EXHIBIT 1
(10-K)

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2012

Commission File Numbers: 333-82124-01
333-82124-04

Mediacom LLC
Mediacom Capital Corporation*

(Exact names of Registrants as specified in their charters)

New York	**06-1433421**
New York	**06-1513997**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification Numbers)*

100 Crystal Run Road
Middletown, New York 10941
(Address of principal executive offices)

(845) 695-2600
(Registrants' telephone number)

Securities registered pursuant to Section 12(b) of the Exchange Act:

None

Securities registered pursuant to Section 12(g) of the Exchange Act:

None

Indicate by check mark if the Registrants are well-known seasoned issuers, as defined in Rule 405 of the Securities Act. Yes ☐ No ☑

Indicate by check mark if the Registrants are not required to file pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes ☐ No ☑

Indicate by check mark whether the Registrants (1) have filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the Registrants were required to file such reports), and (2) have been subject to such filing requirements for the past 90 days. Yes ☑ No ☐

Indicate by check mark whether the Registrants have submitted electronically and posted on their corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the Registrants were required to submit and post such files). Yes ☑ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Registrants' knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. Not Applicable.

Indicate by check mark whether the Registrants are large accelerated filers, accelerated filers, non-accelerated filers or smaller reporting companies. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filers ☐	Accelerated filers ☐	Non-accelerated filers ☑	Smaller reporting companies ☐

Indicate by check mark whether the Registrants are shell companies (as defined in Rule 12b-2 of the Exchange

Act). Yes ☐ No ☑

State the aggregate market value of the common equity held by non-affiliates of the Registrants: Not Applicable

Indicate the number of shares outstanding of the Registrants' common stock: Not Applicable

*Mediacom Capital Corporation meets the conditions set forth in General Instruction I (1) (a) and (b) of Form 10-K and is therefore filing this form with the reduced disclosure format.

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MEDIACOM LLC

2012 FORM 10-K ANNUAL REPORT

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This Annual Report on Form 10-K is for the year ended December 31, 2012. Any statement contained in a prior periodic report shall be deemed to be modified or superseded for purposes of this Annual Report to the extent that a statement herein modifies or supersedes such statement. The Securities and Exchange Commission ("SEC") allows us to "incorporate by reference" information that we file with them, which means that we can disclose important information by referring you directly to those documents. Information incorporated by reference is considered to be part of this Annual Report.

Mediacom LLC is a New York limited liability company and a wholly-owned subsidiary of Mediacom Communications Corporation, a Delaware corporation. Mediacom Capital Corporation is a New York corporation and a wholly-owned subsidiary of Mediacom LLC. Mediacom Capital Corporation was formed for the sole purpose of acting as co-issuer with Mediacom LLC of debt securities and does not conduct operations of its own.

References in this Annual Report to "we," "us," or "our" are to Mediacom LLC and its direct and indirect subsidiaries (including Mediacom Capital Corporation), unless the context specifies or requires otherwise. References in this Annual Report to "Mediacom" or "MCC" are to Mediacom Communications Corporation.

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Cautionary Statement Regarding Forward-Looking Statements

You should carefully review the information contained in this Annual Report and in other reports or documents that we file from time to time with the SEC.

In this Annual Report, we state our beliefs of future events and of our future financial performance. In some cases, you can identify those so-called "forward-looking statements" by words such as "anticipates," "believes," "continue," "could," "estimates," "expects," "intends," "may," "plans," "potential," "predicts," "should" or "will," or the negative of those and other comparable words. These forward-looking statements are not guarantees of future performance or results, and are subject to risks and uncertainties that could cause actual results to differ materially from historical results or those we anticipate as a result of various factors, many of which are beyond our control. Factors that may cause such differences to occur include, but are not limited to:

- increased levels of competition for residential and business customers from existing competitors, including direct broadcast satellite operators, local telephone companies and other cable providers, and from more recent competition, including wireless communications companies and over-the-top video providers;
- lower demand for our residential and business services products and services, which may result from increased competition, weakened economic conditions or other factors;
- greater than anticipated increases in programming costs and other delivery expenses related to our products and services;
- our ability to successfully introduce new products and services to meet customer demands and preferences;
- our ability to secure hardware, software and operational support for the delivery of products and services to consumers;
- disruptions or failures of our network and information systems, including those caused by "cyber attacks," natural disasters or other material events outside our control;
- our reliance on certain intellectual property rights, and not infringing on the intellectual property rights of others;
- our ability to generate sufficient cash flows from operations to meet our debt service obligations;
- our ability to refinance future debt maturities or provide future funding for general corporate purposes and potential strategic transactions, on favorable terms, if at all;
- changes in assumptions underlying our critical accounting policies;
- changes in legislative and regulatory matters that may cause us to incur additional costs and expenses; and
- other risks and uncertainties discussed in this Annual Report for the year ended December 31, 2012 and other reports or documents that we file from time to time with the SEC.

Statements included in this Annual Report are based upon information known to us as of the date that this Annual Report is filed with the SEC, and we assume no obligation to update or alter our forward-looking statements made in this Annual Report, whether as a result of new information, future events or otherwise, except as required by applicable federal securities laws.

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PART I

ITEM 1. *BUSINESS*

Mediacom Communications Corporation

We are a wholly-owned subsidiary of Mediacom Communications Corporation ("Mediacom" or "MCC"), who is also our manager. MCC is the nation's eighth largest cable company based on the number of customers who purchase one or more video services, also known as video customers. MCC is among the leading cable operators focused on serving the smaller cities in the United States, with a significant customer concentration in the Midwestern and Southeastern regions.

MCC's cable systems are owned and operated through our operating subsidiaries and those of Mediacom Broadband LLC ("Mediacom Broadband"), another wholly-owned subsidiary of MCC. As of December 31, 2012, MCC's cable systems passed an estimated 2.79 million homes, primarily in the states of Iowa, Illinois, Georgia, Minnesota and Missouri, and served approximately 1,000,000 video customers, 915,000 high-speed data ("HSD") customers and 356,000 phone customers, aggregating 2.27 million primary service units ("PSUs").

MCC is a privately-owned company. An entity wholly-owned by Rocco B. Commisso, Mediacom's founder, Chairman and Chief Executive Officer, is the sole shareholder of Mediacom.

Mediacom LLC

We are a holding company and do not have any operations or hold any assets other than our investments in our operating subsidiaries. As of December 31, 2012, the cable systems operated by these subsidiaries passed an estimated 1.30 million homes, mainly in the states of Illinois, Minnesota, Alabama and Florida, and served approximately 442,000 video customers, 410,000 HSD customers and 166,000 phone customers, aggregating 1.02 million PSUs.

We provide residential and commercial customers with a variety of products and services, including video, HSD and phone, and provide network and transport services to medium- and large-sized businesses in our service areas, including cell tower backhaul for wireless telephone providers. We also sell advertising time to local, regional and national advertisers.

Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and any amendments to such reports filed with or furnished to the SEC under sections 13(a) or 15(d) of the Securities Exchange Act of 1934 are made available free of charge on MCC's website (http://www.mediacomcc.com; follow the "About Us" link to the Investor Relations tab to "SEC Filings") as soon as reasonably practicable after such reports are electronically filed with or furnished to the SEC. MCC's Code of Ethics was filed with the SEC on March 29, 2004 as an exhibit to our Annual Report on Form 10-K for the year ended December 31, 2003. Our phone number is (845) 695-2600 and our principal executive offices are located at 100 Crystal Run Road, Middletown, New York, 10941.

2012 Developments

New Financing

On February 7, 2012, we issued 7¼% senior notes due February 2022 (the "7¼% Notes") in the aggregate principal amount of $250.0 million (the "financing"). After giving effect to $5.0 million of financing costs, net proceeds of $245.0 million, together with borrowings under our revolving credit commitments, were used to repay the entire outstanding amount under Term Loan D under our bank credit facility (the "credit facility"). For more information, see Note 6 in our Notes to Consolidated Financial Statements.

Sale and Acquisition of Cable Systems, Net

In May 2012, we sold a non-strategic cable system that served approximately 3,000 video and 1,200 HSD customers. We received proceeds of approximately $10.7 million, yielding a gain on sale of cable systems, net of $4.9 million. In June 2012, we acquired certain cable assets serving about 600 video, 400 HSD and 600 phone customers for approximately $1.2 million.

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Overview of Our Cable Systems

The following table provides an overview of selected operating data for our cable systems as of December 31:

	2012	2011	2010	2009	2008
Estimated homes passed(1)	1,301,000	1,295,000	1,292,000	1,286,000	1,370,000
Video					
Video customers(2)	442,000	473,000	530,000	548,000	601,000
Video penetration(3)	34.0%	36.5%	41.0%	42.6%	43.9%
High Speed Data					
HSD customers(4)	410,000	383,000	379,000	350,000	337,000
HSD penetration(5)	31.5%	29.6%	29.3%	27.2%	24.6%
Phone					
Phone customers(6)	166,000	159,000	157,000	135,000	114,000
Phone penetration(7)	12.8%	12.3%	12.2%	10.5%	8.3%
Primary Service Units (PSUs)(8)					
PSUs	1,018,000	1,015,000	1,066,000	1,033,000	1,052,000
PSU penetration(9)	78.2%	78.4%	82.5%	80.3%	76.8%

(1) Represents the estimated number of single residence homes, apartments and condominium units that we can connect to our distribution system without further extending the transmission lines. Estimated homes passed are an estimate based on the best information currently available.

(2) Represents customers receiving one or more video services. Accounts that are billed on a bulk basis are converted into full-price equivalent video customers by dividing total bulk billed basic revenues of a particular system by average cable rate charged to video customers in that system. This conversion method is generally consistent with the methodology used in determining payments made to programmers. Video customers include connections to schools, libraries, local government offices and employee households that may not be charged for basic and expanded cable services, but may be charged for higher tier video, HSD, phone or other services. Our methodology of calculating the number of video customers may not be identical to those used by other companies offering similar services.

(3) Represents video customers as a percentage of estimated homes passed.

(4) Represents customers receiving HSD service. Small to medium-sized commercial HSD accounts are converted to equivalent residential HSD customers by dividing their associated revenues by the applicable residential rate. Customers who take our scalable, fiber-based enterprise network products and services are not counted as HSD customers. Our methodology of calculating HSD customers may not be identical to those used by other companies offering similar services.

(5) Represents the number of total HSD customers as a percentage of estimated homes passed.

(6) Represents customers receiving phone service. Small to medium-sized commercial phone accounts are converted to equivalent residential phone customers by dividing their associated revenues by the applicable residential rate. Our methodology of calculating phone customers may not be identical to those used by other companies offering similar services.

(7) Represents the number of total phone customers as a percentage of estimated homes passed.

(8) Represents the sum of video, HSD and phone customers.

(9) Represents primary service units as a percentage of our estimated homes passed.

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Our Service Areas

Approximately 69% of our homes passed are in the top 100 television markets in the United States, commonly referred to as Nielsen Media Research designated market areas ("DMAs"), with over 40% in DMAs that rank between the 60th and 100th largest. Our largest markets are: the gulf coast region surrounding Pensacola, FL and Mobile, AL; suburban and outlying communities around Minneapolis, MN; outlying communities around Champaign, Springfield and Decatur, IL; communities in the western Kentucky and southern Illinois region; communities in northern Indiana; Dagsboro, DE and the adjoining coastal area in Delaware and Maryland; certain western suburbs of Chicago, IL; and suburban communities of Huntsville, AL.

Services

We provide our residential and commercial customers with a wide variety of products and services, including our primary services of video, HSD and phone. We also provide network and transport services to medium and large sized businesses, governments, and educational institutions in our service areas, including cell tower backhaul for wireless telephone providers, and sell advertising time to local, regional and national advertisers.

Residential Services

We generally charge our residential customers on a monthly basis depending on the services and associated equipment taken, along with a one-time installation fee, which may be waived or discounted during certain promotions. Our residential customers are offered the option of signing a contract to hold rates constant through the term of the agreement, subject to a fee upon early cancellation, or of paying on a month-to-month basis, which is subject to rate increases.

We market our services to residential customers in bundled packages, which offer discounted pricing and the convenience of a single monthly bill for multiple products. Customers who take our "triple play" bundle of video, HSD and phone services receive complimentary upgrades to a faster HSD speed tier, and periodic special offers, which we believe enhances the value of our products and services. As of December 31, 2012, approximately 56% of our customers took two or more of our video, HSD or phone services, including about 20% of who took all three.

Video

We offer a broad variety of video programming packages and a wide selection of entertainment options, including premium movie channels, access to thousands of video on-demand ("VOD") titles, digital video recorder ("DVR") service and high-definition ("HD") programming. In 2012, residential video revenues represented 52.8% of our total revenues. Our video service offerings include the following:

Basic Service. All of our video customers receive the basic service that generally includes 12 to 20 channels of local broadcast and independent stations, limited satellite–delivered programming, home-shopping channels, and local public, government and leased access channels.

Expanded Basic Service. Expanded basic service, generally marketed as "Family Cable," provides another 40 to 55 satellite-delivered channels such as CNN, CNBC, Discovery, ESPN, Lifetime, MTV, TNT, the USA Network and regional sports networks.

Digital Video Service. We offer several digital programming packages that may include various combinations of one or more tiers of digital video service, sports channels, digital music channels, an interactive, on-screen program guide, and, in most of our markets, full access to the VOD library. As of December 31, 2012, about 60.0% of our video customers took our digital video service.

Premium Channels. We provide sports, children's, and international programming packages and commercial-free premium video services from HBO, Showtime, Cinemax, Starz! and EPIX. Although we generally offer subscriptions to these premium channels on an individual basis, we package premium channels with our video services.

High Definition Television. Our video customers can view certain programming with high-resolution picture and digital sound quality when using an HD television set and HD-capable converter. We offer an average of almost 65 HD channels throughout our footprint, including most major broadcast networks, leading national cable networks, regional sports networks and premium channels.

Video-on-Demand. We provide on-demand access to a wide selection of movies, special events and general interest titles, with the ability to start programs at any time, as well as pause, rewind and fast forward. A majority of our VOD content is available to our digital video customers at no additional charge, and customers who subscribe to

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premium video services also have access to the premium service's VOD content without additional fees. Special event programs, including live concerts, sporting events, and first-run movies are available through VOD on a pay-per-view basis.

Digital Video Recorders. We make available to our video customers DVR set tops, the majority of which are HD capable, allowing them to record and store programming to watch at their convenience, and the ability to pause and rewind live television. We also offer customers a multi-room DVR product, which allows customers to play back previously recorded programming on up to three different televisions throughout their home that have access to the same stored content. We have recently announced a marketing and distribution agreement with TIVO and expect to introduce in 2013 a TIVO-branded DVR and multi-room DVR service that will utilize the advanced TIVO user interface. As of December 31, 2012, approximately 33.5% of our digital customers took our DVR service.

TV Everywhere. We enable video customers to watch certain programming wherever they are connected to the Internet, using devices such as tablets and smartphones, once they are authenticated as our customer. Our video customers have online access to Hulu, HBO GO, Max GO, EPIX, ESPN3, Big Ten Network, Cartoon Network, CNN, HLN, TNT, TBS and TruTV, and plan to further expand our TV Everywhere offerings in 2013.

