumptions developed by management and other information compiled by management.

The table below presents the final allocation of the purchase price to the assets acquired (in millions):

| | Estimated Useful Life | | |
|---|---|---|---|
| Total purchase price | | $ | 40.6 |
| Property, plant and equipment | 1 - 15 years | $ | 11.3 |
| Subscriber relationships | 7 years | | 5.7 |
| Franchise rights | Indefinite-lived | | 16.7 |
| Goodwill (tax deductible) | Indefinite-lived | | 6.8 |
| Current assets | | | 0.1 |
| Total allocated purchase price | | $ | 40.6 |

On October 1, 2014, the Company consummated its acquisition of two cable systems in Nevada from NewWave Communications ("New Wave") for $6.1 million using cash on hand.

The Company's consolidated statement of operations for the year ended December 31, 2014 includes $15.3 million of revenue and $3.1 million of net income, excluding the $0.2 million of acquisition related costs described above, from the acquisition of Northland. In addition, the Company's consolidated statement of operations for the year ended December 31, 2014 includes $0.8 million of revenue and less than $0.1 million of net income from the acquisition of New Wave, which are considered to be immaterial to the Company's consolidated financial statements.

## 6. Divestiture of Broadband Systems

On December 31, 2012, the Company completed the divestiture of systems in Indiana and Illinois serving approximately 2,800 basic video customers. Cash proceeds from this transaction were approximately $4.8 million. The Company recognized an immaterial net loss on the sale of these systems.

## 7. Allowance for Doubtful Accounts

Allowance for doubtful accounts consisted of the following as of December 31:

| | Successor Year Ended December 31, | |
|---|---|---|
| | 2014 | 2013 |
| Balance, beginning of period | $ 13,323 | $ 3,928 |
| Charged to expense | 28,283 | 27,125 |
| Uncollected balances written off, net of recoveries | (26,039) | (17,730) |
| Balance, end of period | $ 15,567 | $ 13,323 |

## 8. Property, Plant and Equipment

Property, plant and equipment consisted of the following as of December 31:

| | 2014 | 2013 |
|---|---|---|
| Land | $ 24,396 | $ 24,248 |
| Buildings and improvements | 99,933 | 97,776 |
| Capitalized leases | 17,605 | 2,750 |
| Vehicles | 58,523 | 46,232 |
| Broadband distribution systems | 2,415,462 | 2,048,333 |
| Office furniture, tools and equipment | 128,409 | 94,262 |
| Total Property, plant and equipment | 2,744,328 | 2,313,601 |
| Less: accumulated depreciation | (967,156) | (493,935) |
| Property, plant and equipment, net | $ 1,777,172 | $ 1,819,666 |

Depreciation expense was $480.3 million, $440.7 million $56.2 million and $340.0 million for the successor years ended December 31, 2014 and 2013, the successor period from November 16, 2012 through December 31, 2012, and the predecessor period from January 1, 2012 through November 15, 2012, respectively. Depreciation expense for assets that will be taken out of service primarily in connection with a significant three year bandwidth expansion plan that commenced in 2009 ("Project Imagine"), and which was completed as of September 30, 2012, was $0.6 million for the predecessor period from January 1, 2012 through November 15, 2012. No such amount was necessary for the successor years ended December 31, 2014 and 2013 or the successor period from November 16, 2012 through December 31, 2012.

During the year ended December 31, 2014, we acquired $417.3 million of property, plant and equipment. As reflected in our consolidated statement of cash flows, $420.6 million represents capital expenditures for which cash was paid during the year ended December 31, 2014. This amount includes $3.3 million of cash outflows related to the decrease in accounts payable and accrued expenses related to capital expenditures from $24.1 million as of December 31, 2013 to $20.8 million as of December 31, 2014.

During the year ended December 31, 2013, we acquired $371.4 million of property, plant and equipment. As reflected in our consolidated statement of cash flows, $359.3 million represents capital expenditures for which cash was paid during the year ended December 31, 2013. This amount includes $12.1 million of cash inflows related to the increase in accounts payable and accrued expenses related to capital expenditures from $12.0 million as of December 31, 2012 to $24.1 million as of December 31, 2013.

On November 16, 2012, the Company applied business combination accounting and as such adjusted its property, plant and equipment to reflect fair value and adjusted remaining useful lives for existing property, plant and equipment (see Footnote 4).

For the successor years ended December 31, 2014 and 2013, the successor period from November 16, 2012 through December 31, 2012 and the predecessor period from January 1, 2012 through November 15, 2012, the Company recorded a loss on the disposal of cable assets of $4.3 million, $3.6 million, $1.2 million and $0.2 million, respectively.

**9. Accounts Payable and Accrued Expenses**

Accounts payable and accrued expenses as of December 31, 2014 and 2013 consist of the following:

| | December 31, | |
|---|---|---|
| | 2014 | 2013 |
| Accounts payable - trade | $ 20,265 | $ 4,721 |
| Accounts payable and accrued expenses related to capital expenditures | 20,785 | 24,114 |
| Accrued liabilities: | | |
| Programming costs | 52,241 | 64,459 |
| Compensation and benefits | 40,048 | 33,616 |
| Taxes and insurance | 31,737 | 26,250 |
| Telephone and circuit costs | 15,907 | 4,829 |
| Franchise related fees | 15,789 | 15,435 |
| Pole rentals | 6,508 | 5,942 |
| Other | 22,173 | 20,196 |
| Total | $ 225,453 | $ 199,562 |

## 10. Capital Lease and Other Obligations

Capital lease and other obligations consist of capital leases related to assets, facilities and multi-year vendor service agreements. The Company has financing agreements with original obligations totaling $43.0 million, of which $26.5 million was outstanding at December 31, 2014, that expire between December 2015 and January 2028.

The future principal payments of the Company's capital lease obligations as of December 31, 2014 are as follows (dollars in thousands):

| Year | Amount |
|---|---|
| 2015 | $ 13,174 |
| 2016 | 10,509 |
| 2017 | 875 |
| 2018 | 502 |
| 2019 | 200 |
| Thereafter | 1,267 |
| Total | $ 26,527 |

In 2014, the Company entered into a three year capital lease commitment totaling approximately $14.1 million, of which $9.4 million was outstanding at December 31, 2014, and a five year capital lease commitment totaling approximately $0.8 million, of which $0.8 million was outstanding at December 31, 2014.

## 11. Long-Term Debt

Outstanding debt consisted of the following at December 31:

| | 2014 | 2013 |
|---|---|---|
| Credit Facility | $ 2,327,948 | $ 2,470,623 |
| 6.375% Senior Notes due 2020 | 1,527,331 | 1,531,238 |
| 5.125% Senior Notes due 2021 (a) | 1,236,731 | 750,000 |
| Total Debt | 5,092,010 | 4,751,861 |
| Less: Current portion | 24,422 | 97,737 |
| Long-Term Debt | $ 5,067,588 | $ 4,654,124 |

(a) Includes the Initial 2021 Notes and the 2021 Mirror Notes.

*Credit Facility*

On February 14, 2012, Suddenlink, Cequel Communications Holdings II, LLC ("Holdings II"), Cequel's direct subsidiary and the direct parent of Suddenlink, certain subsidiaries of Suddenlink and a syndicate of lenders entered into a Credit and Guaranty Agreement, (the "Credit Agreement"), which provides for up to $2.7 billion of loans in the aggregate, consisting of a $2.2 billion term loan facility funded at closing and a $500.0 million revolving credit facility (collectively, the "Credit Facility"). The revolving credit facility is scheduled to mature on February 14, 2017. The term loan facility is scheduled to mature on February 14, 2019. The interest rate on the term loans outstanding under the Credit Agreement equals the prime rate plus 1.75% or the LIBOR rate plus 2.75%, with a LIBOR floor of 0.75%, while the interest rate on the revolver loans will equal the prime rate plus 1.50% or the LIBOR rate plus 2.50%. The term loan facility requires quarterly repayments in annual amounts equal to 1.00% of the original principal amount, with the remainder due at maturity. The debt under the Credit Agreement is secured by a first priority security interest in the capital stock of Suddenlink and substantially all of the present and future assets of Suddenlink and its restricted subsidiaries, and is guaranteed by Holdings II, as well as all of Suddenlink's existing and future direct and indirect subsidiaries, subject to certain exceptions set forth in the Credit Agreement. The Credit Agreement contains customary representations, warranties and affirmative covenants. In addition, the Credit Agreement contains restrictive covenants that limit, among other things, the ability of Suddenlink and its subsidiaries to incur indebtedness, create liens, engage in mergers, consolidations and other fundamental changes, make investments or loans, engage in transactions with affiliates, pay dividends, and make acquisitions and dispose of assets. The Credit Agreement also contains a maximum senior secured leverage maintenance covenant. Additionally, the Credit Agreement contains customary events of default, including failure to make payments, breaches of covenants and representations, cross defaults to other indebtedness, unpaid judgments, changes of control and bankruptcy events. The lenders' commitments to fund amounts under the revolving credit facility are subject to certain customary conditions.

On April 26, 2013, the Company borrowed $300.0 million of incremental term loans (the "Incremental Term Loans") under the Credit Facility. The Incremental Term Loans have the same terms as the existing term loans under the Credit Facility. The proceeds from the Incremental Term Loans and cash on hand were used to redeem $400.0 million aggregate principal amount of the outstanding 2017 Notes on May 16, 2013 (see discussion within the 'Senior Notes' section below).

On April 30, 2014, the Company was required to make an excess cash flow recapture payment of $72.7 million in accordance with the terms of the Credit Agreement. Lenders holding approximately 16.4% of the outstanding term loans under the Credit Facility waived their right to receive this payment. Accordingly, the Company made an excess cash flow recapture payment of $60.8 million to the other lenders under the Credit Facility and retained $11.9 million related to the waived excess cash flow recapture payment.

On December 29, 2014, the Company made a voluntary principal prepayment in the amount of $55.0 million, using cash on hand. No additional amounts will be owed in 2015 other than our normal quarterly payments on the Credit Facility.

*Senior Notes*

On October 25, 2012, the Escrow Issuers, each subsidiaries of Cequel, issued $500.0 million aggregate principal amount of the 2020 Notes. The 2020 Notes were sold at an offering price of 100%. Interest is payable on the 2020 Notes semi-annually in cash on March 15 and September 15, commencing on March 15, 2013. The proceeds from the sale were placed in an escrow account along with interest payable through March 11, 2013. Upon consummation of the Acquisition, Cequel and Cequel Capital become obligors under the October 2020 Notes.

On December 13, 2012, the Company commenced a tender offer (the "Tender Offer") for up to $750.0 million of the 2017 Notes. The Tender Offer expired on January 11, 2013, and included an early settlement date of December 28, 2012. The Tender Offer was for a price of 104.057%. However, any 2017 Notes tendered prior to December 28, 2012 received a tender price of 107.057%. At December 28, 2012, the Company paid $712.4 million in connection with tendered 2017 Notes, and paid a tender call premium of approximately $50.3 million, which is included in the calculation of loss on extinguishment of debt. No additional 2017 Notes were tendered by the tender close date of January 11, 2013.

On December 28, 2012, the Issuers issued $1.0 billion aggregate principal amount of the 2020 Notes. The 2020 Notes were sold at an offering price of 103%. Interest is payable on the 2020 Notes semi-annually in cash on March 15 and September 15. The Issuers used the net proceeds from the sale to (i) purchase $712.4 million aggregate principal amount of the Issuers' 2017 Notes pursuant to the Tender Offer, (ii) make a capital contribution to Suddenlink, which was used to repay all outstanding borrowings under Suddenlink's revolving credit facility and for working capital and general corporate purposes, and (iii) pay related costs, fees and expenses.

On May 16, 2013, the Issuers issued $750.0 million aggregate principal amount of the Initial 2021 Notes. The proceeds from the sale of the Initial 2021 Notes and cash on hand were used to redeem the remaining $712.6 million aggregate principal amount of the outstanding 2017 Notes (see discussion below) and pay related fees and expenses.

On May 16, 2013, the Issuers redeemed $400.0 million aggregate principal amount of the outstanding 2017 Notes and paid the applicable redemption premium of approximately $25.9 million, which was financed using the proceeds from the Incremental Term Loans and cash on hand. The carrying amount of the redeemed 2017 Notes was $423.8 million, thus resulting in a loss on extinguishment of debt of $2.1 million.

On June 17, 2013, the Issuers redeemed the remaining $712.6 million aggregate principal amount of the outstanding 2017 Notes and paid the applicable redemption premium of approximately $46.1 million, which was financed using the proceeds from the issuance of the Initial 2021 Notes. The carrying amount of the remaining 2017 Notes was $754.3 million, thus resulting in a loss on extinguishment of debt of $4.4 million.

On September 9, 2014, the Issuers issued $500.0 million aggregate principal amount of the 2021 Mirror Notes. The proceeds from the sale, plus cash on hand, were used to make a distribution in the amount of $600 million to our parent (see Footnote 22) and pay related fees and expenses. The 2021 Mirror Notes mature on December 15, 2021. Interest is payable on the 2021 Mirror Notes semi-annually in cash on June 15 and December 15 of each year. The 2021 Mirror Notes have substantially the same terms as the Initial 2021 Notes.

The Issuers have no ability to service interest or principal on the Notes, other than through any dividends or distributions received from Suddenlink. Suddenlink is restricted in certain circumstances, from paying dividends or distributions to the Issuers by the terms of the Credit Agreement. However, the Credit Agreement permits Suddenlink to make dividends and distributions subject to satisfaction of certain conditions, including pro forma compliance with a maximum senior secured leverage ratio, and that no event of default has occurred and is continuing, or would be caused by the making of such dividends or other distributions, and based on, among other things, availability under a restricted payment basket. The Notes are unsecured and are not guaranteed by any subsidiaries of the Issuers, including Suddenlink.

The Indentures contain certain covenants, agreements and events of default which are customary with respect to non-investment grade debt securities, including limitations on our ability to incur additional indebtedness, pay dividends on or make other distributions or repurchase our capital stock, make certain investments, enter into certain types of transactions with affiliates, create liens and sell certain assets or merge with or into other companies.

The Company's debt agreements include restrictive covenants such as restrictions on additional indebtedness. The Credit Agreement also requires the Company to satisfy a financial maintenance covenant. The Company was in compliance with that covenant as of December 31, 2014.

*Loss on Extinguishment of Debt*

The Company did not incur any losses on extinguishment of debt for the year ended December 31, 2014. For the year ended December 31, 2013, the Company recorded a $6.5 million loss on extinguishment of debt on the remaining repayment of the 2017 Notes, in conjunction with the $300 million borrowing of incremental term loans on April 26, 2013 and the issuance of the Initial 2021 Notes on May 16, 2013.