HSD

We make available several HSD service tiers to suit our customers' needs, ranging from 3 megabytes per second ("Mbps") to 105 Mbps downstream. Using DOCSIS 3.0 technology, we provide an "Ultra" HSD tier, with a downstream speed of up to 50 Mbps and an "Ultra Plus" tier, with a downstream speed of up to 105 Mbps. As of December 31, 2012, the Ultra 50 Mbps service was available to about 85% of our homes passed. Where Ultra service is not available, we offer maximum downstream speeds of up to 20 Mbps. For a monthly fee, we also offer a wireless home networking gateway that allows our HSD customers to connect up to 20 devices in their home. In 2012, residential HSD revenues represented 27.5% of our total revenues.

Phone

Our residential phone service provides customers unlimited local, regional and long-distance calling throughout the United States, Puerto Rico, the U.S. Virgin Islands and Canada, together with a wide variety of popular calling features, such as Caller ID, call waiting, call forwarding, three-way calling and enhanced Emergency 911 dialing. We also offer directory assistance and voice mail services for an additional charge, and international calling plans are available at competitive rates. In 2012, residential phone revenues represented 8.9% of our total revenues.

Business Services

Mediacom Business Services offers HSD service tiers, video and phone services and networking and transport services that can be tailored to any size business, from bundled packages similar to our residential offerings for small-to medium-sized businesses, to custom solutions for large businesses with high-capacity requirements. Mediacom Business Services have become an increasing contributor to our growth in consolidated revenues and, in 2012, business services revenues represented 8.4% of our total revenues.

Small to Medium Sized Businesses

We provide small to medium sized businesses ("SMBs") the full array of services available to residential customers: video programming packages and music services, HSD service with speeds up to 105 Mbps downstream and 5 Mbps upstream, and a multi-line phone service. We also offer certain other products and services specifically tailored to the SMB market, including a portfolio of cloud-based, managed communications solutions through partnerships with local technology companies and a trunk-based voice service that offers SMB customers significantly more capacity for additional phone lines. In 2013, we broadened our product offering to a wireless data and phone product for SMB customers.

Large Businesses

We serve large-sized businesses, including educational, financial services, healthcare and other companies, customized network solutions built upon our all-fiber optic backbone. We provide Internet access with symmetrical speeds of up to 1 Gbps, voice trunking services that provide higher-capacity voice services delivered over fiber and Metro Ethernet service that connects two or more locations for customers with geographically dispersed locations with speeds up to 10 Gbps.

Carrier Wholesale

We provide high-capacity last mile transport and Internet access to wireless and wireline telephone providers, Internet service providers and competitive carriers on a wholesale basis. Our carrier wholesale business has experienced solid growth, principally due to increasing demands of wireless communications providers for cell tower backhaul services.

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Advertising

We generate revenues from selling advertising time to local, regional and national advertisers. As part of the programming agreements with content providers, we typically receive an allocation of scheduled advertising time, generally two minutes per hour, and use this allotted time to insert commercials. Our advertising sales infrastructure includes in-house production facilities, production and administrative employees and a locally-based sales workforce.

In many 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 2012, advertising revenues represented 2.4% of our total revenues.

Marketing and Sales

We employ a wide range of sales channels to reach current and potential customers, including outbound telemarketing, direct mail, in-bound customer care centers, retail locations, field technician sales and door-to-door sales. We recently have placed a greater emphasis on Internet advertising, using search engines and other websites to expand our sales opportunities. Customers are directed to our inbound call centers or website through direct mail, broadcast television, radio, newspaper, outdoor and Internet advertising and television advertising on our own cable systems. We also have a dedicated sales force and outbound telemarketing for Mediacom Business Services, as well as relationships with third-party agents who sell our services.

In 2012, we rebranded with the "Power to Simplify" slogan, offering flexible packages to meet different pricing levels and service requirements, 30 minute arrival windows and more evening and weekend scheduling for installation and service calls.

Customer Care

We continue to invest in our customer care infrastructure to improve the quality of the installation and usage of our products and services. Our customer care group has multiple contact centers, which are staffed with dedicated customer service, sales, and technical support representatives who are available 24 hours a day, seven days a week. We utilize a virtual contact center platform that functions as a single, unified call center and allows us to effectively manage resources and reduce answer times through call-routing in a seamless manner. We use the latest call center technology, providing our customers a voice-driven self-service system and a call back feature for busy periods whereby the customer has the option to be called back when an agent becomes available.

A web-based service platform allows customers to order products via the Internet, review their account balance, make payments, receive general and technical support, and utilize self-help tools to troubleshoot technical difficulties. Our customer care group is available online to chat with customers and respond to customer e-mail, and uses social networking websites, including Twitter and Facebook, as an alternative way of contacting us. We also have a smart care mobile application for use on Android and iOS devices that allows customers to manage their billing account, troubleshoot service issues, and easily connect to an agent.

Our field operations team focuses on providing a quality experience during installation and service calls and resolving any customer service issues on their first attempt. Field activity is scheduled and routed seamlessly, including automated appointment confirmations and remote technician dispatching, and we utilize a workflow management and GPS system that facilitates on-time arrival for customer appointments. Our field technicians are equipped with hand-held diagnostic and monitoring tools that determine the quality of service at the customer's home in real-time and allow us to efficiently resolve any customer issues and offer new or upgraded services while in the customer's home.

Network Technology

Our products and services are delivered through a fiber-rich, technologically-advanced network that consists of a national backbone, regional networks, large-scale, centralized centers or master headends, regional headends, neighborhood nodes and the last-mile connectivity to customer homes or businesses. We utilize an Internet Protocol ("IP") ring architecture that minimizes service outages through its redundant design.

Our national backbone and regional networks connect our three master headends to HSD and phone interexchange points and to centralized content such as HD and VOD programming. Our master headends and regional headends are interconnected and exchange video, HSD and voice traffic.

The last-mile component is hybrid fiber-optic coaxial architecture that combines fiber optic cable with coaxial cable. In most systems, we deliver video, HSD and voice traffic via laser-fed fiber optical cable between regional headends and neighborhood nodes. From there, we use coaxial cable to deliver traffic between the neighborhood nodes and the homes and businesses we serve. To serve high capacity requirements of our large business customers, including wireless carriers, our fiber optic cable is extended from the node site directly to the customer's premise.

As of December 31, 2012, approximately 93% of our homes passed had bandwidth capacity of at least 750 megahertz and 85% had DOCSIS 3.0 technology, which together we believe is sufficient to deliver our current array of products and services. However, we anticipate that new products and services, including additional HD channels and faster HSD speeds, and greater future bandwidth consumption by our HSD customers, will require increasing bandwidth capacity in our network.

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To accomplish this, we have already converted in several cable systems a significant number of video channels from analog to digital transmission, which requires much less bandwidth and creates more capacity for other services. As of December 31, 2012, about 35% of our cable distribution network had been converted to an "all-digital" format, and we plan to continue this transition in substantially all of our service areas to expand bandwidth capability and take full advantage of the associated efficiencies.

We believe our network infrastructure provides us numerous competitive advantages, notably significant bandwidth capacity and higher signal quality and reliability. Furthermore, because we manage the delivery of our products and services through three master headends, we can introduce new products and services across a larger customer base, allowing for greater efficiency and scale in equipment investment, personnel, and telecommunication costs.

Community Relations

We are dedicated to fostering strong relations with the communities we serve and believe that our local involvement strengthens the awareness and favorable perception of our brand. We support local charities and community causes with events and campaigns to raise funds and supplies for persons in need, and in-kind donations that include production services and free airtime on cable networks. We participate in industry initiatives such as the *Cable in the Classroom* program, under which we provide free video service to almost 1,250 schools and free HSD service to almost 50 schools. We also provide free video service to almost 2,375 government buildings, libraries and not-for-profit hospitals, with almost 175 of these locations receiving free HSD service.

We develop and provide exclusive local programming for our communities, a service that is generally not offered by our primary video competitor, direct broadcast satellite ("DBS") providers. Several of our cable systems have production facilities with the ability to create local programming, including local college and high school sporting events, fund-raising telethons by local chapters of national charitable organizations, local concerts and other entertainment. We believe our local programming helps build brand awareness and customer loyalty in the communities we serve.

Franchises

Cable systems are generally operated under non-exclusive franchises granted by local or state governmental authorities. Historically, these franchises have imposed numerous conditions, such as: time limitations on commencement and completion of construction; conditions of service, including population density specifications for service; the bandwidth capacity of the system; the broad categories of programming required; the provision of free service to schools and other public institutions and the provision and funding of public, educational and governmental access channels ("PEG access channels"); a provision for franchise fees; and the maintenance or posting of insurance or indemnity bonds by the cable operator. Many of the provisions of local franchises are subject to federal regulation under the Communications Act of 1934, as amended (the "Cable Act").

Many of the states in which we operate have enacted comprehensive state-issued franchising statutes that cede control over franchises away from local communities and towards state agencies. As of December 31, 2012, about 18% of our customer base was under a state-issued franchise. Some of these states permit us to exchange local franchises for state issued franchises before the expiration date of the local franchise. These state statutes make the terms and conditions of our franchises more uniform, and in some cases, eliminate locally imposed requirements such as PEG access channels.

As of December 31, 2012, we served 852 communities under franchises. The vast majority of these franchises provide for the payment of fees to the local municipality covered by the franchise. In most of our cable systems, such franchise fees are passed through directly to the customers. The Cable Act prohibits franchising authorities from imposing franchise fees in excess of 5% of gross revenues from specified cable services, and permits the cable operator to seek renegotiation and modification of franchise requirements if warranted by changed circumstances.

We have never had a franchise revoked. Furthermore, no franchise community has refused to consent to a franchise transfer to us. The Cable Act provides comprehensive renewal procedures, which require that an incumbent franchisee's renewal application be assessed on its own merits and not as part of a comparative process with competing applications. We believe that we have satisfactory relationships with our franchising communities.

Sources of Supply

Programming

Our programming content is generally carried pursuant to fixed-term contracts that obtain programming for our cable systems from suppliers whose compensation is typically based on a fixed monthly fee per video customer, subject to contractual escalations. Although most of our contracts are secured directly with the programmer, we also negotiate programming contract renewals through a programming cooperative of which we are a member, which provides for more favorable pricing or terms in certain cases than we could negotiate independently with programmers. In general, we attempt to secure longer-term programming contracts, which include marketing support and other incentives from programming suppliers.

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We also have various retransmission consent agreements with local broadcast television stations, allowing for carriage of their signals on our cable systems. Federal Communications Commission ("FCC") rules mandate that local broadcast stations must elect either "must-carry" rights or "retransmission consent," generally on three year cycles. If a local broadcast station opts for "retransmission consent," we are not allowed to carry the station's signals without their permission, which has generally required us to pay a consent fee and/or purchase advertising time from them or carry one or more of their affiliated stations.

Programming expenses have historically been our largest single expense item and, in recent years, these costs on a per-unit basis have increased substantially more than the inflation rate or the change in the consumer price index, particularly for sports programming and rising retransmission consent payments required by local broadcast stations. We believe these expenses will continue to grow at a significant rate due to increasing contractual demands, mainly by the large media conglomerates, who own or control most of the popular cable networks and major market local broadcast stations, and large independent television broadcast groups, who own or control a significant number of local broadcast stations across the country and, in many cases, manage, control or own multiple local broadcast stations in the same market.

Because of the concentrated cross-ownership of popular cable networks and major market local broadcast stations, or the concentrated cross-ownership or control of large groups of local broadcast stations, we have a limited ability to individually or selectively negotiate for programming and provide our customers with a choice of programming that they may wish to receive. We also may be obligated to carry additional programming that we would otherwise not offer because of the negotiating leverage these large programming companies have over us, which may increase our programming expenses. While such growth in programming expenses can be partially offset by rate increases, our video gross margins will continue to decline if they cannot be fully offset.

HSD Service

We deliver HSD service through fiber networks that are owned by us or leased from third parties and through backbone networks that are operated by third parties. We pay fees for leased circuits based on the amount of capacity and for Internet connectivity based on the amount of HSD traffic over the provider's network.

Phone Service

Our phone service is delivered through a voice over internet protocol "VoIP" platform over a route-diverse infrastructure. We source certain services from outside parties to support our phone service, the most significant of which are long-distance services from a number of Tier 1 carriers, and E911 database management.

Set-Top Boxes, Cable Modems and Network Equipment

We purchase set-top boxes, including DVRs, from a limited number of suppliers, principally Motorola Inc. and Pace plc, and lease these devices to subscribers on a monthly basis. We purchase cable modems, routers, switches and other network equipment from a wide variety of providers.

Primary Competition

We operate in a competitive business environment that is subject to significant developments in the marketplace, including rapid technological advances and changes in the regulatory and legislative environment. We have historically faced, and continue to face, intense competition from DBS providers and local telephone companies, many of whom have greater resources than we do. Recent technological advances and consumer trends, including "over-the-top" video ("OTTV") and wireless Internet service, have increased the number of alternatives to our products and services, which may increase competition.

Direct Broadcast Satellite Providers

DBS providers, principally DirecTV, Inc. and DISH Network Corp., are the cable industry's most significant video competitors, serving a combined 34 million customers nationwide, according to publicly available information. These DBS providers offer programming packages that are substantially similar to ours, including local broadcast signals in substantially all of our markets, and may also offer a greater number of HD channels than us or have exclusive arrangements to provide access to programming that we cannot offer, including DirecTV's agreement with the National Football League.

DBS providers have operational cost advantages over us, including a nation-wide brand and marketing platform and not being required in many locations to pay certain taxes and fees which we incur, principally franchise fees and property taxes. DBS providers continue to offer aggressive promotional pricing for new customers, which we believe has contributed to our video customer losses. While DBS customers have historically paid up-front equipment costs that we do not charge, more recently such costs have decreased substantially due to aggressive marketing offers to new customers, which may include discounted or free equipment and installation. They also have introduced new equipment features, such as ad-skipping, which may prove popular with consumers.

Due to technological constraints, DBS service has limited two-way interactivity, which restricts their ability to offer interactive video, HSD and phone services similar to ours. In many cases, DBS providers have entered into agreements to market "synthetic bundles" of a DBS video service and HSD and/or phone services offered by local telephone companies. These synthetic bundles are generally billed as a single package and, from a consumer standpoint, may appear similar to our bundled products and services.

Local Telephone Companies

Our HSD and phone services primarily compete with local telephone companies that offer a digital subscriber line ("DSL") Internet service that is typically limited to downstream speeds ranging from 1.5Mbps to 3Mbps in our markets, and a traditional phone product that is a similar product to our own. As consumers' bandwidth requirements have dramatically increased in the past few years, a trend many industry experts expect to continue, we believe our ability to offer a HSD product today with speeds of up to 105Mbps gives us a competitive advantage compared to the DSL service offered by the local telephone companies.

Certain local telephone companies, including AT&T and CenturyLink, have deployed fiber based networks which allow them to offer a triple play bundle, including video services and HSD speeds that are comparable to ours. As of December 31, 2012, approximately 10% of our cable systems actively competed with the fiber based networks of these local telephone companies, based upon visual inspections and other limited estimated techniques. Due to the lower home density of our footprint compared to the higher home density of larger metropolitan markets, and capital investment associated with constructing such fiber networks, we believe further build-outs into our markets have been a lower priority for these telephone companies. However, AT&T has recently announced plans to extend its fiber based footprint, but has not specifically named markets for this expansion.

Historically, local phone companies have been in a better position to offer data services to businesses, as their networks tend to be more complete in commercial areas. However, we continue to extend our distribution network across business districts in our service area to capture more market share.

Other Video Overbuilders

Our video service also competes with cable systems operating under non-exclusive franchises granted by local authorities. More than one cable system may legally be built in the same area by another cable operator, a local utility or other provider. Some of these competitors, including municipally-owned entities, may be granted franchises on more favorable terms or conditions than ours, or enjoy other advantages such as exemptions from taxes or regulatory requirements, to which we are subject. However, most of these entities were operating prior to our ownership of the affected cable systems, and we believe there has been no significant expansion of such entities in our markets in the past several years. As of December 31, 2012, based on internal estimates, approximately 24% of our cable systems actively competed with these other video overbuilders.

Wireless Communication Companies

Our phone service has faced, and continues to face, high levels of competition from wireless communications companies, including AT&T, Verizon Wireless and Sprint. A trend known as "wireless substitution" has developed where certain consumers have chosen a wireless communications company as their only phone service provider, which we expect to continue, and possibly accelerate, in the future.

These wireless communications companies also offer a wireless Internet service that has experienced rapid growth as the usage of mobile devices, such as smartphones and tablets, has dramatically increased in the past several years, a trend we believe will continue. We believe that our HSD service will not face meaningful levels of "wireless substitution" in the near term, as wireless communications companies are generally unable to offer a service that compares with our HSD service in terms of speed, reliability and bandwidth allowances. However, if technological advances were to allow for a wireless Internet service that is more comparable to our HSD service, we may experience greater levels of competition.

Other Competition

Video

The usage of OTTV has increased dramatically in the last several years, as greater downstream speeds and advances in streaming video technology have enabled content providers a variety of "over the top" distribution outlets. Increasingly, our video service faces competition from companies that deliver movies and television programs over the Internet. While we do

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not believe such OTTV offerings currently offer a full replacement for our video service, as they generally do not offer live content, local broadcasting or sports programming, OTTV providers continue to expand their offerings and, in some cases, offer content that we do not provide. While we expect to remain the primary provider of HSD service to customers who use an OTTV service, if certain customers were to choose to downgrade, or fully replace our video service with an OTTV product, we could experience meaningful declines in our video revenues.

HSD

The American Recovery Act of 2009 is providing specific funding for broadband development as part of an economic stimulus package. Some of our existing and potential competitors applied for funds under this program. In a limited number of cases, some of our existing and potential competitors have been approved to receive funds from this program which is allowing them to build or expand facilities faster and deploy existing and new services sooner, and to more areas, than they otherwise would be able to without the stimulus funding.

Phone

Our phone service also competes with national providers of IP-based phone services, such as Vonage, Skype and magicJack, as well as companies that sell phone cards at a cost per minute for both national and international service. Such providers of IP-based phone services do not have a traditional facilities-based network, but provide their services through a consumer's high-speed Internet connection.

Business Services

The business services we provide to SMB and large enterprise customers generally compete with the local telephone companies noted above, who in some cases have more extensive network coverage and longer-term relationships with the business community. We may not be able to continue to grow our business services revenues by taking more market share if our competitors decide to compete vigorously on price and service.

Advertising

We compete for the sale of advertising against a wide variety of media outlets, including local broadcast stations, national broadcast networks, national and regional programming networks, local radio broadcast stations, local and regional newspapers, magazines and Internet sites. In recent years, many businesses have allocated a greater part of their advertising spending to Internet advertising, and the recent economic distress has caused lower levels of overall advertising spending. If these trends were to continue, we may face greater competition for advertising revenues.

Employees

As of December 31, 2012, we employed 1,813 full-time and 30 part-time employees. None of our employees are organized under, or covered by, a collective bargaining agreement. We consider our relations with our employees to be satisfactory.

Legislation and Regulation

General

Federal, state and local laws regulate the development and operation of cable systems and, to varying degrees, the services we offer. Significant legal requirements imposed on us because of our status as a cable operator, or by the virtue of the services we offer, are described below.

Cable System Operations and Cable Services

Federal Regulation

The Cable Act establishes the principal federal regulatory framework for our operation of cable systems and for the provision of our video services. The Cable Act allocates primary responsibility for enforcing the federal policies among the FCC and state and local governmental authorities.

Content Regulations

Must Carry and Retransmission Consent

The FCC's regulations require local commercial television broadcast stations to elect once every three years whether to require a cable system to carry the primary signal of their stations, subject to certain exceptions, commonly called must-carry or to negotiate the terms by which the cable system may carry the station on its cable systems, commonly called retransmission consent. The most recent elections took effect January 1, 2012. Through December 31, 2014, Congress bars broadcasters from entering into exclusive retransmission consent agreements. Congress also requires all parties to negotiate retransmission consent agreements in good faith.

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In 2011, the FCC released a Notice of Proposed Rulemaking ("NPRM") to explore what action the FCC could take to allow market forces to set retransmission consent fees while still protecting the interests of consumers, identify *per se* violations of the duty to bargain in good faith, strengthen subscriber notice requirements when negotiations fail and eliminate the FCC's network non-duplication and syndicated exclusivity rules, which currently restrict the ability of a cable operator to carry certain signals containing duplicative programming, even if the station claiming protection is not carried by the cable operator. We cannot predict when, or if, the FCC will implement any new rules or change existing rules or the impact that any new rules may have on our business. If the new rules relatively strengthen the negotiating position of broadcasters or impose greater advance notice requirements of a possible termination of our right to carry a signal, this could have an adverse effect on our business.

Must-carry obligations may decrease the attractiveness of the cable operator's overall programming offerings by including less popular programming on the channel line-up, while cable operators may need to provide some form of consideration to broadcasters to obtain retransmission consent to carry more popular programming. We carry both must-carry broadcast stations and broadcast stations that have granted retransmission consent. A significant number of local broadcast stations carried by our cable systems have elected to negotiate for retransmission consent, and we have entered into retransmission consent agreements with substantially all of them. Although many of these agreements continue through the end of the current election cycle, or December 31, 2014, retransmission consent agreements representing slightly less than half of our video customers receiving local broadcast stations will expire and require renegotiation prior to that date.

Effective July 1, 2012, the FCC has reinstated its video description rules pursuant to the Twenty-First Century Communications and Video Accessibility Act of 2010 ("CVAA"). Cable operators with more than 50,000 subscribers must provide 50 hours per calendar quarter of prime-time and/or children's programming with video descriptions for each of the top-five Nielsen-rated non-broadcast networks that provide other than "near-live" content. Video description requires audio-narrated descriptions of a program's key visual elements. Although the burden of video description falls on the cable operator and other multichannel video programming distributors ("MVPD"), the affected programmers may include video descriptions in their programming feeds, thereby satisfying the requirement for all MVPDs. The FCC also set deadlines for complying with closed captioning of various types of Internet protocol video delivered online ranging from September 30, 2012 to September 30, 2013. We cannot predict the burden, if any, that fulfilling these requirements will ultimately place on our business.

On November 12, 2012, the FCC issued a Notice of Proposed Rulemaking to implement the CVAA with respect to establishing requirements to make emergency information available to the blind or visually impaired and for certain equipment to provide video description of emergency information. The FCC sought comments on using a secondary audio stream to provide such information. We cannot predict the outcome of this proceeding or the effect any such new requirements may have on our business.

On December 13, 2012, the FCC's rules implementing the Commercial Advertisement Loudness Mitigation ("CALM") Act went into effect. The CALM Act requires MPVDs to ensure that the commercials they transmit to viewers comply with standards established by the Advanced Television Systems Committee. We do not know the impact these new rules may have on our business, if any.

Availability of Analog Broadcast Signals

Because television broadcaster signals are broadcast in digital format only, the FCC created a temporary "dual carriage" requirement for must-carry signals under which cable systems that were not "all-digital" were required to provide must-carry signals to their subscribers in the primary digital format in which the operator receives the signal (i.e. high definition or standard definition), and downconvert the signal from digital to analog so that it is viewable to subscribers with analog television sets. The FCC allowed this dual carriage requirement to sunset as of December 12, 2012; however, it required cable operators to offer digital transport adapters to basic-only subscribers at minimal additional cost. Nevertheless, many retransmission consent agreements require such down-conversion in the absence of a legal requirement. The "dual carriage" requirement has the potential of having a negative impact on us because it reduces available channel capacity and thereby could require us to either discontinue other channels of programming or restrict our ability to carry new channels of programming or other services that may be more desirable to our customers.

Program Tiering

Federal law requires that certain types of programming, such as the carriage of local broadcast channels and any public, educational or governmental access ("PEG") channels, to be part of the lowest level of video programming service — the basic tier. In many of our systems, the basic tier is generally comprised of programming in analog format although some programming may be offered in digital format. Migration of PEG channels from analog to digital format frees up bandwidth over which we can provide a greater variety of other programming or service options. In 2009, the FCC opened a public comment period on petitions filed by supporters of PEG programming, but it has not issued any orders resulting from the petitions. We cannot predict the outcome of this proceeding, if any. Any legislative or regulatory action to restrict our ability to migrate PEG channels could adversely affect our ability to provide additional programming desired by viewers.

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For several years, the FCC has had under review a complaint with respect to another cable operator to determine whether certain charges routinely assessed by many cable operators, including us, to obtain access to digital services violate this "anti-buy-through" provision. Any decision that requires us to restructure or eliminate such charges would have an adverse effect on our business.

Tier Buy Through

The Cable Act and the FCC's regulations require our cable systems, other than those systems which are subject to effective competition, permit subscribers to purchase video programming we offer on a per channel or a per program basis without the necessity of subscribing to any tier of service other than the basic service tier.

Use of Our Cable Systems by the Government and Unrelated Third Parties

The Cable Act allows local franchising authorities and unrelated third parties to obtain access to a portion of our cable systems' channel capacity for their own use. For example, the Cable Act permits franchising authorities to require cable operators to set aside channels for public, educational and governmental access programming and requires most systems to designate a significant portion of its activated channel capacity for commercial leased access by third parties to provide programming that may compete with services offered by the cable operator.

The FCC regulates various aspects of third-party commercial use of channel capacity on our cable systems, including: the maximum reasonable rate a cable operator may charge for third-party commercial use of the designated channel capacity; the terms and conditions for commercial use of such channels; and the procedures for the expedited resolution of disputes concerning rates or commercial use of the designated channel capacity.

In 2008, the FCC promulgated regulations which could allow certain leased access users lower cost access to channel capacity on cable systems. Those regulations limit fees to 10 cents per subscriber per month for tiered channels and in some cases potentially no charge, and impose a variety of leased access customer service, information and reporting standards. The United States Office of Management and Budget denied approval of the new rules and a federal court of appeals stayed implementation of the new rules. In July 2008, the federal appeals court agreed at the request by the FCC to hold the case in abeyance until the FCC resolved its issues with the Office of Management and Budget. If implemented as promulgated, these changes will likely increase our costs and could cause additional leased access activity on our cable systems and thereby require us to either discontinue other channels of programming or restrict our ability to carry new channels of programming or other services that may be more desirable to our customers. We cannot, however, predict whether the FCC will ultimately enact these rules as promulgated, whether it will seek to implement revised rules, or whether it will attempt to implement any new commercial leased access rules.

Access to Certain Programming

In 2011, as part of its order approving Comcast's acquisition of a controlling interest in NBC Universal ("Comcast Order"), the FCC specified certain terms and conditions by which Comcast and NBC Universal will be required to provide programming to both traditional MVPDs, and online video distributors ("OVD"), as well as the availability of commercial arbitration mechanisms. While the net effect of these provisions could reduce the cost of such programming to us, it also may increase the availability and lower the cost of such programming to our MVPD competitors. However, the provisions could also make it easier for us to carry such programming via an Internet-based video service should we choose to offer one in the future. We cannot, however, predict the net effect of these new program access provisions on our business.

The FCC had previously preliminarily determined that the definition of an MVPD was limited to facilities-based providers, thus excluding "over-the-top" distributors (those who distribute video over the public Internet). In April 2012, the FCC announced that it would open a public comment window regarding the potential expansion of the definition of an MVPD to include non-facilities-based providers. While we cannot predict whether the FCC will take any action, any such expansion of definition may increase the availability of potential programming sources to non-facilities-based providers, thus potentially adversely affecting our business.

On October 5, 2012, the FCC voted to allow a ban on exclusive contracts between cable operators and satellite-delivered programming services in which the cable operator has an attributable ownership interest. We cannot predict what effect, if any, the removal of this ban will have on our business.

Ownership Limitations

The FCC previously adopted nationwide limits on the number of subscribers under the control of a cable operator and on the number of channels that can be occupied on a cable system by video programming in which the cable operator has an interest. The U.S. Court of Appeals for the District of Columbia Circuit reversed the FCC's decisions implementing these

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statutory provisions and remanded the case to the FCC for further proceedings. In 2007, the FCC reinstituted a restriction setting the maximum number of subscribers that a cable operator may serve at 30 percent nationwide. The FCC also has commenced a rulemaking to review vertical ownership limits and cable and broadcasting attribution rules. In 2009, the United States Court of Appeals for the Third Circuit struck down the 30 percent horizontal cable ownership cap. We cannot predict what action the FCC will take or how it may impact our business.

Cable Equipment

The Cable Act and FCC regulations seek to promote competition in the delivery of cable equipment by giving consumers the right to purchase set-top converters from third parties as long as the equipment does not harm the network, does not interfere with services purchased by other customers and is not used to receive unauthorized services. Over a multi-year phase-in period, the rules also required MVPDs, other than direct broadcast satellite operators, to separate security from non-security functions in set-top converters to allow third-party vendors to provide set-tops with basic converter functions. To promote compatibility of cable systems and consumer electronics equipment, in 2003, the FCC adopted rules implementing "plug and play" specifications for one-way digital televisions ("2003 Cable Card Order"). The rules require cable operators to provide "CableCard" security modules and support for digital televisions equipped with built-in set-top functionality. To accomplish this, the FCC relied on a critical industry memorandum of understanding agreed to in 2002 that set standards and limits on content protection codes ("2002 MOU"). On January 15, 2013, the United States Court of Appeals for the District of Columbia held that the FCC lacked statutory authority to adopt the 2003 rules and vacated the entire 2003 Cable Card Order and its associated rules, subject to any petition for rehearing. Although rules addressing encoding, prohibitions on selectable outputs and other technical standards were vacated, rules relating to prior related orders, such as the rule requiring separable security (e.g., CableCards) or the ban on integrated security were not affected. We cannot predict what effect, if any, the removal of the rules establishing standardization of and limits on content protection standards may have on our business although if content providers seek more stringent standards or divergent security technologies in the future, it may increase our costs and impair our ability to deliver programming to our subscribers.

In 2008, Sony Electronics and members of the cable industry submitted to the FCC a Memorandum of Understanding ("2008 MOU") in connection with the development of tru2way — a national two-way "plug and play" platform for interactive television; other members of the consumer electronics industry have since joined the 2008 MOU. Despite the 2008 MOU, in 2010, the FCC issued a Notice of Inquiry ("NOI") as part of its review pursuant to its National Broadband Plan that seeks to standardize gateway devices to allow consumer access to all video programming regardless of the MVPD provider. That NOI discusses an "AllVid" gateway device that would be used by all MVPDs by December 31, 2012. The AllVid device would translate network delivery technologies into a standardized video output that could be received by any AllVid retail device. Another adaptor would operate in a similar fashion but deliver the output to a home router for delivery to networked devices. These proposals, however, have not resulted in rules. We cannot predict the outcome of these proceedings or what effect they may have on our business or what impact the vacation of the FCC's 2003 Cable Card Order will have on the adoption of any new rules. If any new requirements require investment in new gateway devices, which could increase our costs and require capital investment, and any change to technology that could make it easier for consumers to change MVPDs, they could have an adverse effect on our business.