*Future Principal Payments*

The future maturities of long-term debt, excluding premiums and discounts, as of December 31, 2014 are as follows (dollars in thousands):

| Year | Amount |
|---|---|
| 2015 | $ 24,422 |
| 2016 | 24,422 |
| 2017 | 24,422 |
| 2018 | 24,422 |
| 2019 | 2,221,164 |
| Thereafter | 2,750,000 |
| Total debt | $ 5,068,852 |

## 12. Fair Value of Financial Instruments

The Company has established a process for determining fair value of its financial assets and liabilities using available market information or other appropriate valuation methodologies. Fair value is based upon quoted market prices, where available. If such valuation methods are not available, fair value is based on internally or externally developed models using market-based or independently-sourced market parameters, where available. Fair value may be subsequently adjusted to ensure that those assets and liabilities are recorded at fair value. The use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value estimate as of the Company's reporting date.

Fair value guidance establishes a three-level hierarchy for disclosure of fair value measurements, based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date, as follows:

- Level 1 - inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 - inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset and liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 - inputs to the valuation methodology are unobservable and significant to the fair value measurement.

*Financial Assets and Liabilities*

The Company has estimated the fair value of its financial instruments as of December 31, 2014 and 2013 using available market information or other appropriate valuation methodologies. Considerable judgment, however, is required in interpreting market data to develop the estimates of fair value. Accordingly the estimates presented in the accompanying consolidated financial statements are not necessarily indicative of the amounts the Company would realize in a current market exchange.

The carrying amounts of cash and cash equivalents, receivables, payables and other current assets and liabilities approximate fair value because of the short maturity of those instruments.

The estimated fair value of the Company's debt at December 31, 2014 and 2013 is based on quoted market prices for the debt and is classified within Level 2 of the valuation hierarchy. Unrealized gains or losses on debt do not result in the realization or expenditure of cash and are not recognized for financial reporting purposes.

A summary of the carrying value and fair value of the Company's debt at December 31, 2014 and 2013 is as follows:

| | December 31, 2014 | | December 31, 2013 | |
|---|---|---|---|---|
| | Carrying Value | Fair Value | Carrying Value | Fair Value |
| Credit Facility | $ 2,327,948 | $ 2,289,866 | $ 2,470,623 | $ 2,462,301 |
| 6.375% Senior Notes due 2020 | 1,527,331 | 1,560,000 | 1,531,238 | 1,537,500 |
| 5.125% Senior Notes due 2021 (a) | 1,236,731 | 1,225,000 | 750,000 | 706,875 |
| Total | $ 5,092,010 | $ 5,074,866 | $ 4,751,861 | $ 4,706,676 |

(a) Includes the Initial 2021 Notes and the 2021 Mirror Notes.

*Non-financial Assets and Liabilities*

The Company's non-financial assets such as franchises, property, plant and equipment, and other intangible assets are not measured at fair value on a recurring basis; however, they are subject to fair value adjustments in certain circumstances, such as when there is evidence that an impairment may exist. No impairments were recorded for the years ended December 31, 2014 and 2013, the successor period from November 16, 2012 through December 31, 2012, and the predecessor period from January 1, 2012 through November 15, 2012.

**13. Derivative Instruments**

*Interest Rate Swaps*

The Company used interest rate risk management derivative instruments as permitted under the terms of the Credit Agreement. The Company's policy was to manage interest costs using a mix of fixed and variable rate debt. Using interest rate swap agreements with reputable counterparties, the Company effectively converted a portion of Suddenlink's floating-rate debt to a fixed-rate basis, thus reducing the impact of interest rate changes on future interest expense. The interest rate swap agreements expired on October 7, 2012.

The Company formally documented, designated and assessed the effectiveness of transactions that receive hedge accounting. Changes in the fair value of derivative instruments related to the effective portion of interest rate hedges is recorded in accumulated other comprehensive loss. Changes in fair value of derivative instruments related to the ineffective portion of interest rate hedges, and changes in the fair value of derivative instruments not designated as hedges are recorded in the consolidated statements of operations.

The Company did not hold or issue derivative instruments for trading or speculative purposes. Suddenlink's interest rate derivative instruments, which expired on October 7, 2012, were designated as cash flow hedges.

On February 14, 2012, in conjunction with Suddenlink entering into the Credit Agreement, the Company lost hedge accounting treatment related to its derivative instruments, including interest rate swaps and caps, as the underlying debt that the derivative instruments were associated with was repaid. On February 14, 2012, the Company reclassified $19.1 million of accumulated other comprehensive loss associated with the accumulated changes in fair value of the interest rate swaps to changes in fair value of derivative instruments on the income statement. Subsequent changes in the fair market value of interest rate agreements flow through the income statement. From February 14, 2012 to October 7, 2012, the Company recorded a $19.1 million increase, in the fair value of the interest rate swaps on the income statement. The increases were due primarily to the change in the fair value of the remaining interest rate swap agreements, as well as the expiration of interest rate swap agreements in April and October 2012.

*Interest Rate Caps*

On August 25, 2009, Suddenlink entered into two interest rate caps to protect against increased interest rates. These interest rate caps would not have become effective until April 7, 2012 after a portion of the aforementioned interest rate swaps expired, and would have terminated on January 7, 2013. The notional amounts of the interest rate caps totaled $1.1 billion. On February 14, 2012, in conjunction with the reclassification of the interest rate swaps discussed above, the Company reclassified $6.6 million of accumulated other comprehensive loss associated with the accumulated changes in fair value of the interest rate caps to changes in fair value of derivative instruments on the income statement.

On March 30, 2012, Suddenlink terminated these two interest rate caps. Upon Suddenlink's voluntary termination of the interest rate caps, previously designated as hedging instruments, Suddenlink reversed the $6.6 million loss associated with the interest rate caps included in changes in fair value of derivative instruments, and recorded a $6.6 million loss on termination of derivative instruments.

## 14. Commitments and Contingencies

### Contractual Obligations

The Company has obligations to make future payments for goods and services under certain contractual arrangements. These contractual obligations secure future rights to various assets and services to be used in the normal course of the Company's operations. For example, the Company is contractually committed to make minimum lease payments for the use of property under operating lease agreements. in accordance with applicable accounting rules, the future rights and obligations pertaining to firm commitments, such as operating lease obligations and certain purchase obligations under contracts, are not reflected as assets or liabilities in the consolidated balance sheet.

The following table summarizes the estimated timing and effect of the Company's payment obligations as of December 31, 2014 on the Company's liquidity and cash flows in future periods (dollars in millions):

| | Total | 2015 | 2016 | 2017 | 2018 | 2019 | Thereafter |
|---|---|---|---|---|---|---|---|
| **Contractual Obligations:** | | | | | | | |
| Operating lease obligations (1) | $ 30.0 | $ 7.6 | $ 6.8 | $ 5.0 | $ 3.7 | $ 3.0 | $ 3.9 |
| Other commitments (2) | 58.8 | 57.1 | 1.3 | 0.4 | — | — | — |
| Total contractual obligation | $ 88.8 | $ 64.7 | $ 8.1 | $ 5.4 | $ 3.7 | $ 3.0 | $ 3.9 |

(1) The Company leases certain site and office space under non-cancelable operating leases. Rent expense for site leases and office space was approximately $7.6 million, $7.3 million, $1.0 million and $6.2 million for the successor years ended December 31, 2014 and 2013, the successor period from November 16, 2012 through December 31, 2012, and the predecessor period from January 1, 2012 through November 15, 2012, respectively.

(2) Represents contractual obligations under programming and content purchase agreements and various other contractual obligations.

The following items are not included as contractual obligations due to various factors discussed below. However, the Company incurs these costs as part of its operations:

- The Company rents utility poles used in its operations. Generally, pole rentals are cancelable on short notice, but the Company anticipates that such rentals will recur. Rent expense for pole rental attachments was approximately $12.9 million, $12.4 million,

$1.7 million and $10.2 million for the successor years ended December 31, 2014 and 2013, the successor period from November 16, 2012 through December 31, 2012, and the predecessor period from January 1, 2012 through November 15, 2012, respectively.

- The Company pays franchise fees under multi-year franchise agreements based on a percentage of revenues generated from video service per year. Franchise fees and other franchise-related costs included in the accompanying consolidated statements of operations were $48.2 million, $46.2 million, $5.7 million and $38.7 million for the successor years ended December 31, 2014 and 2013, successor period from November 16, 2012 through December 31, 2012, and the predecessor period from January 1, 2012 through November 15, 2012, respectively.

- The Company has cable franchise agreements containing provisions requiring the construction of cable plant and the provision of services to customers within the franchise areas. In connection with these obligations under existing franchise agreements, the Company obtains letters of credit guaranteeing performance to municipalities and public utilities and payment of insurance premiums. Such letters of credit as of December 31, 2014 and 2013 totaled $18.0 million and $19.5 million, respectively, which reduced the availability under the $500.0 million revolving credit facility of the Credit Facility to approximately $482.0 million and $480.5 million, respectively. Payments under these arrangements are required only in the event of nonperformance. The Company does not expect that these contingent commitments will result in any amounts being paid within at least the next twelve months.

**Litigation**

The Company is a defendant or a co-defendant in several lawsuits involving alleged infringement of various patents relating to various aspects of its businesses. Other industry participants are also defendants in certain of these cases, and, in many cases, the Company expects that any potential liability would be the responsibility of the Company's equipment vendors pursuant to applicable contractual indemnification provisions.

In the event that a court ultimately determines that the Company infringed on any intellectual property rights, the Company may be subject to substantial damages and/or an injunction that could require the Company or the Company's vendors to modify certain products and services the Company offers to its customers, as well as negotiate royalty or license agreements with respect to the patents at issue. While the Company believes the lawsuits are without merit and intends to defend the actions vigorously, no assurance can be given that any adverse outcome would not be material to the Company's consolidated financial condition, results of operations, or liquidity. The Company cannot predict the outcome of any such claims nor can it reasonably estimate the range of possible loss.

From time to time, the Company is involved in other litigation and regulatory proceedings arising out of the Company's operations. Management believes that the Company is not currently a party to any other legal or regulatory proceedings, the adverse outcome of which, individually or in the aggregate, would materially adversely affect the Company's business, financial position, results of operations, or liquidity.

## 15. Intangible Assets

The Company does not amortize indefinite lived intangible assets. Accordingly, all franchises that qualify for indefinite life treatment are not amortized against earnings but instead are tested for impairment annually, or more frequently as warranted by events or changes in circumstances. Based on testing of impairment of indefinite lived intangible asset guidance, franchises are aggregated into essentially inseparable asset groups to conduct the valuations. The asset groups generally represent geographic clustering of the Company's broadband systems into groups by which such systems are managed and by which the franchise rights are associated and tracked. Management believes such grouping represents the highest and best use of those assets for purposes of evaluating impairment of its franchises. The impairment test for intangible assets not subject to amortization involves a comparison of the estimated fair value of the intangible asset with its carrying value. The Company determines the fair value of the intangible asset using a DCF analysis, which utilizes significant unobservable inputs (Level 3) within the fair value hierarchy. Determining fair value requires the exercise of significant judgment, including judgment about appropriate discount rates, perpetual growth rates, the amount and timing of expected future cash flows, as well as relevant comparable company earnings multiples for the market-based approach.

The Company performs its impairment assessment of its goodwill at the same inseparable asset group level as franchises discussed above. The asset groups generally represent geographic clustering of the Company's broadband systems into groups by which such systems are managed and by which goodwill is tracked. The impairment test for goodwill involves a comparison of the estimated fair value to its carrying amount, including goodwill. The Company determines its fair value using a DCF analysis corroborated by a market-based approach, which utilize significant unobservable inputs (Level 3) within the fair value hierarchy.

On November 16, 2012, the Company applied business combination accounting and adjusted its franchise, goodwill and other intangible assets including trademarks and customer relationships to reflect fair value. As a result of applying business combination accounting, the Company recorded goodwill, which is tax deductible, of $1.5 billion, which represents the excess of organization value over amounts assigned to the other assets and liabilities (see Footnote 4).

The Company determined the estimated fair value utilizing an income approach model based on the present value of the estimated discrete future cash flows attributable to each of the intangible assets identified for each unit assuming a discount rate. This approach makes use of unobservable factors such as projected revenues, expenses, capital expenditures, and a discount rate applied to the estimated cash flows. The determination of the discount rate was based on a weighted average cost of capital approach, which uses a market participant's cost of equity and after-tax cost of debt and reflects the risks inherent in the cash flows.

The Company estimated discounted future cash flows using reasonable and appropriate assumptions including among others, penetration rates for basic and digital video, high speed Internet, and telephone, revenue growth rates, operating margins and capital expenditures. The assumptions are derived based on the Company's and its peers' historical operating performance adjusted for current and expected competitive and economic factors surrounding the cable industry. The estimates and assumptions made in the Company's valuations are inherently subject to significant uncertainties, many of which are beyond its control, and there is no assurance that these results can be achieved. The primary assumptions for which there is a reasonable possibility of the occurrence of a variation that would significantly affect the measurement value include the assumptions regarding revenue growth, programming expense growth rates, the amount and timing of capital expenditures and the discount rate utilized.

Franchises, for valuation purposes, are defined as the future economic benefits of the right to solicit and service potential customers (customer marketing rights), and the right to deploy and market new services, such as interactivity and telephone, to potential customers (service marketing rights). Franchises rights of $3.0 billion were recorded as a result of the application of business combination accounting. Franchises are expected to generate cash flows indefinitely and as such will continue to be tested for impairment annually.

Subscriber relationships, for valuation purposes, represent the value of the business relationship with existing customers (less the anticipated customer churn), and are calculated by projecting the discrete future after-tax cash flows from these customers, including the right to deploy and market additional services to these customers. The Company recorded $492.4 million of customer relationships in connection with the application of business combination accounting. Subscriber relationships will be amortized on an accelerated method over useful lives of four to six years based on the period over which current customers are expected to generate cash flows.

The Company recorded $188.7 million in trade names in connection with the application of business combination accounting. The fair value of trade names was determined using the relief from royalty method which applies a fair royalty ratio to estimated revenue. As the Company expects to continue to use each trade name indefinitely, trade names have been assigned an indefinite life and will be tested annually for impairment.

The Company initially recorded $1.6 billion of goodwill related to the Acquisition and business combination accounting. The Acquisition valuations were determined utilizing discounted cash flow methodology based upon management's estimates as discussed above. In 2013, the Company completed the purchase price allocation to the individual assets acquired and liabilities assumed in conjunction with the Acquisition, resulting in a decrease in goodwill of $33.4 million. The results of the Company's analysis of indefinite-lived intangible assets as of December 31, 2014 and 2013 indicated no impairment of the carrying value of those assets and no accumulated impairment of goodwill existed.