Since 2007, cable operators have been prohibited from issuing to their customers new set-top terminals that integrate security and basic navigation functions. In 2009, the FCC relaxed this ban by issuing an industry-wide waiver permitting cable operator use of a particular one-way set top box that met its definition of a "low-cost, limited capability" device. The particular box did not support interactive program guides, video-on-demand, or pay-per-view or include high definition or dual digital tuners or video recording functionality. The FCC established an expedited process to encourage other equipment manufacturers to obtain industry-wide waivers. In a separate action, specific to another cable operator, the FCC determined that HD output would no longer be considered an advanced capability. Such waivers by the FCC can help to lower the cost and facilitate conversion of cable systems to digital format.

As required by the Child Safe Viewing Act of 2007, the FCC issued a report to Congress in 2009 regarding the existence and availability of advanced technologies that are compatible with various communications devices or platforms to allow blocking of parent selected content. Congress intends to use that information to spur development of the next generation of parental control technology. Additional requirements to permit selective parental blocking could impose additional costs on us. Additionally, the FCC commenced another proceeding to gather information about empowering parents and protecting children in an evolving media landscape. The comment period ended in 2010. We cannot predict what, if any, FCC action will result from the information gathered.

In a separate 2009 proceeding, the FCC sought specific comment on how it can encourage innovation in the market for navigation devices to support convergence of video, television and IP-based technology. If the FCC were to mandate the use of specific technology for set-top boxes, it could hinder innovation and could impose further costs and restrictions on us.

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In 2011, new FCC rules took effect to address perceived shortcomings in deployment of CableCARD technology.Among other restrictions, cable operators must now proactively offer new CableCARD customers a self-installation option; offer a credit to bundled services if the bundle includes a set-top box and the subscriber opts to use a CableCARD instead of the set-top box; in annual notices, websites and billing stuffers, conspicuously disclose the rates charged for Cable CARDs in retail devices and those included in leased set-top boxes as well as the availability of credits from bundled prices if CableCARDs are used in lieu of set-top boxes; and CableCARDs must be uniformly priced throughout a cable system. The new rules also impose a number of operational requirements on cable operators, mostly designed to ensure the availability and efficacy of the CableCARDs. Because many of these rules were specifically applicable to MVPDs subject to the rules adopted pursuant to the 2003 Cable Card Order, it remains unclear whether the new rules remain in effect or were vacated along with the rules adopted as part of the 2003 Cable Card Order.

Pole Attachment Regulation

The Cable Act requires certain public utilities, including all local telephone companies and electric utilities, except those owned by municipalities and co-operatives, to provide cable operators and telecommunications carriers with nondiscriminatory access to poles, ducts, conduit and rights-of-way at just and reasonable rates. This right to access is beneficial to us. Federal law also requires the FCC to regulate the rates, terms and conditions imposed by such public utilities for cable systems' use of utility pole and conduit space unless state authorities have demonstrated to the FCC that they adequately regulate pole attachment rates, as is the case in certain states in which we operate. In the absence of state regulation, the FCC will regulate pole attachment rates, terms and conditions only in response to a formal complaint. The FCC adopted a rate formula that became effective in 2001, which governs the maximum rate certain utilities may charge for attachments to their poles and conduit by companies providing telecommunications services, including cable operators.

In 2011, the FCC adopted an Order modifying the pole attachment rules to promote broadband deployment. Previously, poles subject to the FCC attachment rules used a formula that resulted in lower rates for cable attachments and higher rates for telecommunication services attachments. The FCC had previously ruled that the provision of Internet services would not, in and of itself, trigger use of this new formula and the Supreme Court affirmed this decision.

As a result of the Supreme Court case upholding the FCC's classification of cable modem service as an information service, the 11th Circuit has considered whether there are circumstances in which a utility can ask for and receive rates from cable operators over and above the rates set by FCC regulation. In the 11th Circuit's decision upholding the FCC rate formula as providing pole owners with just compensation, the 11th Circuit also determined that there were a limited set of circumstances in which a utility could ask for and receive rates from cable operators over and above the rates set by the formula, including if an individual pole was "full" and where it could show lost opportunities to rent space presently occupied by another attacher at rates higher than provided under the rate formula. After this determination, Gulf Power Company pursued just such a claim based on these limited circumstances before the FCC. The administrative law judge appointed by the FCC to determine whether the circumstances were indeed met ultimately determined that Gulf Power could not demonstrate that the poles at issue were "full." In 2011, the FCC affirmed the administrative law judge's decision that, among other things, poles are not at "full capacity" if make-ready can accommodate new attachments. Gulf Power challenged the FCC's order at the United States Court of Appeals for the D. C. Circuit claiming, among other things, that the attachments failed to provide "just compensation" in violation of the Fifth Amendment's Takings Clause. In February 2012, the Court upheld FCC's order.

In May 2010, the FCC issued an order that, among other things, clarified the right to use certain types of attachment techniques and held that just and reasonable access to poles pursuant to Section 224 of the Communications Act includes the right of timely access.

Pursuant to the FCC's 2011 Order, the telecommunications attachment rate formula would yield results that would approximate the attachment rates for cable television operators. Pole owners will also be subject to timelines for virtually all aspects of make-ready preparations for attachments. Incumbent local exchange carriers will also be permitted to petition the FCC to receive lower regulated attachment rates. On February 26, 2013, the U.S. Court of Appeals for the D.C. Circuit unanimously upheld the FCC's 2011 Order, denying a challenge by an utility that faced reduced payments for attachments to its poles. Although some of these changes may benefit our business, others may lower the cost of pole attachments to our competitors and make better and timelier access to poles to facilitate construction of competing facilities and we cannot predict how these changes may impact our business.

Multiple Dwelling Unit Building Wiring

The FCC has adopted cable inside wiring rules to provide a more specific procedure for the disposition of residential home wiring and internal building wiring that belongs to an incumbent cable operator that is forced by the building owner to terminate its cable services in a building with multiple dwelling units. In 2007, the FCC issued rules voiding existing, and prohibiting future, exclusive service contracts for services to multiple dwelling unit or other residential developments. In

2008, the FCC enacted a ban on the contractual provisions that provide for the exclusive provision of telecommunications services to residential apartment buildings and other multiple tenant environments. In 2009, the United States Court of

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Appeals for the District of Columbia upheld the FCC's 2007 order. In 2010, the FCC affirmed the permissibility of bulk rate agreements and exclusive marketing agreements. The loss of exclusive service rights in existing contracts coupled with our inability to secure such express rights in the future may adversely affect our business to subscribers residing in multiple dwelling unit buildings and certain other residential developments.

Copyright

Our cable systems typically include in their channel line-ups local and distant television and radio broadcast signals, which are protected by the copyright laws. We generally do not obtain a license to use this programming directly from the owners of the copyrights associated with this programming, but instead comply with an alternative federal compulsory copyright licensing process. In exchange for filing certain reports and contributing a percentage of our revenues to a federal copyright royalty pool, we obtain blanket permission to retransmit the copyrighted material carried on these broadcast signals. The nature and amount of future copyright payments for broadcast signal carriage cannot be predicted at this time.

In 1999, Congress modified the satellite compulsory license in a manner that permits DBS providers to become more competitive with cable operators. Congress adopted legislation in 2004 extending the compulsory satellite license authority for an additional five years, and again in 2010 extending that authority through 2014. In its 2008 Report to Congress, the Copyright Office recommended abandonment of the current cable and satellite compulsory licenses. In 2011, the Copyright Office issued a report to Congress mandated by the Satellite Television Extension and Localism Act ("STELA") recommending phasing out the distant signal compulsory license by a date certain to be established by Congress and exploring phasing out the local signal compulsory license at a later date. The report suggested three options to replace the compulsory license: (1) collective licensing; (2) direct licensing; and (3) sublicensing, all of which likely pose additional burdens and uncertainty to the procurement of necessary copyright licenses and likely increase the both the cost of such clearances and the transactional cost of obtaining such clearances. Pursuant to the same legislation, in 2011, the United States Government Accountability Office issued a report to Congress that found that the impact of a phase-out of the compulsory copyright licenses would have an uncertain impact on the market and regulatory environment. In part, the scheme (i.e., direct licensing, collective licensing or sublicensing) that would replace the compulsory licenses would impact the outcome. Importantly, elimination of the compulsory license without repeal of mandatory carriage obligations would put cable operators in the paradoxical position of being required to retransmit a signal that it had no right to retransmit. The report also stated that although the impact is uncertain, it could cause an increase in both the cost of copyright license itself as well as the transactional costs to obtain the licenses. On February 13, 2013, the House Subcommittee on Communications and Technology held its first hearing of what was described as a series of hearings regarding the reauthorization of STELA. The hearing included presentations from both government and industry stakeholders with testimony and discussion ranging from a simple reauthorization of the satellite compulsory license to elimination of both the satellite and cable compulsory licenses. The House Judiciary Committee which divides jurisdiction over satellite and cable compulsory licensing with the House Subcommittee on Communications and Technology is reportedly planning its first reauthorization hearing in March 2013. We cannot predict whether Congress will take action to extend the satellite compulsory license and/or eliminate the cable compulsory license. Elimination of the cable compulsory license could, however, significantly increase our costs of obtaining broadcast programming.

In 2010, Congress modified the cable compulsory license reporting and payment obligations with respect to the carriage of multiple streams of programming from a single broadcast station and clarified that cable operators need not pay for distant signals carried only in portions of the cable system as if they were carried everywhere in the system (commonly referred to as "phantom signals"). The legislation also provides copyright owners with the ability to independently audit cable operators' statement of accounts filed in 2010 and later and the Copyright Office has a pending rulemaking to adopt rules governing such an audit. We cannot predict what impact these developments may have, if any, on our business.

The Copyright Office has commenced inquiries soliciting comment on petitions it received seeking clarification and revisions of certain cable compulsory copyright license reporting requirements. To date, the Copyright Office has not taken any public action on these petitions. Issues raised in the petitions that have not been resolved by subsequent legislation include, among other things, clarification regarding: inclusion in gross revenues of digital converter fees, additional set fees for digital service and revenue from required "buy throughs" to obtain digital service; and certain reporting practices, including the definition of "community." Moreover, the Copyright Office has not yet acted on a filed petition and may solicit comment on the definition of a "network" station for purposes of the compulsory license.

Privacy and Data Security

The Cable Act imposes a number of restrictions on the manner in which cable operators can collect, disclose and retain data about individual system customers and requires cable operators to take actions to prevent unauthorized access to such information. The statute also requires that the system operator periodically provide all customers with written information about its policies, including the types of information collected; the use of such information; the nature, frequency and purpose of any disclosures; the period of retention; the times and places where a customer may have access to such information; the

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limitations placed on the cable operator by the Cable Act; and a customer's enforcement rights. In the event that a cable operator is found to have violated the customer privacy provisions of the Cable Act, it could be required to pay damages, attorneys' fees and other costs. Certain of these Cable Act requirements have been modified by more recent federal laws. Other federal laws currently impact the circumstances and the manner in which we disclose certain customer information and future federal legislation may further impact our obligations. In addition, many states in which we operate have also enacted customer privacy statutes, including obligations to notify customers where certain customer information is accessed or believed to have been accessed without authorization. These state provisions are in some cases more restrictive than those in federal law. In 2009, a federal appellate court upheld an FCC regulation that requires phone customers to provide "opt-in" approval before certain subscriber information can be shared with a business partner for marketing purposes. Moreover, we are subject to a variety of federal requirements governing certain privacy practices and programs.

During 2008, several members of Congress commenced an inquiry into the use by certain cable operators of a third-party system that tracked activities of subscribers to facilitate the delivery of advertising more precisely targeted to each household, a practice known as behavioral advertising. In 2009, the Federal Trade Commission issued revised self-regulatory principles for online behavioral advertising.

In 2010, the FCC released recommendations regarding broadband privacy in its National Broadband Plan. These recommendations included requiring greater transparency regarding consumer disclosures of personal data practices and consumer informed consent for such uses as well as consumer control over uses. The FCC recommended collaboration with the Federal Trade Commission and Congress to develop these requirements.

In 2010, the FTC staff issued a preliminary report proposing, but not imposing, a normative framework for the protection of consumer privacy that departs from the traditional notice-and-choice model. Among the FTC report's recommendations includes adoption of "privacy by design" to build-in data security measures into everyday business practices, allowing customers to elect "do not track" status prohibiting information collection, greater transparency of data collection practices through disclosures that would allow comparison of practices across sites, access to data collected about them and education efforts by stakeholders about commercial data practices and choices available to them. Moreover, privacy legislation is regularly introduced in Congress to address these and similar concerns. On February 23, 2012, the White House released a "Consumer Bill of Rights" that among other things, proposes greater consumer control over collection and security of personal information. The document will serve as the blueprint for the Commerce Department to work with stakeholders to develop and implement enforceable privacy policies based on the Consumer Bill of Rights. We cannot predict what the outcome of any such initiative will be or its impact on our business. We cannot predict if there will be additional regulatory action or whether Congress will enact legislation, whether legislation would impact our existing privacy-related obligations under the Cable Act or any impact on any of the services that we provide. Future federal and/or state laws may also cover such issues as privacy, access to some types of content by minors, pricing, encryption standards, consumer protection, electronic commerce, taxation of e-commerce, copyright infringement and other intellectual property matters. The adoption of such laws or regulations in the future may decrease the growth of such services and the Internet, which could in turn decrease the demand for our HSD service, increase our costs of providing such service, impair the ability to access potential future advertising revenue streams or have other adverse effects on our business, financial condition and results of operations.

On December 19, 2012, the FTC issued revised rules pursuant to the Children's Online Privacy Protection Act which, among other things, requires compliance with the rules governing collection of information from children under the age of 13 not only from child-directed websites, but from those services that integrate with outside services, such as plug-ins or advertising networks that collect personal information from its visitors. The revised rules make the procurement of verifiable parental consent more streamlined and transparent and treat persistent identifiers such as IP addresses and mobile device identifiers as protected personal information. We cannot predict what, if any impact, these new rules will have on our business.

Small Cable Operator Provisions

The federal regulatory framework includes limited provisions for certain lessened regulation or special benefits for qualifying smaller cable operators. Historically, these provisions have been limited to cable operators with 400,000 or fewer subscribers. In the Comcast Order, the FCC enacted special bargaining and commercial arbitration provisions for cable operators with 1.5 million or fewer subscribers seeking to acquire Comcast or NBC Universal programming. This represents the first time that the FCC has recognized the need for special provisions for a cable operator our size and larger.

State and Local Regulation

Franchise Matters

Our cable systems use local streets and rights-of-way. Consequently, we must comply with state and local regulation, which is typically imposed through the franchising process. We have non-exclusive franchises granted by municipal, state or other local government entity for virtually every community in which we operate that authorize us to construct, operate and maintain our cable systems. Our franchises generally are granted for fixed terms and in many cases are terminable if we fail to comply with material provisions. The terms and conditions of our franchises vary materially from jurisdiction to jurisdiction. Each franchise granted by a municipal or local governmental entity generally contains provisions governing:

- franchise fees;

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- franchise term;
- system construction and maintenance obligations;
- system channel capacity;
- design and technical performance;
- customer service standards;
- sale or transfer of the franchise; and
- territory of the franchise.

Although franchising matters have traditionally been regulated at the local level through a franchise agreement and/or a local ordinance, many states now allow or require cable service providers to bypass the local process and obtain franchise agreements or equivalent authorizations directly from state government. Many of the states in which we operate, including California, Florida, Illinois, Indiana, Iowa, Michigan, Missouri, North Carolina and Wisconsin make state-issued franchises available, which typically contain less restrictive provisions than those issued by municipal or other local government entities. State-issued franchises in many states generally allow local telephone companies or others to deliver services in competition with our cable service without obtaining equivalent local franchises. In states where available, we are generally able to obtain state-issued franchises upon expiration of our existing franchises. Our business may be adversely affected to the extent that our competitors are able to operate under franchises that are more favorable than our existing local franchises. While most franchising matters are dealt with at the state and/or local level, the Cable Act provides oversight and guidelines to govern our relationship with local franchising authorities whether they are at the state, county or municipal level.

HSD Service

Federal Regulation

In 2002, the FCC announced that it was classifying Internet access service provided through cable modems as an interstate information service and determined that gross revenues from such services should not be included in the revenue base from which franchise fees are calculated. Although the United States Supreme Court has held that cable modem service was properly classified by the FCC as an "information service," freeing it from regulation as a "telecommunications service," it recognized that the FCC has jurisdiction to impose regulatory obligations on facilities-based Internet service providers. The FCC has an ongoing rulemaking process to determine whether to impose regulatory obligations on such providers, including us. Because of the FCC's decision, we are no longer collecting and remitting franchise fees on our high-speed Internet service revenues. Moreover, as discussed in "*State and Local Regulation — Network Neutrality*" below, the FCC has proposed reclassifying Internet access service as a Title II telecommunications service. The United States is a member of the International Telecommunications Union of the United Nations which met in December 2012 to craft revised international telecommunications regulations ("ITRs"). The United States announced on December 13, 2012 that it would not sign the revised ITRs, because it believed the ITRs contained provisions that could lead to controls over Internet content and greater regulation of the Internet by governments. We are unable to predict the ultimate resolution of these matters but do not expect that any additional franchise fees we may be required to pay will be material to our business and operations.

Network Neutrality

In 2010, the FCC commenced a NOI regarding its authority to regulate broadband Internet access. The NOI suggested three ways to assert such regulation, including classifying broadband Internet access as a Title II telecommunications service and forbearing from enforcing many of the Title II regulations. In 2010, the FCC, citing authority under Section 706 of the Telecommunications Act of 1996, adopted comprehensive broadband Internet network neutrality rules, including requiring transparency of disclosures to consumers of commercial terms, performance and network management practices; preventing blocking of lawful content, applications and services; and preventing unreasonable discrimination in the transmission of lawful Internet traffic. Although the prohibitions on blocking and interference are subject to reasonable network management practices, the FCC did not provide definitive guidance or safe harbors as to what actions constitute such practices. Rather, the FCC has opted to trade clarity for flexibility by further developing what constitutes reasonable network management practices on a complaint-driven case-by-case evaluation of actual practices. The rules took effect in 2011 and the FCC's authority to establish those rules is subject to a challenge before the United States Court of Appeals for the District of Columbia Circuit. We cannot predict the outcome of this litigation, however, if the court finds that the FCC lacked jurisdiction, the FCC could, as a fallback, classify HSD as subject in whole or in part to Title II regulation as a common carrier. In 2010, the FCC opened a rulemaking on whether to reclassify broadband service as a Title II service and that docket remains open at the FCC. If the FCC were to reclassify broadband as a common carrier service subject to Title II regulation, then some states might follow suit and attempt to regulate broadband service as well. Any regulation of our HSD service as a common carrier subject to Title II common carrier could have an adverse impact on our business.

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National Broadband Plan

In 2010, the FCC delivered to Congress the National Broadband Plan ("Plan") as required by the American Recovery and Reinvestment Act. The Plan seeks to ensure that all people of the United States have access to affordable broadband capability; connect 100 million households to affordable 100 Mbps service; provide access to 1 Gbps service to community anchor institutions; increase mobile innovation by making 500 MHz of wireless spectrum newly available; increase broadband adoption rates from 65 percent to 90 percent; transition Universal Service Fund ("USF") support from providing a legacy high-cost telephone subsidy to instead supporting affordable broadband in rural communities; enhance public safety by ensuring first responder access to a nationwide, wireless interoperable public safety network; and ensure that all consumers can track and manage their real-time energy consumption via broadband connectivity. The Plan includes more than 60 key actions, proceedings, and initiatives the FCC intends to undertake. The FCC proposes a variety of incentives to spur private investment in broadband deployment, including the repurposing of certain USF monies. The Plan calls for closing the gap between the telecommunications and cable pole attachment rates (see discussion under "*Cable System Operations and Cable Services: Pole Attachments*"); new rules affecting set-top boxes (see discussion under "*Cable System Operations and Cable Services: Cable Equipment*"); efforts to increase the transparency of privacy practices to consumers and gaining informed consent from consumers for information collection (see discussion under "*Cable System Operations and Cable Services: Privacy and Data Security*"); and standardization of technical measures of broadband performance (speed) and disclosure requirements to consumers. The Plan also recommends stronger cybersecurity protections and defenses by HSD providers as well as increased reporting obligations. In July 2010, the FCC, in conjunction with its implementation of the National Broadband Plan, issued a Public Notice to seek comment on whether to impose strict "network outage reporting" requirements for certain outages of 30 minutes or more on broadband Internet service providers. We cannot predict what, if any, requirements will be placed on our provision of HSD services or our operation of HSD facilities or what impact the Plan and the related FCC rulemakings and actions by other regulatory agencies or Congress will ultimately have on our business or what advantages may be given to services that may compete with ours.

Universal Service Fund

In 2011, the FCC adopted a series of reforms to the USF support mechanism. Included in these changes was the establishment of the Connect America Fund that will eventually replace all high-cost support mechanisms. The fund will help to make broadband available to areas that do not have or would not have broadband service, including an additional $300 million during 2012 in the form of one-time support to accelerate deployment of broadband networks. Moreover, the FCC will require all entities designated as an "eligible telecommunications carrier" to offer broadband services in addition to voice services.

In April 2012, the FCC issued a Further Notice of Proposed Rulemaking ("2012 FNPRM") which proposed, among other things imposing USF fees on broadband Internet access as well as imposing USF contributions on the full price of a bundle that included both assessable and non-assessable services. We cannot predict whether the FCC will impose USF contribution obligations on any of our HSD services either directly or indirectly through a bundled-offering assessment. Any such increased costs, however, would increase our cost of service to consumers and that could adversely affect our business. For a more complete discussion of the 2012 FNPRM, please refer to the Voice-over-Internet Protocol Telephony Service section below.

Digital Millennium Copyright Act

We regularly receive notices of claimed infringements by our HSD service users. The owners of copyrights and trademarks have been increasingly active in seeking to prevent use of the Internet to violate their rights. In many cases, their claims of infringement are based on the acts of customers of an Internet service provider — for example, a customer's use of an Internet service or the resources it provides to post, download or disseminate copyrighted music, movies, software or other content without the consent of the copyright owner or to seek to profit from the use of the goodwill associated with another person's trademark. In some cases, copyright and trademark owners have sought to recover damages from the Internet service provider, as well as or instead of the customer. The law relating to the potential liability of Internet service providers in these circumstances is unsettled. In 1996, Congress adopted the Digital Millennium Copyright Act, which is intended to grant ISPs protection against certain claims of copyright infringement resulting from the actions of customers, provided that the ISP complies with certain requirements. So far, Congress has not adopted similar protections for trademark infringement claims.

Privacy

Federal law may limit the personal information that we collect, use, disclose and retain about persons who use our services. Please refer to the *Privacy and Data Security* discussion contained in the *Cable System Operations and Cable Services* section, above for discussion of these considerations.

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International Law

Our HSD service enables individuals to access the Internet and to exchange information, generate content, conduct business and engage in various online activities on an international basis. The law relating to the liability of providers of these online services for activities of their users is currently unsettled both within the United States and abroad. Potentially, third parties could seek to hold us liable for the actions and omissions of our HSD customers, such as defamation, negligence, copyright or trademark infringement, fraud or other theories based on the nature and content of information that our customers use our service to post, download or distribute. We also could be subject to similar claims based on the content of other websites to which we provide links or third-party products, services or content that we may offer through our Internet service. Due to the global nature of the Web, it is possible that the governments of other states and foreign countries might attempt to regulate its transmissions or prosecute us for violations of their laws.

State and Local Regulation

Our HSD services provided over our cable systems are not generally subject to regulation by state or local jurisdictions.

Voice-over-Internet Protocol Telephony Service

Federal Law

The 1996 amendments to the Cable Act created a more favorable regulatory environment for cable operators to enter the phone business. Most major cable operators now offer voice-over-Internet protocol (VoIP) telephony as a competitive alternative to traditional circuit-switched telephone service. Various states, including states where we operate, considered or attempted differing regulatory treatment, ranging from minimal or no regulation to heavily-regulated common carrier status. As part of the proceeding to determine any appropriate regulatory obligations for VoIP telephony, the FCC decided that alternative voice technologies, like certain types of VoIP telephony, should be regulated only at the federal level, rather than by individual states. Many implementation details remain unresolved, and there are substantial regulatory changes being considered that could either benefit or harm VoIP telephony as a business operation.

Federal Regulatory Obligations

The FCC has applied some traditional landline telephone provider regulations to VoIP services. In 2006, the FCC announced that it would require VoIP providers to contribute to the Universal Service Fund based on their interstate service revenues. Beginning in 2007, facilities-based broadband Internet access and interconnected VoIP service providers were required to comply with Communications Assistance for Law Enforcement Act requirements. Since 2007, the FCC has required interconnected VoIP providers, such as us, to pay regulatory fees based on revenues reported on the FCC Form 499A at the same rate as interstate telecommunications service providers. The FCC also has extended other regulations and reporting requirements to VoIP providers, including E-911, Customer Proprietary Network Information ("CPNI"), local number portability, disability access, and Form 477 (subscriber information) reporting obligations. In April 2010, the FCC issued a NOI and a NPRM that would transition high-cost program funds from analog telephony to the provision of broadband services. In February 2012, the FCC released a Report and Order extending its outage reporting requirements applied to traditional, circuit-switched telephone services to providers of interconnected VoIP service. In January 2012, the FCC issued an Order requiring all VoIP providers holding Section 214 international authority to register with the FCC, modifying information collection methods for those providers with $5 million or less of annual international service revenue and imposing new reporting requirements on those with more than $5 million. Effective December 16, 2012, VoIP providers also became subject to new requirements to report outages to the FCC. It is unknown how these new requirements, or how other conclusions that the FCC may reach, or actions it may take, could affect our business.

In addition to announcing its reforms to the USF support mechanism in 2011, the FCC announced that it will eventually abandon the calling-party-network-pays model for intercarrier compensation, transitioning to a bill-and-keep model that will eliminate competitive distortions between wireline and wireless services and promote the overall goal of modernizing the rules to aid the transition to all Internet protocol traffic. We cannot predict how these various changes may either add costs or burdens to our existing VoIP and broadband services or how they may potentially benefit those who provide competing services.

As part of the 2012 FNPRM, the FCC proposed imposing USF contribution requirements on revenues from enterprise communications services and the total amount of bundled service offerings, thereby imposing fees on currently non-assessable services. The FCC also sought comment on imposing a USF fee on a per-connection or phone number basis, instead of on a revenue basis as well as limits on how providers list and recover USF fees on customer bills.

Privacy

In addition to any privacy laws that may apply to our provision of VoIP services (see general discussion in *Privacy and Data Security* in the *Cable System Operations and Cable Services* discussion, above), we must comply with additional privacy provisions contained in the FCC's CPNI regulations related to certain telephone customer records. In addition to employee training programs and other operating and disciplinary procedures, the CPNI rules require establishment of customer authentication and password protections, limit the means that we may use for such authentication, and provide customer approval prior to certain types of uses or disclosures of CPNI.

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State and Local Regulation

Although our entities that provide VoIP telephony services are certificated as competitive local exchange carriers in most of the states in which they operate, they generally provide few if any services in that capacity. Rather, we provide VoIP services that are not generally subject to regulation by state or local jurisdictions. The FCC has preempted some state commission regulation of VoIP services, but has stated that its preemption does not extend to state consumer protection requirements. Some states continue to attempt to impose obligations on VoIP service providers, including state universal service fund payment obligations.

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ITEM 1A. *RISK FACTORS*

Risks Related to our Operations

Our products and services face intense competition that could adversely affect our business, financial condition and results of operations.

We operate in a highly competitive business environment and, in many instances, face competitors that, compared to us, have greater resources and operating capabilities, fewer regulatory burdens, easier access to financing, more favorable brand recognition, and long-standing relationships with regulatory authorities and customers.

DBS providers, principally DirecTV and DISH, are our most significant video competitors. We have historically faced, and expect to continue to face, intense competition from these DBS providers, who have used discounted promotional pricing, more advanced consumer equipment, a larger number of HD channels, and, in the case of DirecTV, exclusive NFL programming to attract new customers. Additionally, in many of our service areas, these DBS providers have entered into co-marketing arrangements with local telephone companies to offer a DBS provided video service bundled with DSL, phone and, in some cases, wireless service offered by a local telephone company. We and other cable companies have lost a significant number of video customers to DBS providers, and we expect to continue to face serious challenges from them in the future.

Our video service also competes with local telephone companies that have deployed fiber- based networks in 10% of our footprint and with other video providers in 24% of our footprint, based upon visual inspections and other limited estimated techniques. If further build-outs of such fiber-based networks or other video systems were to occur in our service areas, we would face greater competition for video customers.

Increasingly, our video service faces competition from companies that deliver movies and television programs over the Internet. While we do not believe such OTTV offerings currently offer a full replacement for our video service, as they generally do not offer live content, local broadcasting or sports programming, OTTV providers continue to expand their offerings and, in some cases, offer content that we do not provide. If OTTV providers were to offer popular content that consumers accepted as an adequate, if not preferable, replacement to our video service, we may experience greater levels of video customer losses.

Our HSD service primarily competes with local telephone companies, including AT&T and CenturyLink, and other providers of high-speed Internet access. In most of our markets, our HSD service faces competition from DSL service, which is typically limited to downstream speeds ranging from 1.5Mbps to 3Mbps, compared to our downstream speeds ranging from 3Mbps to 105Mbps, but is generally offered at prices lower than our HSD service. In some service areas, the local telephone companies have extended fiber deeper into their networks, allowing them to offer higher speed DSL service, but still at speeds less than our HSD service. In certain of our other service areas, local telephone companies and other service providers have deployed fiber-based networks that allow them to offer high-speed Internet service similar to our own. AT&T has recently announced plans to extend its fiber based footprint, but has not specifically identified markets for this expansion. We may face greater competition for HSD customers if these fiber-based networks were further extended into our markets.

Many wireless communications companies also offer a wireless Internet service that we believe is generally not comparable to our HSD service in terms of speed or reliability. However, we may face greater competition for HSD customers in the future if such wireless Internet service offerings were to improve.