Indefinite-lived and finite-lived intangible assets are presented in the following table as of December 31:

| | 2014 | | | 2013 | | |
|---|---|---|---|---|---|---|
| | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
| **Indefinite-lived** | | | | | | |
| Franchises | $ 3,068,487 | $ — | $ 3,068,487 | $ 3,048,861 | $ — | $ 3,048,861 |
| Trade Names | 188,676 | — | 188,676 | 188,676 | — | 188,676 |
| Goodwill | 1,526,071 | — | 1,526,071 | 1,518,041 | — | 1,518,041 |
| Total | $ 4,783,234 | $ — | $ 4,783,234 | $ 4,755,578 | $ — | $ 4,755,578 |
| **Finite-lived** | | | | | | |
| Franchises | $ 60 | $ (4) | $ 56 | $ 40 | $ (2) | $ 38 |
| Subscriber relationships | 499,076 | (335,003) | 164,073 | 492,378 | (220,810) | 271,568 |
| Total | $ 499,136 | $ (335,007) | $ 164,129 | $ 492,418 | $ (220,812) | $ 271,606 |

Franchise amortization expense represents the amortization related to franchises that did not qualify for indefinite-life treatment, including costs associated with franchise renewals. Franchise amortization expense for each of the successor years ended December 31, 2014 and 2013, the successor period from November 16, 2012 through December 31, 2012, and the predecessor period from January 1, 2012 through November 15, 2012, was less than $0.1 million. Subscriber relationships amortization expense was $114.2 million, $195.0 million, $25.8 million and $10.2 million for the successor years ended December 31, 2014 and 2013, the successor period from November 16, 2012 through December 31, 2012, predecessor period from January 1, 2012 through November 15, 2012, respectively.

Below is a summary of the changes in the carrying value of the Company's goodwill for the years ended December 31, 2014 and 2013:

| | 2014 | | | 2013 | | |
|---|---|---|---|---|---|---|
| | Gross Amount | Accumulated Impairment Charge | Carrying Value | Gross Amount | Accumulated Impairment Charge | Carrying Value |
| Balance, beginning of year | $ 1,518,041 | $ — | $ 1,518,041 | $ 1,518,041 | $ — | $ 1,518,041 |
| Goodwill recognized (a) | 8,030 | — | 8,030 | — | — | — |
| Balance, end of period | $ 1,526,071 | $ — | $ 1,526,071 | $ 1,518,041 | $ — | $ 1,518,041 |

(a) Includes Goodwill recognized from the acquisitions

The Company initially recorded $1.6 billion of goodwill related to the Acquisition and business combination accounting. The Acquisition valuations were determined utilizing discounted cash flow methodology based upon management's estimates as discussed above. In 2013, the Company completed the purchase price allocation to the individual assets acquired and liabilities assumed in conjunction with the Acquisition, resulting in a decrease in goodwill of $33.4 million.

The Company has upgraded the technological state of many of its broadband systems since the commencement of operations and has experience with local franchise authorities where the franchises exist and believes all franchises will be renewed indefinitely.

The following table sets forth the estimated amortization expense on intangible assets for the fiscal years ending December 31:

| Year | Amount |
|---|---|
| 2015 | $ 67,734 |
| 2016 | 53,197 |
| 2017 | 30,016 |
| 2018 | 13,142 |
| 2019 | 4 |
| Thereafter | 36 |
| Total | $ 164,129 |

**16. Operating Expenses**

Operating expenses by key expense components consisted of the following:

| | Successor Year Ended December 31, | | Successor Period from November 16, 2012 to December 31, 2012 | Predecessor Period from January 1, 2012 to November 15, 2012 |
|---|---|---|---|---|
| | 2014 | 2013 | | |
| Programming | 617,410 | 590,047 | 71,688 | 500,072 |
| High-speed Internet | 52,716 | 51,858 | 6,129 | 42,009 |
| Telephone | 54,295 | 57,901 | 7,080 | 47,816 |
| Plant and Operating | 205,664 | 177,580 | 21,457 | 143,585 |
| Total Operating Expenses | $ 930,085 | $ 877,386 | $ 106,354 | $ 733,482 |

Programming costs consist primarily of costs paid for programmers for basic, digital, premium, video on demand and pay-per-view programming. High-speed Internet costs primarily consist of costs for bandwidth connectivity. Telephone costs primarily consist of costs for delivering telephone service to customers, such as subscriber line costs and regulatory fees. Plant and operating costs consist primarily of employee costs related to wages and benefits of technical personnel who maintain our cable network and provide customer support, outside labor costs, vehicle, utilities and pole rental expenses.

**17. Selling, General and Administrative Expenses**

Selling, general and administrative expenses by key expense components consisted of the following:

| | Successor Year Ended December 31, | | Successor Period from November 16, 2012 to December 31, 2012 | Predecessor Period from January 1, 2012 to November 15, 2012 |
|---|---|---|---|---|
| | 2014 | 2013 | | |
| General and Administrative | 393,135 | 348,537 | 37,919 | 298,282 |
| Marketing | 91,237 | 75,560 | 6,096 | 52,397 |
| Corporate Overhead and Management Fees | 59,005 | 57,749 | 7,117 | 53,461 |
| Total Selling, General and Administrative | $ 543,377 | $ 481,846 | $ 51,132 | $ 404,140 |

General and administrative expenses consist primarily of wages and benefits for our call centers, customer service and support and administrative personnel; bad debt; billing; advertising; facilities costs; non-cash stock compensation expenses and other administrative expenses. Marketing costs represent the costs of marketing to our current and potential commercial and residential customers, including wages and benefits for our marketing departments and other labor costs. Corporate overhead and management fees primarily consist of wages and benefits for our corporate personnel, legal fees, accounting and audit fees and other corporate expenses.

**18. Income and Other Taxes**

All operations are held through Cequel and its direct and indirect subsidiaries. Cequel is a single-member limited liability company and is disregarded for income tax purposes. The Company's operating activities are generally included in consolidated filings of Cequel Corporation. As such, the Company records a tax provision reflective of its inclusion in a consolidated corporate return.

Components of the Company's current and deferred income tax provision/(benefit) for the years ended December 31, 2014, 2013 and 2012 were as follows:

| | Successor Year Ended December 31, 2014 | Successor Year Ended December 31, 2013 | Successor Period from November 16, 2012 to December 31, 2012 | Predecessor Period from January 1, 2012 to November 15, 2012 |
|---|---|---|---|---|
| Current Tax Expense: | | | | |
| Federal | $ — | $ — | $ — | $ — |
| State | 5,418 | 5,486 | 724 | 5,871 |
| Total Current | 5,418 | 5,486 | 724 | 5,871 |
| Deferred Tax (Benefit)/Expense: | | | | |
| Federal | 6,219 | (18,742) | (10,715) | 1,402 |
| State | (2,776) | (3,435) | (846) | 136 |
| Total Deferred | 3,443 | (22,177) | (11,561) | 1,538 |
| Net Provision/(Benefit) for Income Taxes | $ 8,861 | $ (16,691) | $ (10,837) | $ 7,409 |

The Company's provision/(benefit) for income taxes differs from the expected tax expense amount computed by applying the statutory federal income tax rate to the income/(loss) before income taxes as a result of the following:

| | Successor Year Ended December 31, 2014 | Successor Year Ended December 31, 2013 | Successor Period from November 16, 2012 to December 31, 2012 | Predecessor Period from January 1, 2012 to November 15, 2012 |
|---|---|---|---|---|
| Tax at U.S. statutory rate | 35.0% | 35.0% | 35.0% | 34.0% |
| State taxes, net of benefit | 12.1 | (2.8) | 1.1 | 7.4 |
| Losses allocated to limited liability companies not subject to income taxes | — | — | — | (31.6) |
| Uncertain tax position | (45.8) | — | — | — |
| Change in valuation allowance | 1.1 | — | — | (4.9) |
| Distribution to restricted units and option holders | — | — | 3.2 | 0.5 |
| Non-cash stock option expense | 40.8 | (9.0) | — | — |
| Return to provision | (0.4) | — | — | (4.2) |
| Change in state effective tax rate | — | 3.4 | — | — |
| State income tax credits | (13.8) | — | — | — |
| Other, net | 2.3 | (1.0) | (1.1) | 2.1 |
| Effective tax rate | 31.3% | 25.6% | 38.2% | 3.3% |

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets and liabilities are as follows as of December 31:

| | 2014 | 2013 |
|---|---|---|
| Deferred tax assets: | | |
| Net operating loss carryforwards | $ 234,514 | $ 224,964 |
| State income tax credits | 3,908 | — |
| Accrued expenses | 13,901 | 10,404 |
| Other | 829 | 411 |
| Total gross deferred tax assets | 253,152 | 235,779 |
| Less: valuation allowance | (303) | — |
| Net deferred tax asset | 252,849 | 235,779 |
| Deferred tax liabilities: | | |
| Book over tax basis of depreciable assets | (234,422) | (270,852) |
| Book over tax basis of amortizable assets | (688,782) | (631,839) |
| Gross deferred tax liabilities | (923,204) | (902,691) |
| Net deferred tax liabilities | $ (670,355) | $ (666,912) |

The Company has approximately $631.4 million and $605.5 million of Federal net operating loss carryforwards in 2014 and 2013, respectively, which will expire at various dates through 2034. In addition, the Company has state net operating loss carryforwards, net of United States Federal income taxes, of approximately $13.5 million and $14.1 million in 2014 and 2013, respectively, which will expire at various dates through 2034. At December 31, 2014, the Company established a $0.3 million valuation allowance on state net operating loss carryforwards as it is more likely than not that a portion of the deferred tax asset will not be realized in the future. The net operating loss carryforwards are subject to certain limitations arising from changes in ownership rules under the Internal Revenue Code and state taxing authorities. The Company does not expect the limitations to impact the ability to utilize the losses prior to their expiration. As part of the Acquisition and through losses generated subsequent to the Acquisition, Cequel Corporation has approximately $1,022.4 million of additional federal net operating loss carryforwards and $20.9 million, net of United States Federal income taxes, of state net operating loss carryforwards which will expire at various dates between 2025 and 2034. The acquired net operating loss carryforwards from the Acquisition are subject to certain limitations arising from changes in ownership rules under the Internal Revenue Code and state taxing authorities as well and are not reflected in the financial statements of the Company as they reside at Cequel Corporation and are not pushed down to the Company. Cequel Corporation expects to utilize the net operating loss carryforwards as a result of the inclusion of the Company in the consolidated tax return of Cequel Corporation for periods subsequent to the Acquisition. The utilization of the net operating losses and the acquired net operating losses will be determined based on the ordering rules required by the applicable taxing jurisdiction.

The Company accounts for uncertain tax positions in accordance with the accounting guidance for such items. This guidance prescribes a recognition threshold that a tax position is required to meet before being recognized in the financial statements and provides guidance on de-recognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition issues. The Company recognizes income tax benefits for those income tax provisions determined more likely than not to be sustained upon examination, based on the technical merits of the positions. On September 15, 2014, the Company filed its consolidated U.S. Corporation Income Tax Return for the calendar year 2013 reflecting an adjustment to a previously filed position which effectively eliminated the Company's uncertain tax position. The elimination of the uncertain tax position resulted in a corresponding adjustment to the Company's net deferred tax liabilities and deferred tax assets which resulted in a net benefit to income taxes of $13.0 million for the year. The elimination of the uncertain tax position recognized in 2014 reduced the Company's effective tax rate by 45.8%. Changes in the Company's reserve for uncertain income tax positions, excluding the related accrual for interest and penalties are presented below (dollars in thousands):

| | Successor Year Ended December 31, 2014 | Successor Year Ended December 31, 2013 | Successor Period from November 16, 2012 to December 31, 2012 | Predecessor Period from January 1, 2012 to November 15, 2012 |
|---|---|---|---|---|
| Balance, beginning of period | $ 33,127 | $ 33,127 | $ 33,127 | $ 95,212 |
| Additions for tax positions related to prior years | — | — | — | — |
| Reductions for tax positions related to prior years | (33,127) | — | — | (26) |
| Additions for tax positions related to current year | — | — | — | — |
| Reductions for tax positions related to current year | — | — | — | — |
| Reductions due to settlements with taxing authorities | — | — | — | (3,380) |
| Reductions due to expiration of statute of limitations | — | — | — | — |
| Balance, end of period | $ — | $ 33,127 | $ 33,127 | $ 91,806 |

In 2007, for state income taxes, the Company's Texas based operations became subject to the state's gross margins tax. During 2012, the Company and the Texas Comptroller's office reached a settlement for calculating the gross margins tax. As a result of this agreement, the Company no longer requires a provision for an uncertain tax position related to the gross margins tax.

Tax years ending 2010 through 2013 remain subject to examination and assessment. By statute, the Company's use of certain carryforward attributes that were generated prior to 2010 will allow the Internal Revenue Service ("IRS") to subsequently examine those periods. During 2014, the IRS concluded its examination of the Company's income tax return for the tax years ending December 31, 2011 and November 15, 2012, resulting in no adjustments. The Company has been made aware that the IRS will be examining the income tax return for the successor tax period ending December 31, 2012. The Company does not expect any material adjustments.

We adjust our tax reserve estimates periodically because of ongoing examinations by, and settlements with, the various taxing authorities, as well as changes in tax laws, regulations and precedent. We recognize interest and penalties related to uncertain tax positions in income tax expense. As of December 31, 2014, we have no accrued interest or penalties related to uncertain tax positions.

As of December 31, 2014, the Company does not currently have any uncertain tax positions, nor does it believe that any events or rulings will cause one, within the next twelve months. However, various events could cause the Company's current expectations to change in the future.

**19. Related Party Transactions**

Pursuant to the Amended and Restated Cequel Communications Management Agreement, dated as of February 14, 2012, as amended (the "Management Agreement"), Cequel III, LLC ("Cequel III") provides certain executive, including the services of our CEO, administrative and managerial services to the broadband systems owned by Cequel Holdings and its subsidiaries. Compensation under the terms of the agreement is an annual base fee of $5.3 million, set in 2006, paid quarterly in arrears. The base fee increases 5% annually on each anniversary date of the Management Agreement. The Cequel Holdings Board of Directors approved an additional incentive fee of $1.4 million, $0.5 million, $0.3 million and $0.5 million to Cequel III, LLC for the successor years ended December 31, 2014 and 2013, the successor period from November 16, 2012 through December 31, 2012, and the predecessor period from January 1, 2012 through November 15, 2012, respectively.

Total compensation paid to Cequel III, LLC under the Management Agreement, which is included in the selling, general and administrative line in the accompanying consolidated statements of operations, was $9.1 million, $7.8 million, $2.0 million and $5.7 million for the successor years ended December 31, 2014 and 2013, the successor period from November 16, 2012 through December 31, 2012, and the predecessor period from January 1, 2012 through November 15, 2012, respectively. Cequel III enters into various contracts with vendors, including programming contracts, on behalf of the Company in which such costs are included in the Company's financial statements and are paid directly by the Company. At December 31, 2014 and 2013, the Company had approximately $3.5 million and $1.8 million, respectively, recorded as a payable to Cequel III, LLC, primarily related to management and incentive fees.

On November 15, 2012, Cequel Corporation entered into a Transaction Fee Agreement with the Sponsors and the Management Investors, pursuant to which Cequel Corporation agreed to pay the Sponsors and the Management Investors a deferred fee of $64.6 million

(the “Deferred Fee”) for advisory services the Sponsors and the Management Investors provided in connection with the Acquisition. On April 1, 2013, the Company made a distribution to Cequel Holdings. Cequel Holdings then made a distribution to Cequel Corporation, which was used by Cequel Corporation to pay the Deferred Fee.