Our phone service primarily competes with the local telephone companies noted above, wireless communications companies and other VoIP providers. As more consumers continue to replace their traditional wireline phone service with a wireless product, we expect to face greater levels of pricing pressure and competition for phone customers.

The business services we provide to SMB and large enterprise customers generally compete with the local telephone companies, who have more extensive network coverage and longer-term relationships with the business community. We may not be able to continue to grow our business services revenues by taking more market share if our competitors decide to compete vigorously on price and service.

We also compete with many other sources of entertainment and information delivery, including broadcast television, movies, live events, radio broadcasts, home video products, console games, print media, and the Internet. The increasing number of

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choices available to audiences could also negatively impact advertisers' willingness to purchase advertising from us, as well as the price they are willing to pay for advertising. If we do not respond appropriately to further increases in the leisure and entertainment choices available to consumers, our competitive position could deteriorate.

In order to attract new customers and maintain our existing customer base, we make promotional offers that include short-term promotional offers on service and/or equipment, which may result in significant marketing, programming and other operating expenses, and greater levels of capital expenditures. As we expand our offerings to introduce new and enhanced services, we will be subject to further competition from other providers.

We are unable to predict the effects that competition may have on our business, and a continuation, or worsening, of such competitive factors as discussed above could adversely affect our business, financial condition and results of operations.

Weaker than anticipated recovery in the U.S. economy may adversely impact our business, financial condition and results of operations.

The United States economy continues to experience a weak recovery from the recession, and prospects for faster economic growth are uncertain. Because our video service is an established and highly penetrated business, our ability to gain new video customers depends, in part, on growth in occupied housing in our service areas, which is influenced by both local and national economic conditions. If the number of occupied homes in our service areas were to decline or not grow at all, our ability to attract and retain new video customers and maintain or grow our revenues would diminish. Continued lackluster recovery may hinder job creation, housing starts and personal income gains, and hurt consumer confidence, which may result in slower customer growth for us, downgrades of our services, and lower demand for our phone service, premium video offerings and higher-speed HSD tiers. A continuation, or worsening, of such factors could adversely impact our business, financial condition and results of operations.

The continuing increases in programming costs may drive the pricing of our video services to levels that are deemed unaffordable by our customers, which could have an adverse effect on our business, financial condition and results of operations.

Video programming expenses have historically been, and we expect will continue to be, our largest single expense item and, in recent years, have reflected substantial percentage increases, on a per-unit basis, well in excess of the inflation rate or the change in the consumer price index, caused by higher charges for national and regional sports networks and rising retransmission consent fees imposed by local broadcast stations. We believe these expenses will continue to grow at a significant rate due to increasing contractual demands, mainly by the large media conglomerates, who own or control most of the popular cable networks and major market local broadcast stations, and large independent television broadcast groups, who own or control a significant number of local broadcast stations across the country and, in many cases, manage, control or own multiple local broadcast stations in the same market.

Because of the concentrated cross-ownership of popular cable networks and major market local broadcast stations, or the concentrated cross-ownership or control of large groups of local broadcast stations, we have a limited ability to individually or selectively negotiate for programming and provide our customers with a choice of programming that they may wish to receive. If we are unable to successfully negotiate new agreements with these programmers when our current agreements expire, they could require us to cease carrying their signals, possibly for an indefinite period, which may result in a loss of video customers and advertising revenue. We also may be obligated to carry additional programming that we would otherwise not offer because of the negotiating leverage these large programming companies have over us, which may increase our programming expenses. While such growth in programming expenses can be partially offset by rate increases, our video gross margins will continue to decline if they cannot be fully offset. If increases in our programming costs were to drive the pricing of our video services to levels that are deemed unaffordable, our customers may no longer purchase our video services and instead rely on over-the-air viewing or use an OTTV service, which could have an adverse effect on our business, financial condition and results of operations.

We may be unable to keep pace with rapid technological change that could adversely affect our business, financial condition and results of operations.

We operate in a rapidly changing, consumer-driven environment and our success depends, in part, on our ability to maintain or improve our competitive position by acquiring, developing, adopting and exploiting new and existing technologies to distinguish our services. If our competitors were to acquire or develop and introduce new products and services that we do not currently offer, we may be required to deploy greater levels of capital investment than we would otherwise deploy to maintain our competitive position. If we are unsuccessful in keeping pace with future developments, and chose technologies or equipment that are less effective, cost-efficient or attractive to customers than those offered by our competitors, we may experience customer losses and our business, financial condition and results of operations may be adversely affected.

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We may be unable to secure necessary hardware, software, telecommunications and operational support, which may impair our ability to provision and service our customers.

Third-party firms provide some of the components used in delivering our products and services, including set-top boxes, DVRs and VOD equipment; interactive programming set-top guide; cable modems; routers and other switching equipment; provisioning and other software; network connections for our phone services; fiber optic cable and construction services for expansion and upgrades of our network; and our customer billing platform. Some of these companies may have negotiating leverage over us, considering that they are the sole supplier of certain products and services, or there may be a long lead time and/or significant expense required to transition to another provider. In many cases, some of these hardware, software and operational support vendors and 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, and our operations depend on a successful relationship with these companies. Specific to set-top boxes, we rely on third-party providers to make available to us new, cost-effective set-top boxes, with multi-room DVR capabilities, and new interactive set-top programming guides that allow us to offer our video customers an enhanced user experience and maintain parity with our competitors. If such vendors were unable to provide in a timely manner the next generation of set-top boxes and programming guides that our customers prefer compared to those offered by our competitors, and in quantities to meet our requirements, we may experience future video customer losses.

Any delays or disruptions in the relationship as a result of contractual disagreements, operational or financial failures on the part of the suppliers, or other adverse events affecting these suppliers could negatively affect our ability to effectively provision and service our customers. If such events were to occur, our business, financial condition and results of operations could be negatively affected.

We depend on network and information systems and other technologies to operate our businesses. A disruption or failure in such networks, systems or technologies resulting from "cyber attacks," natural disasters or other material events outside our control have a material adverse effect on our business, financial condition and results of operations.

Because of the importance of network and information systems and other technologies to our business, disruptions or failures caused by "cyber attacks" such as computer hacking, computer viruses, denial of service attacks, worms or other disruptive software could have a devastating impact on our business. Our network and information systems are also vulnerable to damage resulting from power outages, natural disasters, terrorist attacks and other material events that are outside our control. Any such event may cause degradation or disruption of service, excessive volume to call centers, and damage to our plant, equipment, data and reputation.

Approximately 19% of our cable distribution network is located on, or near, the Gulf Coast region in Alabama, Florida and Mississippi. In 2004 and 2005, three hurricanes impacted these cable systems to varying degrees causing property damage, service interruption and loss of customers. If the Gulf Coast region were to experience severe hurricanes in the future, this could adversely impact our results of operations in affected areas, causing us to experience higher than normal levels of expense and capital expenditures, as well as the potential loss of customers and revenues.

We may also be subject to risks caused by misappropriation, misuse, leakage, falsification and accidental release or loss of information maintained in our information technology system and networks, including customer, personnel and vendor data. If such risks were to materialize, we may be subject to significant costs and expenses, or damage to our reputation and credibility, which could adversely affect our business, financial condition, and results of operations. 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, particularly for businesses like ours that handle a large amount of personal customer data.

We are unable to predict the impact of such events, and any resulting customer or revenue losses, or increases in costs and expenses or capital expenditures, could have a material adverse effect our business, financial condition, and results of operations.

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Our business depends on certain 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-party firms 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; and require us to develop a non-infringing 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 any 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 monetary awards that are not 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 develop non-infringing technology or license the proprietary rights on commercially reasonable terms and conditions, our business, results of operations, and financial condition could be adversely affected.

The loss of key personnel could have a material adverse effect on our business.

Our success is substantially dependent upon the retention of, and the continued performance by, MCC's key personnel, including Rocco B. Commisso, MCC's Chairman and Chief Executive Officer. If any of MCC's key personnel cease to participate in our business and operations, it could have an adverse effect on our business, financial condition and results of operations.

Risks Related to our Financial Condition

We have substantial debt and have significant interest payments and debt repayments, which could limit our operational flexibility and have an adverse effect on our financial condition and results of operations.

As of December 31, 2012, our total debt was approximately $1.522 billion. Because of our substantial indebtedness, we are highly leveraged and will continue to be so, which could:

- 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 divestitures or strategic or non-strategic assets;
- 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 such 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

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- make us more vulnerable to economic downturns and limit our ability to withstand competitive pressures.

Our debt service obligations require us to use a large portion of our cash flows from operations flows to pay principal and interest, reducing our ability to finance our operations, capital expenditures and other activities. Outstanding debt under our bank credit facility (the "credit facility") has a variable rate of interest determined by either the London Interbank Offered Rate ("LIBOR"), or the Prime rate, chosen at our discretion, plus a margin, which varies depending on certain financial ratios as defined in the credit agreement governing the credit facility (the "credit agreement"). If such variable rates were to increase, or if we were to incur additional indebtedness, we may be required to pay additional interest expense, which would have an adverse effect on our results of operations.

We believe that cash generated by us or available to us will meet our anticipated capital and liquidity needs for the foreseeable future, including, as of December 31, 2012, scheduled term loan maturities of $9.0 million during each of the years ending December 31, 2013 and December 31, 2014 and $67.2 million of outstanding loans under our revolving credit commitments, which expire on December 31, 2014. However, in the longer term, specifically 2015 and beyond, we will do not expect to generate enough cash flows from operations to satisfy our maturing term loans and senior notes. Accordingly, we will have to refinance existing obligations to extend maturities, or raise additional capital through debt or equity issuances or both.

There can be no assurance that we will be able to raise such capital to refinance our existing obligations, or that we can do so on favorable terms. If we were unable to successfully refinance our existing obligations, we may have to cancel or scale back future capital spending programs or sell assets, which may affect our ability to compete effectively, and have an adverse affect on our financial condition and results of operations.

We are a holding company, and if our operating subsidiaries are unable to make funds available to us, we may not be able to fund our indebtedness and other obligations.

We are a holding company, and do not have any operations or hold any assets other than our investments in, and our advances to, our operating subsidiaries. These operating subsidiaries conduct all of our consolidated operations and own substantially all of our consolidated assets. Our operating subsidiaries are separate and distinct legal entities and have no obligation, contingent or otherwise, to make funds available to us.

The only source of cash that we have to fund our senior notes (including, without limitation, the payment of interest on, and the repayment of, principal) is the cash that our operating subsidiaries generate from operations and from borrowing under the credit facility. The ability of our operating subsidiaries to make funds available to us, in the form of payments of principal or interest due under intercompany notes due to us, dividends, loans, advances or other payments, will depend upon the operating results of such subsidiaries, applicable laws and contractual restrictions, including the covenants set forth in the credit agreement governing our credit facility. If our operating subsidiaries were unable to make funds available to us, then we may not be able to make payments of principal or interest due under our senior notes. If such an event occurred, we may be required to adopt one or more alternatives, such as refinancing our senior notes or the outstanding debt of our operating subsidiaries at or before maturity, or raise additional capital through debt or equity issuance, or both. If we were not able to successfully accomplish those tasks, then we may have to cancel or scale back future capital spending programs, or sell assets.

There can be no assurance that any of the foregoing actions would be successful. Any inability to meet our debt service obligations or refinance our indebtedness would materially adversely affect our business, financial condition and results of operations.

A default under our credit agreement or indenture could result in an acceleration of our indebtedness and other material adverse effects.

The credit agreement contains various covenants that, among other things, impose certain limitations on mergers and acquisitions, consolidations and sales of certain assets, liens, the incurrence of additional indebtedness, certain restricted payments and certain transactions with affiliates. As of December 31, 2012, the principal financial covenants of the credit agreement required compliance with a total leverage ratio (as defined in the credit agreement) of no more than 5.0 to 1.0 at any time and an interest coverage ratio (as defined in the credit agreement) of no less than 2.0 to 1.0 at the end of a quarterly period.

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The indenture governing our senior notes (the "indenture") contains various covenants, though they are generally less restrictive than those found in our credit facility. As of such date, the principal financial covenant of these senior notes had a limitation on the incurrence of additional indebtedness based upon a maximum debt to operating cash flow ratio (as defined in the indenture) of 8.5 to 1.0. See Note 6 in our Notes to Consolidated Financial Statements.

The breach of any of the covenants under the credit agreement or indenture could cause a default, which may result in the indebtedness becoming immediately due and payable. If this were to occur, we would be unable to adequately finance our operations. In addition, a default could result in a default or acceleration of our other indebtedness subject to cross-default provisions. If this occurs, we may not be able to pay our debts or borrow sufficient funds to refinance them. Even if new financing is available, it may not be on terms that are acceptable to us. The membership interests of our operating subsidiaries are pledged as collateral under our credit facility. A default under our credit agreement could result in a foreclosure by the lenders on the membership interests pledged under that facility. Because we are dependent upon our operating subsidiaries for all of our cash flows, a foreclosure would have a material adverse effect on our business, financial condition, results of operations, and liquidity.

In the event of a liquidation or reorganization of any of our subsidiaries, the creditors of any of such subsidiaries, including trade creditors, would be entitled to a claim on the assets of such subsidiaries prior to any claims of the stockholders of any such subsidiaries, and those creditors are likely to be paid in full before any distribution is made to such stockholders. To the extent that we, or any of our direct or indirect subsidiaries, are a creditor of another of our subsidiaries, the claims of such creditor could be subordinated to any security interest in the assets of such subsidiary and/or any indebtedness of such subsidiary senior to that held by such creditor.

A lowering of the ratings assigned to our debt securities by ratings agencies may increase our future borrowing costs and reduce our access to capital.

Our future access to the debt markets and the terms and conditions we receive are influenced by our debt ratings. MCC's corporate credit rating is B1, with a stable outlook, by Moody's, and B+, with a positive outlook, by Standard and Poor's. Our senior unsecured credit rating is B3 by Moody's, with a stable outlook, and B-, with a positive outlook, by Standard and Poor's. We cannot assure you that Moody's and Standard and Poor's will maintain their ratings on MCC and us. A negative change to these credit ratings could result in higher interest rates on future debt issuance than we currently experience, or adversely impact our ability to raise additional funds.

We have experienced net losses and may generate net losses in the future.

We experienced net losses for several years prior to 2008, and may report net losses in the future. In general, these prior net losses have principally resulted from depreciation and amortization expenses associated with our acquisitions and capital expenditures related to expanding and upgrading of our cable systems, interest expense related to our indebtedness and net losses on derivatives. If we were to report net losses in the future, such losses may prevent some investors from investing in our securities, thus limiting our ability to attract needed financing on favorable terms, if at all, which could adversely impact our financial condition.

Impairment of our goodwill and other intangible assets could cause significant losses.

As of December 31, 2012, we had approximately $638.7 million of unamortized intangible assets, including franchise rights of $614.7 million and goodwill of $23.9 million on our consolidated balance sheets. These intangible assets represented approximately 42% of our total assets.

Accounting Standards Codification (ASC) No. 350 — *Intangibles — Goodwill and Other ("ASC 350")* requires that goodwill and other intangible assets deemed to have indefinite useful lives, such as cable franchise rights, cease to be amortized. ASC 350 also requires that goodwill and certain intangible assets be tested at least annually for impairment. If we find that the carrying value of goodwill or cable franchise rights exceeds its fair value, we will reduce the carrying value of the goodwill or intangible asset to the fair value, and will recognize an impairment loss in our results of operations.

We follow the provisions of ASC 350 to test our goodwill and franchise rights for impairment. We assess the fair values of each cable system cluster using discounted cash flow ("DCF") methodology, under which the fair value of cable franchise rights are determined in a direct manner. We employ the In-use Excess Earnings DCF methodology to calculate the fair values of our cable franchise rights, using unobservable inputs (Level 3). This assessment involves significant judgment,

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including certain assumptions and estimates that determine future cash flow expectations and other future benefits, which are consistent with the expectations of buyers and sellers of cable systems in determining fair value. These assumptions and estimates include discount rates, estimated growth rates, terminal growth rates, comparable company data, revenues per customer, market penetration as a percentage of homes passed and operating margin. We also consider market transactions, market valuations, research analyst estimates and other valuations using multiples of operating income before depreciation and amortization to confirm the reasonableness of fair values determined by the DCF methodology. We also employ the Greenfield model to corroborate the fair values of our cable franchise rights determined under the In-use Excess Earnings DCF methodology. Significant impairment in value resulting in impairment charges may result if the estimates and assumptions used in the fair value determination change in the future. Such impairments, if recognized, could potentially be material.

Since a number of factors may influence determinations of fair value of intangible assets, we are unable to predict whether impairments of goodwill or other indefinite-lived intangibles will occur in the future. However, significant impairment in value resulting in impairment charges may result if the estimates and assumptions used in the fair value determination change in the future. Any such impairment would result in our recognizing a corresponding write-off, which could cause us to report a significant non-cash operating loss, which could have an adverse effect on our financial condition and results of operations.

Our annual impairment analysis was performed as of October 1, 2012, and resulted in no impairment. We may be required to conduct an impairment analysis prior to our anniversary date to the extent certain economic or business factors are present.

Risks Related to Legislative and Regulatory Matters

Changes in government regulation could adversely impact our business.

The cable industry is subject to extensive legislation and regulation at the federal and local levels and, in some instances, at the state level. Additionally, our HSD and phone services are also subject to regulation, and additional regulation is under consideration. Many aspects of such regulation are currently the subject of judicial and administrative proceedings and legislative and administrative proposals, and lobbying efforts by us and our competitors. Recently introduced legislation could entirely change the framework under which broadcast signals are carried, including removing the copyright compulsory license, and lifting restrictions on how we offer our basic tier services. We expect that court actions and regulatory proceedings will continue to refine our rights and obligations under applicable federal, state and local laws. The FCC's comprehensive implementation of changes under its National Broadband Plan, in addition to increasing our costs, may provide advantages to our competitors by subsidizing their costs, providing them with regulatory advantages and/or lowering barriers to entry. The results of current or future judicial and administrative proceedings and legislative activities cannot be predicted. Modifications to existing requirements or imposition of new requirements or limitations could have an adverse impact on our business including those described below. See "Business — Legislation and Regulation."

Restrictions on how we tier or package video programming selections could adversely impact our business.

Congress may consider legislation regarding programming packaging, bundling or *a la carte* delivery of programming. Any such requirements could fundamentally change the way in which we package and price our services. We cannot predict the outcome of any current or future FCC proceedings or legislation in this area, or the impact of such proceedings on our business at this time. See "Business — Legislation and Regulation — Content Regulations — Program Tiering."

The new program access mandates of the FCC's Comcast Order may help our competitors more than it may benefit us.

Although the program access provisions related to Comcast and NBC Universal programming may provide benefits to us in the form of lower programming costs and access to online distribution rights should we decide to provide distribution of video services over the Internet, those provisions may provide our competitors greater advantages. Not only do the new provisions benefit traditional competing MVPDs, but they may vastly expand the quantity of mainstream programming available to OVDs. More robust OVD offerings may have greater appeal to our current or prospective video subscribers. We cannot predict the impact such provisions may have on our business, but the lowering of costs to our competitors and the increased availability of online delivery of content could adversely affect our business. See "Business — Legislation and Regulation — Content Regulations — Access to Certain Programming."

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Denials of franchise renewals or continued absence of franchise parity can adversely impact our business.

Where state-issued franchises are not available, local franchising authorities may demand concessions, or other commitments, as a condition to renewal, and these concessions or other commitments could be costly. Although the Cable Act affords certain protections, there is no assurance that we will not be compelled to meet their demands in order to obtain renewals.

Our cable systems are operated under non-exclusive franchises. As of December 31, 2012, we believe that various entities are currently offering video service, through wireline distribution networks, to about 33% of our estimated homes passed. Because of the FCC's actions to speed issuance of local competitive franchises and because many states in which we operate cable systems have adopted, and other states may adopt, legislation to allow others, including local telephone companies, to deliver services in competition with our cable service without obtaining equivalent local franchises, we may face not only increasing competition but we may be at a competitive disadvantage due to lack of regulatory parity. Any of these factors could adversely affect our business. See "Business — Legislation and Regulation — Cable System Operations and Cable Services — State and Local Regulation — Franchise Matters."

Changes in carriage requirements could impose additional cost burdens on us.

Any change that increases the amount of content that we must carry on our cable systems can adversely impact our business by increasing our costs and limiting our ability to carry other programming more valued by our subscribers or limit our ability to provide other services. For example, if we are required to carry more than the primary stream of digital broadcast signals or if the FCC regulations are put into effect that require us to provide either very low cost or no cost commercial leased access, our business would be adversely affected. See "Business — Legislation and Regulation — Cable System Operations and Cable Services — Federal Regulation — Content Regulations."

Pending FCC and court proceedings could adversely affect our HSD service.

The regulatory status of providing HSD service by cable companies remains uncertain. If the FCC reclassifies Internet access service and regulates it as a Title II telecommunications service, this could impose significant new regulatory burdens and costs. The manner in which the FCC interprets and enforces its network neutrality obligations on our HSD service could add regulatory burdens, further restrict the methods we may employ to manage the operation of our network, increase our costs and may require us to make additional capital expenditures, thus adversely affecting our business. Moreover, if the FCC's jurisdiction to regulate broadband Internet access is upheld by the court, the type of jurisdiction found to exist may permit even more expansive and invasive regulation of our HSD service. See "Business — Legislation and Regulation — HSD Service — Federal Regulation."

Government financing of broadband providers in our service areas could adverse impact our business.

The changes brought about by the introduction of the Connect America Fund and other changes to how USF monies are distributed may provide funding and subsidies to those who either compete with us or seek to compete with us and therefore put us at a competitive disadvantage. Moreover, if the FCC imposes USF fees on broadband services, bundled services or VoIP services that could increase the cost of our services and harm our ability to compete. See "Business — Legislation and Regulation — HSD Service — Federal Regulation" and "Business — Legistlation and Regulation — Voice-over-Internet-Protocol Telephony Service — Federal Regulatory Obligations."

Our phone service may become subject to additional regulation.

The regulatory treatment of phone services that we and other providers offer remains uncertain. The FCC, Congress, the courts and the states continue to look at issues surrounding the provision of VoIP, including whether this service is properly classified as either a telecommunications service or an information service. Any changes to existing law as it applies to VoIP or any determination that results in greater or different regulatory obligations than competing services would result in increased costs, reduce anticipated revenues and impede our ability to effectively compete or otherwise adversely affect our ability to successfully roll-out and conduct our telephony business. See "Business — Legislation and Regulation — Voice-over-Internet-Protocol Telephony Service — Federal Law."

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Changes in pole attachment regulations or actions by pole owners could significantly increase our pole attachment costs.

Our cable facilities are often attached to, or use, public utility poles, ducts or conduits. Although changes in 2011 to the FCC's long-standing pole attachment rate formulas and attachment requirements may be beneficial to us, the effective and significant lowering of the rate attachment costs to our competitors coupled with increasing their ease of attachment, may significantly benefit those that provide services that compete with ours. Our business, financial condition and results of operations could suffer a material adverse impact from changes that make it both easier and less costly for those who compete with us to attach to poles. See "Business — Legislation and Regulation — Cable System Operations and Cable Services — Federal Regulation — Pole Attachment Regulation."

Changes in compulsory copyright regulations could significantly increase our license fees.

If Congress either eliminates the current cable compulsory license or enacts the proposed revisions to the Copyright Act, the elimination could impose increased costs and transactional burdens or the revisions could impose oversight and conditions that could adversely affect our business. Additionally, the Copyright Office's implementation of any such legislative changes could impose requirements on us or permit overly intrusive access to financial and operational records. Any future decision by Congress to eliminate the cable compulsory license, which would require us to obtain copyright licensing of all broadcast material at the source, would impose significant administrative burdens and additional costs that could adversely affect our business. See "Business — Legislation and Regulation — Cable System Operations and Cable Services — Federal Regulation — Copyright."

Risks Related to MCC's Chairman and Chief Executive Officer's Controlling Position

MCC's Chairman and Chief Executive Officer has the ability to control all major corporate decisions, and a sale of his ownership interest could result in a change of control that would have unpredictable effects.

An entity wholly-owned by Rocco B. Commisso, MCC's founder, Chairman and Chief Executive Officer, is the sole shareholder of MCC. Our debt arrangements provide that a default may result upon certain change of control events, including if Mr. Commisso were to sell a significant stake in us or MCC to a third party. Our debt agreements provide, however, that a change of control will not be deemed to have occurred so long as MCC continues to be our manager and Mr. Commisso continues to be MCC's Chairman and Chief Executive Officer.

A change in control could result in a default under our debt arrangements, require us to offer to repurchase our senior notes at 101% of their principal amount, trigger a variety of federal, state and local regulatory consent requirements and potentially limit MCC's further utilization of net operating losses for income tax purposes. Any of the foregoing results could adversely affect our results of operations and financial condition.

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ITEM 1B. *UNRESOLVED STAFF COMMENTS*

None.

ITEM 2. *PROPERTIES*

Our principal physical assets consist of fiber optic networks, including signal receiving, encoding and decoding devices, headend facilities and distribution systems and equipment at, or near, customers' homes. 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 and related equipment. Our distribution systems 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 performance and capacity. In addition, we maintain a network operations center with equipment necessary to monitor and manage the status of our network.

We own and lease the real property housing our regional call centers, business offices and warehouses throughout our operating regions. Our headend facilities, signal reception sites and microwave facilities are located on owned and leased parcels of land, and we generally own the towers on which certain of our equipment is located. 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*

Gary Ogg and Janice Ogg v. Mediacom LLC

We were named as a defendant in a putative class action, captioned *Gary Ogg and Janice Ogg v. Mediacom LLC*, originally filed in the Circuit Court of Clay County, Missouri in April 2001. The lawsuit alleged that we, in areas where there was no cable franchise, failed to obtain permission from landowners to place our fiber interconnection cable notwithstanding the possession of agreements or permission from other third parties.

In 2009, a jury trial commenced solely for the claim of Gary and Janice Ogg, the designated class representatives, and the jury rendered a verdict in favor of Gary and Janice Ogg setting compensatory damages of $8,863 and punitive damages of $35,000. The Court did not enter a final judgment on this verdict and therefore the amount of the verdict could not at that time be judicially collected.

On April 22, 2011, the Circuit Court of Clay County, Missouri issued an opinion and order decertifying the class in this putative class action. On August 7, 2012, the Missouri Court of Appeals, Western District affirmed the court's decertification of the class and reversed the court's refusal to award prejudgment interest on the Ogg judgment. The Missouri Supreme Court refused to review the Missouri Court of Appeals decision, which is now final.

In February 2013, we made a payment of approximately $55,000 to Gary and Janice Ogg, thereby concluding this case.

Other Legal Proceedings

We are involved in various legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on our consolidated financial position, results of operations, cash flows or business.

ITEM 4. *MINE SAFETY DISCLOSURES*

Not applicable.

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PART II

ITEM 5. *MARKET FOR REGISTRANTS' COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES*

There is no public trading market for our equity, all of which is held by MCC.

ITEM 6. *SELECTED FINANCIAL DATA*

In the table below, we provide selected historical consolidated statement of operations data, cash flow data and other data for the years ended December 31, 2008 through 2012 and balance sheet data and operating data as of December 31, 2008 through 2012, which are derived from our consolidated financial statements (except other data and operating data). Dollars are in thousands, except operating data.

See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations."

	Year Ended December 31,				
	2012	2011	2010 [10] [11]	2009 [10] [11]	2008 [10] [11]
Statement of Operations Data:					
Revenues	$ 681,683	$ 675,556	$ 651,326	$ 637,375	$ 615,859
Costs and expenses:					
Service costs	295,067	293,940	291,946	283,167	267,321
Selling, general and administrative expenses	114,992	114,300	109,752	109,829	110,605
Management fee expense	11,885	11,896	12,123	11,808	11,805
Depreciation and amortization	115,324	117,352	109,509	114,465	112,292
Operating income	144,415	138,068	127,996	118,106	113,836
Interest expense, net	(95,868)	(97,681)	(91,824)	(89,829)	(99,639)
Loss on early extinguishment of debt	(6,468)	—	(1,234)	(5,790)	—
Gain (loss) on derivatives, net	5,083	(15,178)	(18,214)	13,121	(23,321)
Gain (loss) on sale of cable systems, net	4,920	—	—	(377)	(170)
Investment income from affiliate[1]	18,000	18,000	18,000	18,000	18,000
Other expense, net	(1,591)	(1,913)	(2,777)	(3,794)	(3,726)
Net income	$ 68,491	$ 41,296	$ 31,947	$ 49,437	$ 4,980
Balance Sheet Data (end of period):					
Total assets	$1,535,391	$1,545,160	$1,583,439	$1,578,789	$1,509,284
Total debt	$1,522,000	$1,583,000	$1,519,000	$1,510,000	$1,520,000
Total member's deficit	$ (192,198)	$ (249,571)	$ (150,051)	$ (205,179)	$ (316,160)
Cash Flow Data:					
Net cash flows provided by (used in):					
Operating activities	$ 172,874	$ 160,802	$ 98,400	$ 136,570	$ 188,547
Investing activities	$ (98,864)	$ (93,835)	$ (107,154)	$ (100,374)	$ (143,859)
Financing activities	$ (77,054)	$ (76,543)	$ 21,900	$ (37,388)	$ (44,213)
Other Data:					
OIBDA[2]	$ 259,739	$ 255,420	$ 237,505	$ 232,571	$ 226,128
OIBDA margin[3]	38.1%	37.8%	36.5%	36.5%	36.7%
Ratio of earnings to fixed charges[4]	1.66	1.40	1.32	1.50	1.04
Operating Data (end of period):					
Estimated homes passed[5]	1,301,000	1,295,000	1,292,000	1,286,000	1,370,000
Video customers[6]	442,000	473,000	530,000	548,000	601,000
HSD customers[7]	410,000	383,000	379,000	350,000	337,000
Phone customers[8]	166,000	159,000	157,000	135,000	114,000
Primary service units [9]	1,018,000	1,015,000	1,066,000	1,033,000	1,052,000

Notes:

(1) Investment income from affiliate represents the investment income on our $150.0 million preferred equity investment in Mediacom Broadband. See Note 12 in our Notes to Consolidated Financial Statements.

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(2) "OIBDA" is not a financial measure calculated in accordance with generally accepted accounting principles ("GAAP") in the United States. We define OIBDA as operating income before depreciation and amortization. OIBDA has inherent limitations as discussed below.