On November 15, 2012, Cequel Corporation entered into an Advisory Agreement with each Sponsor, pursuant to which Cequel Corporation will pay each Sponsor an annual fee of $1 million beginning in 2013 for providing advisory and consulting services in relation to the business, finances, operations and other affairs of Cequel Corporation and its subsidiaries.

A director is chief executive officer and founder of a financial advisory firm that Cequel Holdings engaged in connection with the Acquisition. On November 15, 2012, our parent paid this firm $15 million. This firm is also an investor in BC Partners.

An affiliate of a former unit holder of Cequel Holdings served as joint book-runner and lead arranger for the 2012 Credit Agreement, 2012 Acquisition and certain of the 2012 issuances of Notes. For these services, this affiliate received fees of approximately $5.8 million for the predecessor period from January 1, 2012 through November 15, 2012, which were included in the deferred financing costs line in the accompanying consolidated balance sheets. In addition, for the predecessor period from January 1, 2012 through November 15, 2012, Cequel Holdings paid $5.0 million for financial advisory services related to the Acquisition to an affiliate of a former unit holder of Cequel Holdings.

An equity holder who held 5% or more of Cequel Holdings’ common units, prior to the consummation of the Acquisition, is senior counsel in a legal firm that provided legal services to the Company. For the predecessor period from January 1, 2012 through November 15, 2012, the legal fees for services provided by this firm were approximately $1.3 million. Additionally, on November 15, 2012, our parent paid this firm $2.0 million.

**20. Employee Benefit Plan**

The Company’s employees may participate in a 401(k) plan that is administered by Cequel III, LLC, Employees that qualify for participation can contribute up to 15% of their salary, on a pre-tax basis, subject to a maximum contribution limit as determined by the Internal Revenue Service. The Company matches 50% of the first 6% of participant contributions. The Company contributed approximately $5.9 million, $5.4 million, $0.6 million and $4.5 million, to the 401(k) plan for successor years ended December 31, 2014 and 2013, the successor period from November 16, 2012 through December 31, 2012, and the predecessor period from January 1, 2012 through November 15, 2012, respectively.

**21. Equity Based Compensation**

*Option Plan*

In May 2006, Cequel Holdings, Cequel’s parent, adopted the Suddenlink Communications 2006 Management Unit Option Plan (“the Option Plan”) to award certain employees unit options of Cequel Holdings as an incentive to enhance their long-term performance as well as an incentive to join or remain with the Company. The Option Plan was terminated on November 15, 2012. The Option Plan provided the holder of unit options the opportunity to acquire a nonvoting proprietary interest in the Company pursuant to the terms and conditions of the plan. The Option Plan provided that unit options representing an aggregate of five percent of the aggregate equity value of Cequel Holdings on the date of adoption of the Option Plan could be granted to participants. The unit options generally had a ten year term and vested ratably over the first four years. The Company accounted for all share-based payments to employees, including grants of employee equity awards, as compensation expense in the financial statements based on their fair values at the time of grant.

The following table summarizes the activity of the Option Plan for the predecessor period from January 1, 2012 through November 15, 2012:

| | Predecessor Period from January 1, 2012 to November 15, 2012 | |
|---|---|---|
| | Shares | Weighted Average Exercise Price |
| Options outstanding, beginning of period | 4,624,000 | $ 8.45 |
| Granted | 190,000 | $ 12.01 |
| Forfeited, cancelled or exercised | (4,814,000) | |
| Options outstanding, end of period | — | |

The following table summarizes the weighted average fair value of options granted for the predecessor period from January 1, 2012 through November 15, 2012. These fair values were estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

| | Predecessor Period from January 1, 2012 to November 15, 2012 |
|---|---|
| Fair value per share | $1.60 - $2.44 |
| Dividend yield | 0.0% |
| Expected volatility | 25.50% - 26.96% |
| Risk free interest rate | 0.29% - 0.35% |
| Expected option life | 2.25 years |

During the predecessor period from January 1, 2012 through November 15, 2012, using an expected 5.0% forfeiture rate, the aggregate fair value of options granted was $0.3 million. The Company recognized non-cash unit option compensation expense of approximately $3.4 million in the predecessor period from January 1, 2012 through November 15, 2012.

In 2010 and on January 19, 2012, Cequel Holdings awarded restricted stock units ("RSUs") to two senior executives, our COO and CFO. These awards reflected the former Cequel Holdings board of directors' general desire to supplement the granting of stock options with RSUs to these executives. The value of these awards was based on the fair market value of the RSUs consistent with past awards of stock options, while the vesting conditions - 100% only after five years subject to acceleration for the executive's death or a change in corporate control - were longer than past stock option grants, and not pro rata like past stock options, in order to maximize the RSUs' retention value for the award recipients.

As a result of the Acquisition, all unvested options and unvested restricted units as of November 15, 2012 immediately vested, and were cashed out and cancelled in a reorganization of our parent company structure following the consummation of the Acquisition. Compensation expense of approximately $2.2 million related to the accelerated unvested options was recognized in the predecessor period from January 1, 2012 through November 15, 2012.

*Carried Interest Plan*

In connection with the Acquisition, the Carry Interest Partnerships each adopted separate carried interest plans (collectively, the "Carried Interest Plan"), pursuant to which participants are awarded profit interest units in those partnerships. The purpose of the Carried Interest Plan is to provide participation in Cequel Corporation's long-term success and growth as an incentive to our executives, key employees, directors and other individuals who are responsible for and contribute to our management, growth and profitability, and to attract, retain and reward such participants.

Pursuant to the Carried Interest Plan, each Carry Interest Partnership is permitted to issue no more than 1,000,000 carry units. The Carry Interest Partnerships issued an aggregate of approximately 996,500 carry units through December 31, 2014. The awarded carry units that are forfeited or canceled in accordance with the Carried Interest Plan are available, under certain terms and conditions, for reissue in subsequent awards. In certain instances following cessation of their services on behalf of us, the participants have put rights

or the Carry Interest Partnerships have call rights, with respect to such participants' carry units.

The carry units vest in quarterly installments over four years. Certain adjustments to the vesting schedules and/or certain distributions may occur in respect of certain specified events in connection with the Carried Interest Plan, which include: (i) a sale or series of sales by one of the Sponsors to the other resulting in the transferring Sponsor owning less than 35% of its original total Sponsor ownership interest following such transaction, (ii) a sale or series of sales by the Sponsors to third parties resulting in the Sponsors together owning less than 35% of their aggregate original Sponsor ownership interests, (iii) a sale or series of sales by either BC Partners or CPPIB to third parties resulting in such Sponsor owning less than 35% of its original total Sponsor ownership interest, or (iv) a sale of substantially all of the assets of Cequel Corporation or a sale of substantially all of its shares.

The Carried Interest Plan entitles participants to receive certain percentages of net cash proceeds received by the Carry Interest Partnerships in connection with sales by the Carry Interest Partnerships of common stock of Cequel Corporation, distributions from Cequel Corporation or amounts received upon liquidation or dissolution of Cequel Corporation. The amounts are paid to participants once threshold amounts have been received by the Carry Interest Partnerships and paid to the Sponsors and Management Investors in Cequel Corporation, and the percentage of cash proceeds to which the participants are entitled increases as the return to the Sponsors and such Management Investors increases.

The Company measures the cost of employee services received in exchange for carry units based on the fair value of the award at each reporting period. The Company uses the Monte Carlo Simulation Method to estimate the fair value of the awards. Because the Monte Carlo Simulation Method requires the use of subjective assumptions, changes in these assumptions can materially affect the fair value of the carried interest units granted. The time to liquidity event assumption is based on management's judgment. The equity volatility assumption is estimated using the historical weekly volatility of publicly traded comparable companies. The risk-free rate assumed in valuing the units is based on the U.S. Constant Maturity Treasury Rates for a period matching the expected time to liquidity event. The Company's total equity value is estimated by a third party using a range of indicated business enterprise values. For the years ended December 31, 2014 and 2013, the Company recognized approximately $30.7 million and $15.5 million, respectively, related to the push down of non-cash compensation expense for employees of Cequel.

**22. Distributions to Parent**

On March 13, 2012, we used a portion of the proceeds from the term loan facility of the Credit Facility plus additional borrowings of $160.0 million under the revolving credit facility to make a distribution to Cequel Holdings of $370.0 million. Cequel Holdings used such distribution to repay a portion of the capital contributions made by holders of common units of Cequel Holdings and to make certain bonus payments and certain payments to holders of options and restricted units of Cequel Holdings.

On May 11, 2012, we used cash on hand to make a distribution to Cequel Holdings of $70.0 million. Cequel Holdings used this distribution to repay a portion of the capital contributions made by holders of common units of Cequel Holdings and to make certain payments to holders of options and restricted units of Cequel Holdings.

In connection with the consummation of the Acquisition, all of the outstanding common equity interests in Cequel Holdings were purchased by Cequel Corporation and all other equity interests in Cequel Holdings (including preferred equity interests), and rights to purchase equity interests in Cequel Holdings, were retired, redeemed or otherwise terminated.

On November 15, 2012, the former owners of Cequel Holdings contributed $27.7 million to the Company to pay certain transaction fees and expenses of the Acquisition.

In November 2012, the Company distributed $520.0 million to Cequel Holdings, which was used in part to fund a portion of the purchase price of the Acquisition, pay for certain transaction fees and expenses of the Sponsor related to the Acquisition, and for general corporate purposes.

In April 2013, we distributed $64.6 million to Cequel Corporation, which was used by Cequel Corporation to pay the Deferred Fee (see Footnote 19).

On September 10, 2014, the Issuers used the proceeds from the sale of the 2021 Mirror Notes, plus $120.5 million of cash on hand, to make a distribution to Cequel Holdings in the amount of $600.0 million. Cequel Holdings then made a distribution to Cequel Corporation in the amount of $600.0 million. Cequel Corporation used this distribution to make a distribution in the amount of $600.0 million to holders of equity interests in Cequel Corporation.

**23. Adjustment to Prior Period Financial Statements**

In September 2014, we concluded that the consolidated financial statements for the year-to-date periods ended September 30,

2013, June 30, 2014 and 2013 and March 31, 2014 and 2013, the year ended December 31, 2013, the Successor period from November 16, 2012 through December 31, 2012, and the Predecessor period from January 1, 2012 through November 15, 2012, that we previously included in our quarterly and annual reports should be revised to reflect the impact of accounts payable and accrued expenses related to capital expenditures.

These revisions result in increases and decreases in cash flows used in investing activities, with corresponding increases or decreases in cash flows provided by operating activities. Theses revisions had no impact on our previously reported total cash and cash equivalents, consolidated balance sheets or consolidated statements of operations.

As detailed in the tables below, these revisions impact the following consolidated cash flow items:

| | Three Months Ended March 31, 2014 | | | Six Months Ended June 30, 2014 | | |
|---|---|---|---|---|---|---|
| | As Previously Reported | Revision | As Revised | As Previously Reported | Revision | As Revised |
| **Cash Flows from Operating Activities** | | | | | | |
| Loss on asset transactions | $ 270 | $ 161 | $ 431 | $ 1,238 | $ 345 | $ 1,583 |
| Accounts payable and accrued expenses | 12,248 | 6,216 | 18,464 | 9,265 | 6,137 | 15,402 |
| Net cash provided by operating activities | 170,775 | 6,377 | 177,152 | 344,468 | 6,482 | 350,950 |
| **Cash Flows from Investing Activities** | | | | | | |
| Purchases of property, plant and equipment | (95,443) | (7,031) | (102,474) | (198,632) | (7,206) | (205,838) |
| Net proceeds from sales of assets | 161 | 654 | 815 | 345 | 724 | 1,069 |
| Net cash used in investing activities | (135,852) | (6,377) | (142,229) | (238,857) | (6,482) | (245,339) |

| | Three Months Ended March 31, 2013 | | | Six Months Ended June 30, 2013 | | | Nine Months Ended September 30, 2013 | | |
|---|---|---|---|---|---|---|---|---|---|
| | As Previously Reported | Revision | As Revised | As Previously Reported | Revision | As Revised | As Previously Reported | Revision | As Revised |
| **Cash Flows from Operating Activities** | | | | | | | | | |
| Loss on asset transactions | $ 281 | $ — | $ 281 | $ 1,342 | $ — | $ 1,342 | $ 1,592 | $ 531 | $ 2,123 |
| Accounts payable and accrued expenses | 7,267 | (4,164) | 3,103 | 15,581 | (3,975) | 11,606 | 21,371 | (2,006) | 19,365 |
| Net cash provided by operating activities | 154,708 | (4,164) | 150,544 | 213,063 | (3,975) | 209,088 | 349,029 | (1,475) | 347,554 |
| **Cash Flows from Investing Activities** | | | | | | | | | |
| Purchases of property, plant and equipment | (98,164) | 3,901 | (94,263) | (193,109) | 3,383 | (189,726) | (282,806) | 1,301 | (281,505) |
| Net proceeds from sales of assets | — | 263 | 263 | — | 592 | 592 | 531 | 174 | 705 |
| Net cash used in investing activities | (98,166) | 4,164 | (94,002) | (193,111) | 3,975 | (189,136) | (282,277) | 1,475 | (280,802) |

| | Twelve Months Ended December 31, 2013 | | | Successor Period Ended December 31, 2012 | | | Predecessor Period Ended November 15, 2012 | | |
|---|---|---|---|---|---|---|---|---|---|
| | As Previously Reported | Revision | As Revised | As Previously Reported | Revision | As Revised | As Previously Reported | Revision | As Revised |
| **Cash Flows from Operating Activities** | | | | | | | | | |
| Loss on asset transactions | $ 2,949 | $ 698 | $ 3,647 | $ 1,195 | $ — | $ 1,195 | $ 221 | $ — | $ 221 |
| Accounts payable and accrued expenses | 13,624 | (13,147) | 477 | (44,325) | (1,923) | (46,248) | 50,267 | 4,872 | 55,139 |
| Net cash provided by operating activities | 523,054 | (12,449) | 510,605 | 43,190 | (1,923) | 41,267 | 381,613 | 4,872 | 386,485 |
| **Cash Flows from Investing Activities** | | | | | | | | | |
| Purchases of property, plant and equipment | (371,434) | 12,127 | (359,307) | (31,697) | 1,116 | (30,581) | (317,079) | (7,304) | (324,383) |
| Acquisition of cable systems and service companies | — | — | — | (11,163) | 738 | (10,425) | — | — | — |
| Net proceeds from sales of assets | 698 | 322 | 1,020 | 4,782 | 69 | 4,851 | — | 2,432 | 2,432 |
| Net cash used in investing activities | (370,756) | 12,449 | (358,307) | (38,097) | 1,923 | (36,174) | (321,082) | (4,872) | (325,954) |

## 24. Unaudited Quarterly Financial Data

The following table presents quarterly data for the periods presented on the consolidated statements of operations (unaudited):

| | Quarter Ended | | | |
|---|---|---|---|---|
| | March 31, | June 30, | September 30, | December 31, |
| **Successor 2014** | | | | |
| Revenues | $ 575,025 | $ 579,942 | $ 583,606 | $ 592,124 |
| Income from operations | 68,797 | 56,181 | 58,042 | 75,479 |
| Net income/(loss) | 4,703 | (2,420) | 10,091 | 7,108 |
| **Successor 2013** | | | | |
| Revenues | $ 538,951 | $ 543,994 | $ 543,757 | $ 556,599 |
| Income from operations | 45,655 | 45,856 | 40,937 | 52,221 |
| Net (loss)/income | (17,027) | (27,152) | (8,539) | 4,284 |
| **Successor 2012** | | | | |
| Revenues | $ — | $ — | $ — | $ 264,504 |
| Income from operations | — | — | — | 23,816 |
| Net loss | — | — | — | (17,562) |
| **Predecessor 2012** | | | | |
| Revenues | $ 504,994 | $ 513,252 | $ 511,935 | $ — |
| Income from operations | 77,285 | 98,072 | 93,270 | — |
| Net (loss)/income | (26,551) | 28,634 | 22,088 | — |

## 25. Subsequent Events

The Company has updated its review of subsequent events as of February 23, 2015 (the date available for issuance) noting no

events that require disclosure.

## ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

## ITEM 9A. CONTROLS AND PROCEDURES

Pursuant to the Indentures, no certifications or attestations concerning our financial statements or disclosure controls and procedures or internal controls that would otherwise be required pursuant to the Sarbanes-Oxley Act of 2002, as amended, or the Securities Act of 1933, as amended, are required to be included in or to accompany this Annual Report.

## ITEM 9B. OTHER INFORMATION

None.

## PART III

## ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

### Executive Officers and Directors

Pursuant to the Management Agreement and the management agreement between Cequel Corporation and our manager, the general authority to make any and all of the day-to-day management decisions for Cequel Corporation and its subsidiaries, which includes Cequel and its subsidiaries, is delegated to our manager. The delegation of such management decisions is subject to, among other things, the reasonable direction of the board of directors of Cequel Corporation.

The current board of directors of Cequel Corporation is comprised of ten directors. In addition, CPPIB has the right to appoint one additional director. The following table sets forth certain information regarding the individuals who currently serve on the board of directors of Cequel Corporation and Cequel Holdings:

| Name | Age | Position |
|---|---|---|
| Jerald L. Kent | 58 | Chairman of the Board |
| Fahim Ahmed | 35 | Director |
| Justin Bateman | 41 | Director |
| Aryeh B. Bourkoff | 42 | Director |
| James A. Fasano | 45 | Director |
| Eugene V. Fife | 74 | Independent Director |
| Erik Levy | 40 | Director |
| Thomas P. McMillin | 53 | Director |
| Mary E. Meduski | 56 | Director |
| Raymond Svider | 52 | Director |

The following table sets forth certain information regarding the individuals who currently serve as our executive officers and key employees:

| Name | Age | Position |
|---|---|---|
| Jerald L. Kent* | 58 | Chairman and Chief Executive Officer |
| Terry M. Cordova | 53 | Senior Vice President and Chief Technology Officer |
| James B. Fox | 45 | Senior Vice President and Chief Accounting Officer |
| Wendy Knudsen* | 47 | Executive Vice President and Secretary |
| Thomas P. McMillin | 53 | Executive Vice President and Chief Operating Officer |
| Mary E. Meduski | 56 | Executive Vice President and Chief Financial Officer |
| Craig L. Rosenthal | 43 | Senior Vice President and General Counsel, Assistant Secretary |
| Kevin A. Stephens | 53 | President, Commercial & Advertising Operations |

* These executive officers are employed by and compensated by our manager.

*Biographical Information for our Directors and Executive Officers*

Directors

***Jerald L. Kent.*** Mr. Kent is our Chairman and CEO, and has served as Chairman and CEO of our predecessor since May 2006, and was Chairman and CEO of one of our holding companies prior to May 2006. Mr. Kent was one of the founders of our manager in 2002, and currently serves as President, CEO and sole manager of our manager and Chairman of TierPoint, LLC, which we refer to as TierPoint. In addition, from 2002 to 2006, Mr. Kent served as Chairman and CEO of AAT Communications Corp., which we refer to

as AAT. Mr. Kent was a co-founder and managing partner of Charter Communications, Inc. in 1993, and subsequently became President and CEO of Charter Communications, Inc., a position he held until 2001. Mr. Kent currently is a member of the board of directors of Cable Television Laboratories, Inc., C-SPAN, the NCTA, the St. Louis Zoo, The Cable Center, and Washington University. In addition, he serves as Vice Chair of the Board of The Magic House, Chairman of the Regional Justice Information Services, Chairman of CablePAC, and Treasurer of the Board of the St. Louis Zoo. Mr. Kent holds a Bachelor of Science in Business Administration and a Master of Business Administration from Washington University. Mr. Kent serves as Chairman of the Compensation Committee of Cequel Corporation.

***Fahim Ahmed.*** Mr. Ahmed is a Partner of BC Partners, based in its New York office. He initially joined BC Partners' London office in 2006 from the Boston Consulting Group, which we refer to as BCG, where he spent four years in New York, Washington D.C., and London. Over the years, he has participated in a number of investments of BC Partners, including Intelsat, Office Depot, Dometic, Foxtons and Suddenlink. He has an undergraduate degree from Harvard College and a graduate degree in economics from the University of Oxford, where he was a Rhodes Scholar.

***Justin Bateman.*** Mr. Bateman is a Managing Partner at BC Partners. He is based in BC Partners' New York office. He initially joined BC Partners in London in 2000, and then left to attend INSEAD in 2002, re-joining BC Partners in London in 2003, and relocating to New York in 2008. Prior to BC Partners he was at PricewaterhouseCoopers where he spent three years in Transaction Services working on due diligence projects for both financial investors and corporate clients. He has an MBA from INSEAD, a degree in Economics from Cambridge University and is an Associate Chartered Accountant. He has or has had involvement in the following portfolio companies of BC Partners: Teneo Global, MultiPlan, Office Depot, Intelsat, Regency Entertainment, BDR Thermea, General Healthcare Group and Suddenlink. Mr. Bateman is a director of Intelsat S.A. and Teneo Global, LLC. Mr. Bateman serves on the Audit Committee of Cequel Corporation.

***Aryeh B. Bourkoff.*** Mr. Bourkoff is CEO and Founder of LionTree LLC, which we refer to as LionTree, a financial services firm providing a broad range of advisory and corporate finance services and investing alongside clients to create enhanced value. Until April 2012, he was Vice Chairman and Americas Head of Investment Banking at UBS Investment Bank, which we refer to as UBS. Prior to that, Mr. Bourkoff was Joint Global Head of Technology, Media and Telecom Investment Banking at UBS. Mr. Bourkoff joined UBS in 1999, and held senior roles in equity research, fixed income research and other positions in investment banking through 2010. Before joining UBS, Mr. Bourkoff was a high yield research analyst at CIBC World Markets from 1997 to 1999, and Smith Barney Inc. from 1995 to 1997. Mr. Bourkoff graduated with a B.A. in Economics from the University of California, San Diego.

***James A. Fasano.*** Mr. Fasano is Managing Director, Head of Funds, Secondaries and Co-investments at CPPIB. He had previously led CPPIB's Principal Investing group. Prior to joining CPPIB in 2004, he worked in the Investment Banking group at Merrill Lynch & Co., focusing on companies in the media and telecommunications sectors. Previously, he was a member of the Mergers & Acquisitions group at RBC Capital Markets and a Commissioned Officer in the Canadian Armed Forces. Mr. Fasano holds a Bachelor of Engineering degree from the Royal Military College of Canada and an International Master of Business Administration degree from the University of Chicago Graduate School of Business. He currently also serves on the boards of NEW Asurion and IMS Health Incorporated. He is a former director of AWAS Aviation Capital, LHP Hospital Group and Kinetic Concepts. Mr. Fasano is a member of the Compensation Committee of Cequel Corporation.

***Eugene V. Fife.*** Mr. Fife has served as the Founder and Managing Principal of Vawter Capital LLC, a private investment firm, since December 1999. Mr. Fife also currently serves as a member of the board of directors of Accudyne Industries. Mr. Fife served as a member of the board of directors of Caterpillar, Inc. from 2002 to 2012, and during his tenure was chair of the Audit Committee and Governance Committee. In May 1997, Mr. Fife joined the board of directors of Eclipsys and served as the non-executive Chairman of Eclipsys' board of directors from 2001 until 2010. Mr. Fife served as a member of the board of directors of Allscripts from August 2010 to April 2012. Mr. Fife was a member of the board of directors of Office Depot from 2012 to 2013, and served on the Governance Committee. Mr. Fife was formerly a Partner at Goldman Sachs where he served as a member of the Management Committee and as the chairman of Goldman Sachs International. Since retiring from Goldman Sachs in 1995, Mr. Fife continues to serve as a Senior Director. Mr. Fife is a graduate of Virginia Polytechnic Institute and State University and of the Graduate School of Business at the University of Southern California. Mr. Fife serves as the Chairman of the Audit Committee of Cequel Corporation.

***Erik Levy.*** Mr. Levy is a Senior Principal at CPPIB. Mr. Levy joined CPPIB in 2005 as a founding member of the Principal Investing group and has either led or been involved with several investments including KCI, IMS Health, Skype and Suddenlink. Prior to joining CPPIB, Mr. Levy was a management consultant with Bain & Company in Toronto and Paris. Mr. Levy holds a Master of Business Administration degree from the Rotman School of Management at the University of Toronto and a Bachelor of Science degree in Actuarial Mathematics from Concordia University. Mr. Levy is currently a Director of KCI, also serving on its

Compensation, Audit and Executive Committees, and is a member of CPPIB's Private Debt Investment Committee. Mr. Levy serves on the Audit Committee of Cequel Corporation.

***Thomas P. McMillin.*** Mr. McMillin joined Suddenlink in February 2006 as Executive Vice President and Chief Financial Officer, bringing 19 years of experience in the cable and telecommunications industry. In July 2006 he assumed his current responsibilities as Chief Operating Officer overseeing all Suddenlink business operations serving more than 1.4 million residential and business customers in 17 states. He also oversees the company's marketing and sales, customer care, technology, commercial services and media sales functions. In addition to his responsibilities as Suddenlink's Chief Operating Officer, Mr. McMillin is a member of Women in Cable Telecommunications, which we refer to as WICT, the Society of Cable Telecommunications Engineers, the Cable & Telecommunications Association for Marketing, which we refer to as CTAM, and serves as a member of the board of directors of the CTAM Education Foundation. Prior to joining Suddenlink, Mr. McMillin was Chief Financial Officer for First Broadcasting, Clearwire Technologies, Inc., AMFM, Inc., and Marcus Cable; served as Chief Operating Officer for Novo Networks, Inc.; and served in various financial positions for Crown Cable and Cencom Cable. He began his professional career in 1983 with Arthur Andersen & Co. Mr. McMillin holds a Bachelor of Science in Accountancy from the University of Missouri-Columbia.

***Mary E. Meduski.*** With more than 25 years of financial experience in the media and telecommunications industries, Ms. Meduski was named Executive Vice President and Chief Financial Officer of Suddenlink in July 2006, where she oversees the company's finance, accounting, treasury, tax, programming and information technology functions. In addition, she plays a key role in the corporate development and investor relations activities of the Company. In addition to her responsibilities as Suddenlink's Chief Financial Officer, Ms. Meduski serves as Immediate Past Chair and an Executive Board Member of WICT. Before joining Suddenlink, Ms. Meduski served as Executive Vice President and Chief Financial Officer of AAT. Prior to joining AAT, Ms. Meduski was a Managing Director of the Media and Communications Investment Banking Groups of TD Securities and BancBoston Securities. Ms. Meduski holds a Bachelor of Arts degree from Cornell University (where she serves on the President's Council of Cornell Women and the Dean's Advisory Council) and a Master of Business Administration from Boston University, where she graduated first in her class.

***Raymond Svider.*** Mr. Svider has been Co-Chairman of BC Partners since December 2008, and has been a Managing Partner of BC Partners since 2003. He joined BC Partners in 1992 in Paris before moving to London in 2000 to lead its investments in the technology and telecommunications industries. Over the years, Mr. Svider has participated in or led a variety of investments including Tubesca, Nutreco, UTL, Neopost, Polyconcept, Neuf Telecom, Unity Media/Tele Columbus, Intelsat, S.A., Office Depot, Inc., Multiplan, Inc. and Accudyne Industries. He is currently on the boards of Intelsat, Teneo Global LLC ("Teneo") and Accudyne Industries, and is Chairman of the Compensation Committee of Accudyne Industries. Prior to joining BC Partners, Mr. Svider worked in investment banking at Wasserstein Perella in New York and Paris, and at BCG, in Chicago. Mr. Svider holds a Master of Business Administration from the University of Chicago and a Master of Science in Engineering from both École Polytechnique and École Nationale Superieure des Telecommunications in France. Mr. Svider is a member of the Compensation Committee of Cequel Corporation.

Executive Officers who are Not Directors

***Terry M. Cordova.*** Mr. Cordova has served in various capacities with Suddenlink and our manager since March 2003, including his current role as Senior Vice President and Chief Technology Officer of Suddenlink. Before joining Suddenlink, Mr. Cordova was Division Vice President of Engineering for Charter Communications' Southeast Division. Mr. Cordova is Chairman of the Board of the Society of Cable Telecommunications Engineers.

***James B. Fox.*** Mr. Fox has served as Chief Accounting Officer of Suddenlink since December 2009. Prior to joining Suddenlink, Mr. Fox served as Chief Financial Officer of Mobile Armor, Inc. from 2007 to 2009, was the Practice Leader for Finance Managed Services for DataServ LLC, and was Senior Vice President of Finance for Reuters Group PLC from 2002 to 2005. Mr. Fox currently serves as a member of the board of directors or board of managers, as applicable, of Suddenlink and its direct and indirect subsidiaries. Mr. Fox served as a Certified Public Accountant with Deloitte from 1991 - 2001.

***Wendy Knudsen.*** Ms. Knudsen has served as Executive Vice President and Secretary of Suddenlink since May 2005. In addition, she currently serves as Executive Vice President and General Counsel of our manager and Executive Vice President and General Counsel of TierPoint. Ms. Knudsen was Senior Vice President and General Counsel of AAT from 2003 until 2006. Ms. Knudsen is a member of the Board of Directors of WICT and a member of the National Association for Multi-Ethnicity in Communications, which we refer to as NAMIC. Ms. Knudsen is a member of the state bars of California, Massachusetts, Missouri, New Jersey and New York, and a member of the United States Supreme Court bar.

***Craig L. Rosenthal.*** Mr. Rosenthal has served in various capacities with Suddenlink and our manager since 2003, including his most current role as Senior Vice President and General Counsel and Assistant Secretary of Suddenlink. Prior to joining Suddenlink, Mr. Rosenthal was an attorney with Husch & Eppenberger, LLC (now Husch Blackwell Sanders LP). Mr. Rosenthal is currently a member of the board of directors or board of managers, as applicable, of Suddenlink and its direct and indirect subsidiaries. In addition, Mr. Rosenthal is a member of the state bar of Missouri and a member of the Federal Communications Bar Association.

***Kevin A. Stephens.*** Mr. Stephens has served as head of our Commercial and Advertising Operations since 2006. Mr. Stephens serves on the board of directors of the Cable Advertising Bureau and the NAMIC, the Boys & Girls Clubs of Collin County, Texas and the Institute for Communication Technology Management at the University of Southern California.

**Board Leadership**

Pursuant to the terms of the Stockholders Agreement (as defined herein), our Chief Executive Officer is appointed as Chairman of the Cequel Corporation Board of Directors, and has one vote on such board.

The Cequel Corporation Board of Directors has one independent director who is appointed by the Sponsors pursuant to the terms of the Stockholders Agreement and has one vote and serves as the Chairman of the Audit Committee of Cequel Corporation. In addition, the Sponsors have the right to jointly appoint one additional director to the board of Cequel Corporation.

**Committees of the Board and Risk Management Oversight**

Pursuant to the terms of the Stockholders Agreement, Cequel Corporation has two standing committees of the board of directors: the Audit Committee and the Compensation Committee.

The Audit Committee consists of Eugene Fife (Chairman of the Committee), Erik Levy and Justin Bateman. Among other functions, the Audit Committee oversees risk management for us and receives periodic reports about risk management matters from our auditors and certain of our executive officers. Certain of our legal, accounting, human resources, and other executive officers oversee our risk management on a daily basis in consultation with our auditors and attorneys when appropriate. Such officers and the Audit Committee report periodically to the Cequel Corporation Board of Directors regarding risk management matters.

Since we are not subject to the reporting requirements of the Exchange Act, we are not required to and have not made a determination as to whether any member of our Audit Committee qualifies as an audit committee "financial expert," as such term is defined by the rules and regulations of the United States Securities and Exchange Commission.

The Compensation Committee consists of Jerald L. Kent (Chairman of the Committee), James Fasano and Raymond Svider. Among other functions, the principal duty of the Compensation Committee is to oversee the compensation of our executive officers, including plans and programs relating to cash compensation, incentive compensation and other benefits.

**Code of Ethics**

Portions of our employee handbook, which apply to our employees and our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions, have been posted on our website (www.suddenlink.com). These policies are designed to reasonably deter wrongdoing and promote honest and ethical business conduct and professional standards, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships, compliance with applicable governmental laws, rules and regulations and prompt internal reporting of violations of the policies through the EthicsPoint Reporting System. We intend to post any amendments to or any waivers from a provision of these policies on our website.

## ITEM 11. EXECUTIVE COMPENSATION

**Executive Compensation in 2014**

Below is an explanation of how our compensation program was designed and operated in 2014 and our named executive officers ("NEOs") for 2014: (i) Jerald L. Kent, as our principal executive officer, (ii) Mary E. Meduski, as our principal financial officer, and (iii) Thomas P. McMillin, Kevin Stephens and Terry Cordova, as our three other most highly compensated executive officers (collectively such officers, together with Ms. Meduski, the "Suddenlink NEOs") for the fiscal year ended December 31, 2014. For the titles, ages, and biographical information of our NEOs, please refer to Item 10. "Directors, Executive Officers and Corporate Governance" above. The Summary Compensation Table and separate tables below disclose each NEO's total compensation for fiscal year 2014.

**Compensation Discussion and Analysis -2014 Summary**

In 2014, our executive compensation program for NEOs reflected our practices as a privately-held company, and the Cequel Corporation board of directors and/or compensation committee after the Acquisition made all decisions in the course of regularly-scheduled meetings. Management participated in board and compensation committee meetings at which executive compensation decisions were made, but no NEO participated in or voted on any compensatory decision that affected him or her personally. The Cequel Corporation board of directors and compensation committee accordingly controlled all of the compensation decisions for our NEOs with the exception of our principal executive officer who is compensated exclusively by our manager in its sole discretion.

We believe that the executive compensation decisions disclosed below were appropriate based on our 2014 financial performance, on general economic conditions, and on the applicable board's and compensation committee's review, and other factors relevant to the board's and compensation committee's annual salary and bonus determinations. In particular, our NEOs (with the exception of our principal executive officer who is compensated by our manager) received target-level total compensation principally because we achieved financial and other operating results in 2014 that accomplished the principal objectives identified in our business plan.

**Overview of Executive Compensation Philosophy and Its Key Elements**

As a general matter, the Cequel Corporation board of directors undertakes to provide our NEOs (with the exception of our principal executive officer who is compensated by our manager) with compensation that is highly performance-based and competitive in our industry. We are engaged in a very competitive industry, and our success depends on attracting and retaining qualified executives through providing them with a carefully considered balance of fixed and variable (performance-based) compensation. To that end, the Cequel Corporation board of directors and/or compensation committee provided our NEOs (with the exception of our principal executive officer who is compensated by our manager) with total compensation in 2014 through a combination of the following components that reflect our consistent practices for past years:

- a base salary commensurate with each NEO's experience and length of service with us;
- the opportunity to earn incentive compensation through cash bonuses targeted at up to a certain percentage of base salary depending on that NEO's level, and through the vesting of past stock-based awards and through the granting and vesting of stock-based awards and carried interest awards to certain NEOs; and
- participation in our broad-based employee benefits programs providing health and life insurance coverage, 401(k) benefits, and certain perquisites and other nondiscriminatory fringe benefits.

***Elements of Executive Compensation***

*Base Salary*. In general, we provide base salary as fixed compensation for services rendered in the position that the NEO serves, with the exception of our principal executive officer who is compensated by our manager. With this in mind, the board of directors and compensation committee determine base salaries in their discretion, after considering a variety of factors including each NEO's qualifications and experience, prior employment, industry knowledge, scope of responsibilities, individual performance, and general industry practices. Specific weightings are not applied to these factors. Base salaries are generally set when an NEO begins employment and are adjusted annually, if necessary, and are intended to provide competitive and fair compensation for basic job performance.

*Annual Bonus*. For 2014, the Cequel Corporation board of directors established corporate and individual performance targets based on our business plan, and then made cash bonus awards shortly after year end, in all cases based on the board's subjective and qualitative assessment of how our financial results and the NEO's individual performance compared to targeted performance and the NEO's individual performance-based goals (with the exception of our principal executive officer who is compensated by our manager). As a result, although we follow a general formula as a guide for determining bonuses, the Cequel Corporation board of directors has made final bonus determinations solely at their discretion. The bonus targets for all NEOs and certain other employees were within a range of 0%-100% of base salary for the years 2012 through 2014. The Cequel Corporation board of directors made 2014 annual bonus determinations shortly after the end of our fiscal year, with payments made soon afterward.

*Stock Based Awards*. The Cequel Corporation board of directors has issued carry unit awards under the Carried Interest Plan, and may do so again in 2015 and future years. The key provisions of our stock based plan and our Carried Interest Plan are discussed in the "Summary of Material Compensation Plans or Arrangements" below.

*Perquisites*. Our NEOs, other than our principal executive officer who is compensated by our manager, receive perquisites and other fringe benefits that are available on equivalent terms to our employees generally.

*Retirement and Welfare Plan Benefits*. All of our executive officers are eligible to participate in health, welfare, and fringe benefits that are available to our employees generally, as well in a defined contribution 401(k) plan sponsored by our manager. Participants in the 401(k) plan are allowed to make pre-tax contributions up to 75% of their annual compensation, not to exceed the annual limitation set forth in Section 402(g) of the Internal Revenue Code for any plan year. We make a matching contribution equal to 50% of a participant's salary deferrals up to 6% of a participant's compensation. We also may make a discretionary profit sharing contribution to the 401(k) plan for the benefit of all participating employees, which amount is subject to change from year to year.

*Distributions*. On November 15, 2012, in connection with the consummation of the Acquisition we paid $79.7 million to the options and restricted unit holders of Cequel Communications Holdings. The distribution to NEOs is summarized in the Summary Compensation Table below.

***Specific Executive Compensation Decisions for 2014***

*Base Salary*. The annual base salary as of the end of fiscal year 2014 for each NEO is presented in the table below, and represents an increase of 3.0% from 2013 to 2014, due to merit increases that were uniformly applied to most executives, plus adjustments as a result of the change of control of the Company.

| Executive | | 2014 |
|---|---|---|
| **Jerald L. Kent**, Chairman and Chief Executive Officer (1) | $ | — |
| **Mary E. Meduski**, Executive Vice President and Chief Financial Officer | $ | 463,500 |
| **Thomas P. McMillin**, Executive Vice President and Chief Operating Officer | $ | 463,500 |
| **Kevin Stephens**, President, Commercial and Advertising Operations | $ | 283,250 |
| **Terry Cordova**, Senior Vice President and Chief Technology Officer | $ | 314,150 |

1. Jerald L. Kent is paid by our manager for services provided pursuant to the Management Agreement. Pursuant to the Management Agreement, Cequel Holdings pays an annual management fee to our manager for services to us, including those of Mr. Kent, which is subject to annual increases. In 2014, the management fee was approximately $7.7 million. Mr. Kent receives compensation from our manager as determined by the sole manager of our manager. For a description of our Management Agreement, see "Certain Relationships and Related Party Transactions-Management Agreement."

*Annual Bonus*. In 2014, we made cash bonus awards under a program designed to reward the achievements of our NEOs (excluding our principal executive officer who is compensated by the manager) and certain employees over the fiscal year. For the Suddenlink NEOs, 65% of their bonuses for 2014 performances reflected the weighted average performance to budget for each of our regions based on a calculation of the percentage that each region contributed to our consolidated operating cash flow ("OCF"); 10% of their bonuses for 2014 reflected the ratio of total corporate expense to consolidated OCF; and 25% of their bonuses for 2014 reflected a subjective assessment of performance including performance versus department budget, with a total maximum payout equal to 200% of the amount of a full bonus payment at their target bonus level percentage. The actual bonuses that our NEOs received were based on the following determinations that the Cequel Corporation board of directors made:

- Ms. Meduski and Mr. McMillin were each eligible for cash bonuses of 130% of a full bonus payment at their respective target bonus percentage of 100% of base salary, based on Cequel Corporation board's application of the criteria disclosed above. Mr. Stephens was eligible for a cash bonus of 200% of the amount of a full bonus payment at his target bonus percentage of 50% of base salary, based on Cequel Corporation board's application of the criteria disclosed above. Mr. Cordova was eligible for a cash bonus of 136.4% of the amount of a full bonus payment at his target bonus percentage of 50% of base salary, based on Cequel Corporation board's application of the criteria disclosed above.
- The actual bonus for the Suddenlink NEOs for 2014 reflected the determination that (i) the corporate goals had been reached representing an overall achievement for our regions of 136.1% attainment level and an achievement of 130% of target of the corporate expense to consolidated OCF ratio, and (ii) that each such NEO fully satisfied his or her individual performance goals.
- The actual bonus payments are reported in the "Non-equity Incentive Plan Compensation" column of the Summary Compensation Table below and equaled approximately 130% of the base salary for Ms. Meduski and Mr. McMillin; 100% for Mr. Stephens and 68.2% for Mr. Cordova for 2014.

*Carry Unit Awards.* In December 2012, each Carry Interest Partnership issued carry units to our NEOs pursuant to the Carried Interest Plan. See "Summary of Material Compensation Plans or Arrangements - Carried Interest Plan" for more information.

*Other Benefits*. Cequel Corporation's board of directors did not make any changes to our severance, retirement, welfare, or fringe benefit plans or practices in 2014, on the premise that these arrangements satisfied current corporate needs and objectives.

**Other Potential Post-Employment or Change of Control Benefits**

We do not have employment agreements with our NEOs and have no contractual obligations to provide post-employment benefits due to termination of employment. All awards under the 2006 Plan (as defined in "Summary of Material Compensation Plans or Arrangements" below) became fully vested at the closing of the Acquisition, and were cashed out and cancelled. For more information on change of control benefits related to carry units under the Carried Interest Plan, see "Summary of Material Compensation Plans or Arrangements - Carried Interest Plan" for more information.

**Issuers' Historical Executive Compensation**

Pursuant to the Management Agreement, our manager is responsible for managing our business affairs. Certain of our executive officers, including Jerald L. Kent, who are employees of our manager, do not receive cash compensation from us for serving as executive officers. In addition, certain of our executive officers, including those listed in the "Summary Compensation Table," have in the past received additional compensation from our manager in the manager's discretion. The amounts paid by our manager to such executive officers are determined independently by our manager. Pursuant to the Management Agreement, we pay an annual management fee to our manager, which is subject to annual increases. In 2014, the management fee was approximately $7.7 million.

***Summary Compensation Table***

The table below summarizes the total compensation paid or earned by each of our chief executive officer, chief financial officer and three other most highly compensated officers during the years ended December 31, 2014, 2013 and 2012.

| Name and Principal Position | Year | Salary Award $ | Non-equity Incentive Plan Compensation $ (1) | All Other Compensation $ (2) | Total $ |
|---|---|---|---|---|---|
| **Jerald L. Kent (3)** | 2014 | — | — | — | — |
| Chairman and | 2013 | — | — | — | — |
| Chief Executive Officer | 2012 | — | — | — | — |
| **Mary E. Meduski** | 2014 | 462,981 | 602,550 | 1,247 | 1,066,778 |
| Executive Vice President and | 2013 | 446,716 | 432,000 | 2,432 | 881,148 |
| Chief Financial Officer | 2012 | 364,626 | 212,932 | 12,941,193 | 13,518,751 |
| **Thomas P. McMillin** | 2014 | 463,347 | 602,550 | 2,024 | 1,067,921 |
| Executive Vice President and | 2013 | 446,716 | 432,000 | 1,256 | 879,972 |
| Chief Operating Officer | 2012 | 364,626 | 212,932 | 12,702,756 | 13,280,314 |
| **Kevin Stephens** | 2014 | 282,933 | 283,250 | 1,226 | 567,409 |
| President, Commercial and Advertising Operations | 2013 | 274,215 | 208,156 | 1,260 | 483,631 |
| | 2012 | 254,586 | 224,320 | 2,124,991 | 2,603,897 |
| **Terry Cordova** | 2014 | 313,971 | 214,197 | 851 | 529,019 |
| Senior Vice President and | 2013 | 303,222 | 148,306 | 1,245 | 452,773 |
| Chief Technology Officer | 2012 | 258,766 | 127,813 | 2,786,877 | 3,173,456 |

(1) Includes formula-based amounts paid as management incentive bonuses pursuant to calculations described in more detail in the "*Annual Bonus"* section above.

(2) Represents imputed income from Company-provided life insurance, and payments related to the equity distributions in March 2012, May 2012 and September 2014 and those related to the Acquisition in November 2012.

(3) Jerald L. Kent is paid by our manager for services provided pursuant to the Management Agreement. For a description of our management agreement, see "Certain Relationships and Related Party Transactions-Management Agreement."

## Director Compensation

The following table provides information concerning payments to directors of Cequel Corporation during the year ended December 31, 2014 for their services as directors.

| Name | Year | Fees Earned or Paid in Cash $ | Carry Units Awarded (1) |
|---|---|---|---|
| **Eugene Fife** | 2014 | 100,000 | — |
| Independent Director | 2013 | 100,000 | 1,250 |
| **Aryeh Bourkoff** | 2014 | 90,000 | — |
| Director | 2013 | 90,000 | 1,250 |

(1) Each director named above was granted 1,250 carry units on June 30, 2013.

Except for Mr. Fife and Mr. Bourkoff, Cequel Corporation's directors do not receive any compensation from us. Cequel Corporation's directors are reimbursed for expenses, including travel expenses, incurred in connection with their service as directors.

## Summary of Material Compensation Plans or Arrangements

### *2006 Management Unit Option Plan*

Prior to the consummation of the Acquisition, Cequel Holdings maintained, and granted options to purchase units of Cequel Holdings pursuant to the Suddenlink Communications 2006 Management Unit Option Plan, ("the 2006 Plan"), which was effective May 16, 2006, and which prohibited the granting of new options after the tenth anniversary of the adoption of the 2006 plan. The purpose of the 2006 Plan was to provide incentives to our executives, key employees, directors and other individuals who was responsible for and contributed to our management, growth and profitability to participate in our long-term success and growth, and to attract, retain and reward such personnel. We received no cash consideration for the granting of options under the 2006 Plan.

All awards under the 2006 Plan became fully vested at the closing of the Acquisition, and were cashed out and cancelled in a reorganization of our parent company structure following the consummation of the Acquisition. The 2006 Plan was terminated following consummation of the Acquisition.

### *2002 Management Unit Option Plan*

Prior to the consummation of the Acquisition, certain of our executive officers and other employees who were previously employees of our manager also held options to purchase units of our manager pursuant to the Cequel III, LLC 2002 Management Unit Option Plan, as amended and restated, (the "2002 Plan"), which was initially effective February 1, 2002. The 2002 Plan was amended during 2006 to, among other things, permit the options granted to certain former employees of our manager to continue after our equity restructuring in 2006 when such employees were transferred to Suddenlink from our manager. The 2002 Plan was generally identical to the 2006 Plan, except that the 2002 Plan related to our manager rather than to Cequel Holdings.

All awards under the 2002 Plan became fully vested at the closing of the Acquisition, and were cashed out and cancelled. The 2002 Plan was terminated following consummation of the Acquisition.

### *Restricted Unit Awards*

On March 4, 2010, December 13, 2010, and January 19, 2012, Cequel Holdings awarded restricted units to two senior executives, Thomas P. McMillin, our current Chief Operating Officer, and Mary E. Meduski, our current Chief Financial Officer. These awards reflected the Cequel Holdings board of directors' general desire to supplement the granting of stock options with restricted units issued by Cequel Holdings to these executives.

The value of the awards of restricted units made on March 4, 2010, December 13, 2010 and January 19, 2012 were based on the fair market value of the restricted units and the vesting conditions were 100% after five years subject to acceleration for the executive's death or a change in corporate control. In addition, the awards provided that with respect to any distributions that Cequel Holdings pays to holders of units in Cequel Holdings between the grant date and settlement date of the awards, that the holder of the awards would receive a portion of such distribution as if the holder owned the number of common units in Cequel Holdings corresponding to the vested

number of restricted units held by such holder. Such distributions were payable, in the discretion of the board of directors of Cequel Holdings or its compensation committee, in cash and/or additional units of Cequel Holdings.

All of the foregoing restricted unit awards became fully vested at the closing of the Acquisition, and were cashed out and cancelled in a reorganization of our parent company structure following the consummation of the acquisition. The amount paid to restricted unit award holders was equal to the value of the units subject to the award, based on the purchase price per unit payable under the Purchase Agreement.

***General Employee Benefit Plans***

All of our executive officers are eligible to participate in health, welfare, and fringe benefits that are available to our employees generally, as well in a defined contribution 401(k) plan sponsored by our manager. Participants in the 401(k) plan are allowed to make pre-tax contributions up to 75% of their annual compensation, not to exceed the annual limitation set forth in Section 402(g) of the Internal Revenue Code for any plan year. We make a matching contribution equal to 50% of a participant's salary deferrals up to 6% of a participant's compensation. We also may make a discretionary profit sharing contribution to the 401(k) plan for the benefit of all participating employees, which amount is subject to change from year to year.

***Carried Interest Plan***

In connection with the Acquisition, the Carry Interest Partnerships each adopted the Carried Interest Plan. The purpose of the Carried Interest Plan is to provide participation in our long-term success and growth as an incentives to our executives, key employees, directors and other individuals who are responsible for and contribute to our management, growth and profitability, which we refer to as participants, and to attract, retain and reward such participants.

Pursuant to the Carried Interest Plan, each Carry Interest Partnership is permitted to issue no more than 1,000,000 carry units. As of December 31, 2014, each Carry Interest Partnership had issued an aggregate of approximately 996,500 carry units to participants. The awarded carry units that are forfeited or cancelled in accordance with the Carried Interest Plan are available, under certain terms and conditions, for reissue in subsequent awards. In certain instances following cessation of their services on behalf of Cequel Corporation or its subsidiaries, the participants have put rights or the Carry Interest Partnerships have call rights, with respect to such participants' carry units.

The carry units vest in quarterly installments over four years. For non-senior executive management participants (i) unvested carry units will be forfeited upon cessation of employment or other services on behalf of Cequel Corporation or its subsidiaries and (ii) with respect to vested carry units, the Carry Interest Partnerships will have the right to call such carry units for their fair market value upon cessation of employment or other services on behalf of Cequel Corporation unless cessation of employment is for cause, in which case all vested carry units will be forfeited. For senior executive management participants, who are Jerald L. Kent, Mary E. Meduski, Thomas P. McMillin, Kevin A. Stephens and Terry M. Cordova, (i) unvested carry units have certain accelerated vesting upon a termination without cause or resignation for good reason, and such executive management participants will have certain put rights with respect to vested carry units in such instances, (ii) if any such management participant resigns without good reason, the Carry Interest Partnerships will have a call right with respect to such participant's vested carry units and (iii) if any such management participant is terminated for cause, all carry units, whether vested or unvested, will be forfeited.

Certain adjustments to the vesting schedules and/or certain distributions may occur in respect of certain specified events in connection with the Carry Interest Plan, which include: (i) a sale or series of sales by BC Partners or CPPIB to the other resulting in the transferring Sponsor owning less than 35% of its original total Sponsor ownership interest following such transaction, (ii) a sale or series of sales by the Sponsors to third parties resulting in the Sponsors together owning less than 35% of their aggregate original Sponsor ownership interests, (iii) a sale or series of sales by either BC Partners or CPPIB to third parties resulting in such Sponsor owning less than 35% of its original total Sponsor ownership interest, or (iv) a sale of substantially all of the assets of Cequel Corporation or a sale of substantially all of its shares.

The Carried Interest Plan entitles participants to receive certain percentages of net cash proceeds received by the Carry Interest Partnerships in connection with sales by the Carry Interest Partnerships of class A common stock or class B common stock of Cequel Corporation, dividends from Cequel Corporation or amounts received upon liquidation or dissolution of Cequel Corporation. The amounts are paid to participants once threshold amounts have been received by the Carry Interest Partnerships and paid to the Sponsors and Management Investors in Cequel Corporation, and the percentage of cash proceeds to which the participants are entitled increases as the return to the Sponsors and such Management Investors increases.

***Compensation Committee Interlocks and Insider Participation***

The Cequel Corporation Compensation Committee consists of Jerald L. Kent, James Fasano, and Raymond Svider. With the exception of Jerald L. Kent, who served as the Chairman and Chief Executive Officer of Cequel Corporation and each of its subsidiaries, none of our officers, employees or former officers served as a member of the Cequel Corporation Compensation Committee during 2014. With the exception of Jerald L. Kent, who serves as the sole manager of our manager, which sole manager determines certain compensation arrangements for the manager, including the compensation of Mr. Kent, no committee member had any interlocking relationships requiring disclosure under applicable rules and regulations.

For a description of certain relationships and transactions with members of our board of directors or their affiliates, see "Item 13. Certain Relationships and Related Party Transactions."

***Compensation Committee Report***

The Compensation Committee of Cequel Corporation has reviewed the Compensation Discussion & Analysis required by Item 402(b) with management, and recommended to the Cequel Board of Directors that it be included in this Annual Report.

## ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS

Cequel Corporation directly owns all of the membership interests in Cequel Holdings and Cequel Holdings directly owns all of the membership interests in Cequel. As of the date of this Annual Report, co-investors and limited partnerships affiliated with the Sponsors and the Management Investors collectively beneficially own 100% of Cequel Corporation's common stock by virtue of their shared voting rights with respect to the election of directors as described below. For the purposes of voting the common stock of Cequel Corporation for all matters other than the election of directors, which is described below, each of the Sponsors vote approximately 48.36% of the common stock of Cequel Corporation and the Management Investors vote approximately 3.28% of the common stock of Cequel Corporation. No director or officer of the Company directly owns any membership interest in the Company. Certain directors and officers of the Company are participants in the Carried Interest Plan adopted by each general partner of the limited partnerships affiliated with the Sponsors and the Management Investors. For more information about the Carried Interest Plan, see "Item 10. Directors, Executive Officers and Corporate Governance - Summary of Material Compensation Plans or Arrangements - Carried Interest Plan."

Our business and affairs are managed by the Cequel Corporation Board of Directors, which is identical to the board of directors of Cequel and Cequel Holdings. The composition of the Cequel Corporation Board of Directors is governed by the Stockholders Agreement among the stockholders of Cequel Corporation referenced above and Cequel Corporation, which provides that the Cequel Corporation Board of Directors shall consist of up to eleven directors and certain stockholder groups have the right to appoint and remove certain directors of Cequel Corporation. Pursuant to the terms of the Stockholders Agreement, as of the date of this Annual Report, subject to certain conditions, each Sponsor has the right to appoint and remove three directors and, jointly, the Sponsors have the right to appoint and remove two directors, one of whom will be "independent" under the Exchange Act. Pursuant to the terms of the Stockholders Agreement, Jerald L. Kent, our Chief Executive Officer, is appointed as Chairman of the Cequel Corporation Board of Directors and each of Mary E. Meduski, our Executive Vice President and Chief Financial Officer, and Thomas P. McMillin, our Executive Vice President and Chief Operating Officer, is also a director of Cequel Corporation. For more information about the current composition of the Cequel Corporation Board of Directors, see "Item 10. Directors, Executive Officers and Corporate Governance." For more information about director designation rights, see "Item 13. Certain Relationships and Related Party Transactions, and Director Independence - Stockholders Agreement."

## ITEM 13. CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS AND DIRECTOR INDEPENDENCE

Our employee handbook, portions of which are posted on our website at www.suddenlink.com, prohibits all employees, including the senior officers of Suddenlink, our manager, and each of their respective affiliates and direct and indirect subsidiaries, from engaging in any activity that creates an actual or perceived conflict of interest, including ensuring that their personal, family or financial interests do not influence business dealings or relationship they may have on behalf of Suddenlink, our manager, and each of their respective affiliates and direct and indirect subsidiaries. Specifically, employees are prohibited from (a) influencing transactions on behalf of Suddenlink, our manager, and each of their respective affiliates and direct and indirect subsidiaries with any supplier or customer with whom they or a family member has a personal or financial relationship, (b) working for, representing or favoring for personal reasons a supplier in its dealings with Suddenlink, our manager, and each of their respective affiliates and direct and indirect subsidiaries, (c) using resources of Suddenlink, our manager, and each of their respective affiliates and direct and indirect subsidiaries to perform outside

activities not sponsored or approved by Suddenlink, our manager, or each of their respective affiliates and direct and indirect subsidiaries and (d) performing any telecommunications work in a vendor or outside employment capacity for any customer of Suddenlink, our manager, or each of their respective affiliates and direct and indirect subsidiaries. Additionally, we have procedures for reporting violations of these policies including reporting violations through EthicsPoint, our confidential third party reporting system for violations of our employee policies.

**Management Agreement**

In May 2006, Cequel Holdings entered into the Management Agreement with Cequel III, LLC, which is currently controlled by Jerald L. Kent, our Chief Executive Officer. Pursuant to the Management Agreement, the manager provides the services of Jerald L. Kent, our Chief Executive Officer, and certain members of our senior corporate management, including Wendy Knudsen. On February 14, 2012, the Management Agreement was amended and restated to permit our CEO to participate in certain other business activities of the manager that do not interfere with his duties as our CEO. In connection with the consummation of the Acquisition, on November 15, 2012, the Management Agreement was further amended to modify the termination provisions thereof and the description of the terms of the management agreement provided below reflects such amendment. The Management Agreement delegates the general authority to manage and operate the business, properties, personnel and activities of Cequel Holdings and its subsidiaries, which includes the Company to our manager. The delegation of such management decisions is subject to, among other things, the reasonable discretion of the board of our parent company. This agreement requires us to pay the manager the following fees:

- an annual management fee, which increases annually by 5% on a compounded basis, payable quarterly in arrears, which management fee was approximately $7.5 million for the annual management term ended in May 2014, and is currently approximately $7.8 million for the annual management term ending in May 2015; and
- for so long as the Master Network Access and Service Agreement, which we refer to as the Level 3 Service Agreement, between Level 3 Communications, Inc. (formerly Broadwing Communications, LLC), which we refer to as Level 3, and our manager, saves Cequel Holdings at least $3 million per year as compared to the cost of obtaining the same services from the least expensive available third party provider, a deferred management fee of $3 million per year, payable after the return of capital to investors.

Additionally, if Cequel Holdings performs well, a discretionary bonus incentive fee in an amount determined by the board of directors or the compensation committee of Cequel Holdings may be paid to our manager each year.

We paid our manager under the Management Agreement fees of approximately $9.1 million in the year ended December 31, 2014.

The Management Agreement will be terminated, among other circumstances, (i) upon the sale of all or substantially all of the assets of Cequel Holdings and its subsidiaries and certain change of control events with respect to Cequel Holdings, in each case, upon a written election of termination by either Cequel Holdings or our manager to the other party, (ii) automatically upon the dissolution of Cequel Holdings, Suddenlink or any other direct or indirect wholly-owned subsidiaries of Cequel Holdings or (iii) automatically upon the occurrence and/or continuance of certain bankruptcy proceedings. The Management Agreement may be terminated under other circumstances, including if Jerald L. Kent ceases to be Chief Executive Officer, for cause by Cequel Holdings and for good reason by our manager.

On November 15, 2012, Cequel Corporation entered into a management agreement with our manager pursuant to which our manager provides the services of our CEO and certain members of our senior corporate management.

Our manager received carry units on December 14, 2012. See "Summary of Material Compensation Plans or Arrangements - Carried Interest Plan" for more information.

**Stockholders Agreement**

We are governed by the Cequel Corporation Board of Directors and certain rights and obligations with respect to our corporate governance are governed by the stockholders agreement of Cequel Corporation dated November 15, 2012 (the "Stockholders Agreement"), by and among Cequel Corporation and stockholders and limited partnerships parties thereto. The limited partnership affiliated with the Management Investors holds equity interests in Cequel Corporation and is a party to the Stockholders Agreement in addition to the limited partnerships affiliated with the Sponsors. The Stockholders Agreement provides for the following.

*Appointment of directors.* The Stockholders Agreement provides for a board of directors with a total of up to eleven directors. Certain stockholder groups have the right to appoint and remove directors as set forth below:

BC Partners has the right to appoint and remove three directors so long as it holds 66% or more of its aggregate number shares of common stock of Cequel Corporation (“Shares”). If BC Partners holds less than 66% but 33% or more of its aggregate number of Shares, it will have the right to appoint and remove only two directors. If BC Partners holds less than 33% but 10% or more of its aggregate number of Shares, it will have the right to appoint and remove only one director. In the event BC Partners holds less than 10% but 5% or more of its aggregate number of Shares, it will only be entitled to certain board observation rights. On November 15, 2012, BC Partners appointed Raymond Svider, Justin Bateman, and Fahim Ahmed to the board of directors.

CPPIB has the right to appoint and remove three directors so long as it holds 66% or more of its aggregate number of Shares. If CPPIB holds less than 66% but 33% or more of its aggregate number of Shares, it will have the right to appoint and remove only two directors. If CPPIB holds less than 33% but 10% or more of its aggregate number of Shares, it will have the right to appoint and remove only one director. In the event CPPIB holds less than 10% but 5% or more of its aggregate number of Shares, it will only be entitled to certain board observation rights. On November 15, 2012, CPPIB appointed Jim Fasano and Erik Levy to the board of directors. CPPIB currently has the right to appoint one additional director.

In addition, so long as each Sponsor holds at least 10% of its aggregate number of Shares, the Sponsors shall jointly have the right to appoint and remove two independent directors, one of whom is required to qualify as “independent” under the Exchange Act. On November 15, 2012, the Sponsors jointly appointed Aryeh B. Bourkoff to the board of directors. On December 12, 2012, the Sponsors jointly appointed Eugene V. Fife to the board of directors, who is designated as an independent director.

Jerald L. Kent is appointed as Chairman of the board of directors of Cequel Corporation by virtue of being Cequel Corporation’s Chief Executive Officer.

Mary E. Meduski, our Executive Vice President and Chief Financial Officer, is appointed to the board of directors for so long as Ms. Meduski is an employee of Cequel Corporation or its subsidiaries and the Management Agreement has not been terminated.

Thomas P. McMillin, our Executive Vice President and Chief Operating Officer, is appointed to the board of directors for so long as Mr. McMillin is an employee of Cequel Corporation or its subsidiaries and the Management Agreement has not been terminated.

*Board action.* Pursuant to the Stockholders Agreement, certain material corporate actions, including without limitation, our ability to incur certain additional indebtedness, refinance certain of our existing indebtedness, create certain liens, redeem or prepay certain debt, pay dividends, make certain investments, enter into certain transactions with affiliates, enter into new lines of business, engage in consolidation, mergers and acquisitions and make certain capital expenditures, require the approval of the board of directors of Cequel Corporation and subject to certain limited exceptions, the approval of one director appointed by each Sponsor. Subject to certain conditions, such approval right held by each Sponsor may be assigned to a third party.

*Restrictions on transfer.* The Stockholders Agreement contains restrictions on the transfer of Shares and customary “drag-along,” “tag along” and “pre-emptive” rights.

*IPO rights.* Subject to certain conditions, BC Partners or CPPIB may require Cequel Corporation to effect an initial public offering. In such case, each holder of Shares shall have the right to participate in the initial public offering. In addition, each holder of Shares is entitled to customary “demand” and “piggyback” rights.

**Advisory agreements**

On November 15, 2012, Cequel Corporation entered into an Advisory Agreement with each Sponsor, pursuant to which Cequel Corporation pays each Sponsor an annual fee of $1 million for providing advisory and consulting services in relation to the business, finances, operations and other affairs of Cequel Corporation and its subsidiaries. In 2014, Cequel Corporation paid $1 million to each Sponsor for these services.

**Level 3**

Our manager is a party to the Level 3 Service Agreement whereby Level 3 provides Suddenlink with intercity private line circuits and Internet transit capacity. We paid Level 3 fees of approximately $7.6 million in 2014 with respect to the Level 3 Service Agreement.

**Teneo**

BC Partners has an equity interest in Teneo, which provided consulting services to us. We paid Teneo $0.2 million in consulting service fees in 2014.

**Certain Programming Agreements**

Cequel III Programming, LLC, a wholly-owned subsidiary of our manager, enters into the programming agreements, pursuant to which we obtain our programming.

**Certain Transportation Arrangements**

Cequel III Aviation, LLC, a subsidiary of our manager, provides an airplane for our use on certain business trips. We paid our manager fees of approximately $0.9 million in 2014 with respect to the use of the airplane.

**Director Independence**

Except for Eugene V. Fife, our independent director, none of our directors would be considered independent under the independence standards of the New York Stock Exchange.

## ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Fees for professional services provided by our independent auditors, PricewaterhouseCoopers LLP, in each of the last two fiscal years, in each of the following categories are as follows:

| | 2014 | 2013 |
|---|---|---|
| Audit Fees | $ 1,023,105 | $ 990,250 |
| Tax Fees | 571,262 | 781,191 |
| All Other Fees | 16,520 | — |
| | $ 1,610,887 | $ 1,771,441 |

Audit fees are principally for the annual audit of our consolidated financial statements, quarterly reviews of our interim consolidated financial statements, and for work done in conjunction with our 2021 Mirror Notes issuance on September 9, 2014.

The Audit Committee has adopted a policy that requires advance approval of all audit, audit-related, tax services, and other services performed by our independent auditor. The policy provides for pre-approval by the Audit Committee of specifically defined audit and non-audit services. Unless the specific service has been previously pre-approved with respect to that year, the Audit Committee must approve the permitted service before the independent auditor is engaged to perform it.

## PART IV

## ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULE

**EXHIBITS:**

The documents listed below are exhibits to this Annual Report and are available on the company website (www.suddenlink.com).

| Exhibit Number | Title |
|---|---|
| 2.1 | Stock Purchase Agreement By and Between News-Press and Gazette Company and Cequel Communications dba Suddenlink Communications, dated as of November 24, 2010, and Letter Agreement Amendment dated March 31, 2011 |
| 3.1 | Certificate of Formation of Cequel Communications Holdings I, LLC |
| 3.2 | Operating Agreement of Cequel Communications Holdings I, LLC |
| 3.3 | Certificate of Incorporation of Cequel Capital Corporation |
| 3.4 | Bylaws of Cequel Capital Corporation |
| 4.1 | Indenture, dated as of October 25, 2012, by and among Cequel Communications Holdings I, LLC, Cequel Capital Corp and U.S. Bank National Association as Trustee |
| 4.2 | Form of 6.375% Senior Notes due 2020 |
| 4.3 | Indenture, dated as of May 16, 2013, among Cequel Communications Holdings I, LLC, Cequel Capital Corporation and U.S. Bank National Association as Trustee |
| 4.4 | Form of 5.125% Senior Notes due 2021 |
| 4.5 | Indenture, dated as of September 9, 2014, among Cequel Communications Holdings I, LLC, Cequel Capital Corporation and U.S. Bank National Association, as Trustee |
| 4.6 | Form of 5.125% Senior Notes due 2021 relating to Exhibit 4.5 |
| 10.1 | Second Amended and Restated Cequel Communications Management Agreement dated November 15, 2012 |
| 10.2 | SEE UPDATED VERSION OF THIS AGREEMENT AT EXHIBIT 10.6. Credit and Guaranty Agreement dated February 14, 2012 by and among Cequel Communications, LLC, Cequel Communications Holdings II, LLC and their subsidiaries, Various Lenders, and Credit Suisse as Administrative Agent |
| 10.3 | Pledge and Security Agreement dated February 14, 2012, by and among Cequel Communications, LLC, the additional grantors thereunder, and Credit Suisse AG, acting through its Cayman Islands Branch, as Collateral Agent |
| 10.4 | Pledge and Security Agreement dated February 14, 2012, by and among Cequel Communications Holdings II, LLC and Credit Suisse AG, acting through its Cayman Islands Branch, as Collateral Agent |
| 10.5 | First Amendment to Credit and Guaranty Agreement dated February 14, 2012 by Cequel Communications, LLC, Cequel Communications Holdings II, LLC and their subsidiaries, Various Lenders, and Credit Suisse as Administrative Agent |

| | |
|---|---|
| 10.6 | Credit and Guaranty Agreement dated February 14, 2012 as amended as of April 12, 2013 by Cequel Communications, LLC, Cequel Communications Holdings II, LLC and their subsidiaries, Various Lenders, and Credit Suisse as Administrative Agent |
| 12.1 | Computation of Ratio of Earnings to Fixed Charges |
| 14.1 | Suddenlink Communications Business Conduct Policy |
| 21.1 | Subsidiaries of Cequel Communications Holdings I, LLC |

**Exhibit 12.1**

**Cequel Communications Holdings I, LLC**

**Computation of Ratios of Earnings to Fixed Charges**

| | Successor Year Ended December 31, | | Successor Period from November 16, 2012 to December 31, 2012 | Predecessor Period from January 1, 2012 to November 15, 2012 | Predecessor Year Ended December 31, | |
|---|---|---|---|---|---|---|
| | 2014 | 2013 | | | 2011 | 2010 |
| Earnings: | | | | | | |
| Income/(Loss) before income taxes | $ 28,343 | $ (65,127) | $ (28,399) | $ (18,306) | $ (7,392) | $ (39,839) |
| Interest expense, net | 230,156 | 243,270 | 33,270 | 253,732 | 286,379 | 246,990 |
| Amortization of debt issuance costs | 2,813 | (8,882) | 2,400 | 4,150 | 10,815 | 12,635 |
| Interest component of rent expense (1) | 6,840 | 6,060 | 888 | 5,460 | 6,016 | 5,797 |
| Earnings available for fixed charges | $ 268,152 | $ 175,321 | $ 8,159 | $ 245,036 | $ 295,818 | $ 225,583 |
| Fixed Charges: | | | | | | |
| Interest expense | 230,156 | 243,270 | 33,270 | 253,732 | 286,379 | 246,990 |
| Amortization of debt issuance costs | 2,813 | (8,882) | 2,400 | 4,150 | 10,815 | 12,635 |
| Interest component of rent expense (1) | 6,840 | 6,060 | 888 | 5,460 | 6,016 | 5,797 |
| Total fixed charges | $ 239,809 | $ 240,448 | $ 36,558 | $ 263,342 | $ 303,210 | $ 265,422 |
| Ratio of earnings to fixed charges | 1.12 | 0.73 | 0.22 | 0.93 | 0.98 | 0.85 |
| Surplus/(Deficiency) of earnings over fixed charges | $ 28,343 | $ (65,127) | $ (28,399) | $ (18,306) | $ (7,392) | $ (39,839) |

(1) Management believes a reasonable approximation (one-third) is deemed to be the interest factor included in rental.

**FINANCIAL STATEMENT SCHEDULE:**

The financial statement schedule - Schedule II - Valuation and Qualifying Accounts - is part of this Annual Report.

**Cequel Communications Holdings I, LLC**
**Schedule II - Valuation and Qualifying Accounts**

| | Balance at beginning of period | Provision | Write-offs | Other | Balance at end of period |
|---|---|---|---|---|---|
| **November 15, 2012 - Predecessor** | | | | | |
| Allowance for doubtful accounts: | $ 12,722 | $ 23,930 | $ (23,067) | $ — | $ 13,585 |
| Deferred tax asset valuation allowance: | $ 66,708 | $ (60) | $ — | $ — | $ 66,648 |
| **December 31, 2012 - Successor** | | | | | |
| Allowance for doubtful accounts: | $ — | $ 3,928 | $ — | $ — | $ 3,928 |
| Deferred tax asset valuation allowance: | $ — | $ — | $ — | $ — | $ — |
| **December 31, 2013 - Successor** | | | | | |
| Allowance for doubtful accounts: | $ 3,928 | $ 27,125 | $ (17,730) | $ — | $ 13,323 |
| Deferred tax asset valuation allowance: | $ — | $ — | $ — | $ — | $ — |
| **December 31, 2014 - Successor** | | | | | |
| Allowance for doubtful accounts: | $ 13,323 | $ 28,283 | $ (26,039) | $ — | $ 15,567 |
| Deferred tax asset valuation allowance: | $ — | $ — | $ — | $ — | $ — |

## SIGNATURES

Pursuant to Section 4.12(a) of each of the Indentures, Cequel has duly caused this Annual Report to be signed on its behalf by the undersigned, thereunto duly authorized.

CEQUEL COMMUNICATIONS HOLDINGS I, LLC

Date: February 23, 2015

By: /s/ Jerald L. Kent
Name: Jerald L. Kent
Title: Chairman and Chief Executive Officer
(Principal Executive Officer)

By: /s/ Mary E. Meduski
Name: Mary E. Meduski
Title: Executive Vice President and Chief Financial Officer

Pursuant to Section 4.12(a) of each of the Indentures, this Annual Report has been signed below by the following persons on behalf of Cequel and in the capacities and on the dates indicated.

| Signatures | Title | Date |
|---|---|---|
| /s/ Jerald L. Kent<br>Jerald L. Kent | Chairman and Chief Executive Officer; Chairman of the Board | February 23, 2015 |
| /s/ Fahim Ahmed<br>Fahim Ahmed | Director | February 23, 2015 |
| /s/ Aryeh B. Bourkoff<br>Aryeh B. Bourkoff | Director | February 23, 2015 |
| /s/ Justin Bateman<br>Justin Bateman | Director | February 23, 2015 |
| /s/ Jim Fasano<br>Jim Fasano | Director | February 23, 2015 |
| /s/ Eugene V. Fife<br>Eugene V. Fife | Independent Director | February 23, 2015 |
| /s/ Erik Levy<br>Erik Levy | Director | February 23, 2015 |
| /s/ Thomas P. McMillin<br>Thomas P. McMillin | Director | February 23, 2015 |
| /s/ Mary E. Meduski<br>Mary E. Meduski | Director | February 23, 2015 |
| /s/ Raymond Svider<br>Raymond Svider | Director | February 23, 2015 |