OIBDA is one of the primary measures used by management to evaluate our performance and to forecast future results. We believe OIBDA is useful for investors because it enables them to assess our performance in a manner similar to the methods used by management, and provides a measure that can be used to analyze value and compare the companies in the cable industry. A limitation of OIBDA, however, is that it excludes depreciation and amortization, which represents the periodic costs of certain capitalized tangible and intangible assets used in generating revenues in our business. Management uses a separate process to budget, measure and evaluate capital expenditures. In addition, OIBDA may not be comparable to similarly titled measures used by other companies, which may have different depreciation and amortization policies.

OIBDA should not be regarded as an alternative to operating income or net income as an indicator of operating performance, or to the statement of cash flows as a measure of liquidity, nor should it be considered in isolation or as a substitute for financial measures prepared in accordance with GAAP. We believe that operating income is the most directly comparable GAAP financial measure to OIBDA.

In our Annual Reports on Form 10-K for the years ended December 31, 2010, 2009 and 2008, we presented OIBDA as adjusted for non-cash share-based compensation, or "Adjusted OIBDA." We no longer record non-cash share-based compensation, and believe OIBDA is the most appropriate measure to evaluate our performance and forecast future results. See Notes 2, 8 and 10 in our Notes to Consolidated Financial Statements.

The following represents a reconciliation of OIBDA to operating income, which is the most directly comparable GAAP measure (dollars in thousands):

	Year Ended December 31,				
	2012	2011	2010	2009	2008
OIBDA	$ 259,739	$ 255,420	$ 237,505	$ 232,571	$ 226,128
Depreciation and amortization	(115,324)	(117,352)	(109,509)	(114,465)	(112,292)
Operating income	$ 144,415	$ 138,068	$ 127,996	$ 118,106	$ 113,836

(3) Represents OIBDA as a percentage of revenues. See note 2 above.

(4) The ratio of earnings to fixed charges was 1.66, 1.40, 1.32, 1.50 and 1.04 for the years ended December 31, 2012, 2011, 2010, 2009 and 2008, respectively. Refer to Exhibit 12.1 to this Annual Report for additional information.

(5) Represents the estimated number of single residence homes, apartments and condominium units that we can connect to our distribution system without further extending the transmission lines. Estimated homes passed are an estimate based on the best information currently available.

(6) Represents customers receiving one or more video services. Accounts that are billed on a bulk basis, which typically receive discounted rates, are converted into full-price equivalent video customers by dividing total bulk billed basic revenues of a particular system by the average cable rate charged to video customers in that system. This conversion method is generally consistent with the methodology used in determining payments to programmers. Video customers include connections to schools, libraries, local government offices and employee households that may not be charged for limited and expanded cable services, but may be charged for digital cable, HSD, phone or other services. Our methodology of calculating the number of video customers may not be identical to those used by other companies offering similar services.

(7) Represents customers receiving HSD service. Small to medium-sized commercial HSD accounts are converted to equivalent residential HSD customers by dividing their associated revenues by the applicable residential rate. Customers who take our scalable, fiber-based enterprise network products and services are not counted as HSD customers. Our methodology of calculating HSD customers may not be identical to those used by other companies offering similar services.

(8) Represents customers receiving phone service. Small to medium-sized commercial phone accounts are converted to equivalent residential phone customers by dividing their associated revenues by the applicable residential rate. Our methodology of calculating phone customers may not be identical to those used by other companies offering similar services.

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(9) Represents the sum of video, HSD and phone customers.

(10) Certain amounts included in the years ended December 31, 2008 through 2010 have been revised. See Note 2 in our Notes to Consolidated Financial Statements for the effects on the December 31, 2010 Consolidated Balance Sheet and on the Consolidated Statements of Operations and Consolidated Statements of Cash Flows for the years ended December 31, 2010 and 2009.

(11) The following table presents the impact of the revision on our Consolidated Balance Sheets (dollars in thousands):

	As Previously Reported	Adjustment	As Revised
December 31, 2008			
Total assets	$1,499,125	$ 10,159	$1,509,284
Capital contributions	394,517	(2,443)	392,074
Accumulated deficit	(698,778)	(9,456)	(708,234)
Total member's deficit	$ (304,261)	$ (11,899)	$ (316,160)
December 31, 2009			
Total assets	$1,568,220	$ 10,569	$1,578,789
Capital contributions	455,973	(2,355)	453,618
Accumulated deficit	(646,960)	(11,837)	(658,797)
Total member's deficit	$ (190,987)	$ (14,192)	$ (205,179)
December 31, 2010			
Total assets	$1,584,108	$ (669)	$1,583,439
Capital contributions	478,973	(2,178)	476,795
Accumulated deficit	(613,803)	(13,043)	(626,846)
Total member's deficit	$ (134,830)	$ (15,221)	$ (150,051)

The following table presents the impact of the revision on our Consolidated Statements of Operations (dollars in thousands):

	Year Ended December 31, 2009			Year Ended December 31, 2008		
	As Previously Reported	Adjustment	As Revised	As Previously Reported	Adjustment	As Revised
Depreciation expense	$112,084	$ 2,381	$114,465	$109,883	$ 2,409	$112,292
Operating income	120,487	(2,381)	118,106	116,245	(2,409)	113,836
Net income	51,818	(2,381)	49,437	7,389	(2,409)	4,980

The following table presents the impact of the revision on our Consolidated Statements of Cash Flows (dollars in thousands):

	Year Ended December 31, 2009			Year Ended December 31, 2008		
	As Previously Reported	Adjustment	As Revised	As Previously Reported	Adjustment	As Revised
Net cash flows provided by (used in):						
Operating activities	$ 94,428	$ 3,972	$ 98,400	$ 186,383	$ 2,164	$ 188,547
Investing activities	(103,182)	(3,972)	(107,154)	(141,695)	(2,164)	(143,859)

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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, 2012, 2011 and 2010.

Overview

We are a wholly-owned subsidiary of Mediacom Communications Corporation ("MCC"), the nation's eighth largest cable company based on the number of customers who purchase one or more video services, also known as video customers. As of December 31, 2012, we served approximately 442,000 video customers, 410,000 high-speed data ("HSD") customers and 166,000 phone customers, aggregating 1.02 million primary service units ("PSUs").

We provide our residential and commercial customers with a wide variety of products and services, including our primary services of video, HSD and phone. We also provide network and transport services to medium and large sized businesses, governments, and educational institutions in our service areas, including cell tower backhaul for wireless telephone providers, and sell advertising time to local, regional and national advertisers. We believe our customers prefer the cost savings of the bundled products and services we offer, as well as the convenience of having a single provider contact for ordering, provisioning, billing and customer care.

We expect we will continue to increase revenues through growth in our business services and, to a lesser extent, residential revenues. Business services revenues are expected to grow through HSD and phone sales to small-to-medium sized companies and greater revenues from cell tower backhaul and large enterprise class services. Revenues from residential services are expected to grow as a result of HSD and phone customer growth, with additional contributions from customers taking higher HSD speed tiers and more customers taking our advanced video services.

Our performance has been affected by soft economic conditions and significant video competition. We believe the slow economic recovery, the higher than expected unemployment levels, and lackluster consumer spending have largely contributed to lower connect activity for all of our services and negatively impacted our residential customer and revenue growth. While we expect improvement as the economy recovers further, a continuation or broadening of such effects may adversely impact our results of operations, cash flows and financial position.

Our video service principally competes with direct broadcast satellite ("DBS") providers, who offer video programming substantially similar to ours. For the past several years, DBS competitors have deployed aggressive marketing campaigns, including deeply discounted promotional packages, more advanced consumer equipment and exclusive sports programming, which we believe have contributed to video customer losses in our markets. At the same time, our video programming costs on a per-unit basis have risen well in excess of the inflation rate in recent years, a trend we expect to continue. Given these factors, we have generally limited our offering of discounted pricing for video-only customers, as we believe it has become uneconomic to offer a low-priced, low-margin video-only product in an attempt to match the competition's pricing. While the reduction of discounted pricing has positively impacted per-unit video revenues, we believe that it, along with soft economic conditions, has contributed to further video customer losses. While we expect to mostly offset such declines through higher average unit pricing and greater penetration of our advanced video services, if such losses were to continue, we may experience future annual declines in video revenues.

Our HSD service competes primarily with digital subscriber line ("DSL") services offered by local telephone companies. Based upon the speeds we offer, we believe our HSD product is generally superior to DSL offerings in our service areas. As consumers' bandwidth requirements have dramatically increased in the past few years, a trend many industry experts expect to continue, we believe our ability to offer a HSD product today with speeds of up to 105Mbps gives us a competitive advantage compared to the DSL service offered by the local telephone companies. We expect to continue to grow HSD revenues through residential customer growth and more customers taking higher HSD speed tiers.

Our phone service mainly competes with substantially comparable phone services offered by local telephone companies and cellular phone services offered by national wireless providers. We believe we will grow phone revenues through residential phone customer growth, which may be mostly offset by unit pricing pressure.

Our business services of video, HSD, and phone, and network and transport solutions largely compete with local phone companies, or local exchange carriers ("LECs"). Our fast-growing cell tower backhaul business primarily competes with LECs. Developments and advancements in products and services by new, emerging companies may intensify competition. We have experienced strong growth rates of business services revenues in the past several years, which we believe will continue.

We face significant competition in our advertising business from a wide range of national, regional and local competitors. Competition will likely elevate as new formats for advertising are introduced into our markets. We compete for advertising

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revenues principally against local broadcast stations, national cable and broadcast networks, radio, newspapers, magazines, outdoor display and Internet companies. Due to the strong contributions of political advertising in 2012 during a national election year, we may experience a decline in advertising revenues in 2013.

For the year ended December 31, 2012, video programming represented our single largest expense, and we expect the rate of growth in programming costs per video customer to continue to increase in 2013 at similar levels to our experience in 2012. In recent years, we have experienced substantial increases in video programming costs per video customer, particularly for sports and local broadcast programming, well in excess of the inflation rate or the change in the consumer price index. We believe that these expenses will continue to grow due to the increasing contractual demands of large programmers, who each own or control a significant number of popular cable networks, including sports programming, and increasing retransmission consent fees charged by large television broadcast station groups, including certain large programmers who also own major market television broadcast stations. While such growth in programming expenses can be partially offset by rate increases, we expect our video gross margins will continue to decline if increases in programming costs outpace any growth in video revenues.

2012 Developments

New Financing

On February 7, 2012, we issued 7$^{1}/_{4}$% senior notes due February 2022 (the "7$^{1}/_{4}$% Notes") in the aggregate principal amount of $250.0 million (the "financing"). After giving effect to $5.0 million of financing costs, net proceeds of $245.0 million, together with borrowings under our revolving credit commitments, were used to repay the entire outstanding amount under Term Loan D under our bank credit facility (the "credit facility"). See Note 6 in our Notes to Consolidated Financial Statements.

Sale and Acquisition of Cable Systems, Net

In May 2012, we sold a non-strategic cable system that served approximately 3,000 video and 1,200 HSD customers. We received proceeds of approximately $10.7 million, yielding a gain on sale of cable systems, net of $4.9 million. In June 2012, we acquired certain cable assets serving about 600 video, 400 HSD and 600 phone customers for approximately $1.2 million.

Revenues

Video

Video revenues primarily represent monthly subscription fees charged to our residential video customers, which vary according to the level of service and equipment taken, and revenue from the sale of VOD content and pay-per-view events. Video revenues also include installation, reconnection and wire maintenance fees, franchise and late payment fees, and other ancillary revenues.

HSD

HSD revenues primarily represent monthly subscription fees charged to our residential HSD customers, which vary according to the level of HSD service taken.

Phone

Phone revenues primarily represent monthly subscription fees charged to our residential phone customers for our phone service.

Business Services

Business services revenues primarily represent monthly fees charged to our commercial video, HSD and phone customers, which vary according to the level of service taken, and fees charged to large businesses, including revenues from cell tower backhaul and enterprise class services.

Advertising

Advertising revenues primarily represent revenues received from selling advertising time we receive under our programming license agreements to local, regional and national advertisers for the placement of commercials on channels offered on our video services.

Costs and Expenses

Service Costs

Service costs consist of the costs related to providing and maintaining services to our customers. Significant service costs are for: video programming; HSD service, including bandwidth connectivity; phone service, including leased circuits and long distance; our enterprise networks business; technical personnel who maintain our cable network, perform customer installation activities and provide customer support; our network operations center; utilities, including pole rental; and field operations, including outside contractors, vehicle fuel and maintenance and leased fiber for our regional fiber networks.

Programming costs, which are generally paid on a per video customer basis, have historically represented our single largest expense. In recent years, we have experienced substantial increases in the per-unit cost of our programming, which we believe will continue to grow due to the increasing contractual rates and retransmission consent fees demanded by large programmers and independent broadcasters.

Our HSD and phone service costs fluctuate depending on the level of investments we make in our cable systems and the resulting operational efficiencies. In June 2011, we completed a transition to an internal phone service platform, which greatly reduced our phone service expenses.

Our other service costs generally rise as a result of customer growth and inflationary cost increases for personnel, outside vendors and other expenses. Personnel and related support costs may increase as the percentage of expenses that we capitalize declines due to lower levels of new service installations. We anticipate that our service costs, with the exception of programming expenses, will remain fairly consistent as a percentage of our revenues.

Selling, General and Administrative Expenses

Significant selling, general and administrative expenses are for: our call center, customer service, marketing, business services, support and administrative personnel; franchise fees and other taxes; bad debt; billing; marketing; advertising; and general office administration. These expenses generally rise due to customer growth and inflationary cost increases for personnel, outside vendors and other expenses. We anticipate that our selling, general and administrative expenses will remain fairly consistent as a percentage of our revenues.

Service costs and selling, general and administrative expenses exclude depreciation and amortization, which is presented separately.

Management Fee Expense

Management fee expense reflects compensation paid to MCC for the performance of services it provides our operating subsidiaries in accordance with management agreements between MCC and our operating subsidiaries.

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Use of Non-GAAP Financial Measures

"OIBDA" is not a financial measure calculated in accordance with generally accepted accounting principles ("GAAP") in the United States. We define OIBDA as operating income before depreciation and amortization. OIBDA has inherent limitations as discussed below.

OIBDA is one of the primary measures used by management to evaluate our performance and to forecast future results. We believe OIBDA is useful for investors because it enables them to assess our performance in a manner similar to the methods used by management, and provides a measure that can be used to analyze value and compare the companies in the cable industry. A limitation of OIBDA, however, is that it excludes depreciation and amortization, which represents the periodic costs of certain capitalized tangible and intangible assets used in generating revenues in our business. Management uses a separate process to budget, measure and evaluate capital expenditures. In addition, OIBDA may not be comparable to similarly titled measures used by other companies, which may have different depreciation and amortization policies.

OIBDA should not be regarded as an alternative to operating income or net income as an indicator of operating performance, or to the statement of cash flows as a measure of liquidity, nor should it be considered in isolation or as a substitute for financial measures prepared in accordance with GAAP. We believe that operating income is the most directly comparable GAAP financial measure to OIBDA.

In our Annual Report on Form 10-K for the year ended December 31, 2010, we presented OIBDA as adjusted for non-cash share-based compensation, or "Adjusted OIBDA." We no longer record non-cash share-based compensation, and believe OIBDA is the most appropriate measure to evaluate our performance and forecast future results. See Notes 2, 8 and 10 in our Notes to Consolidated Financial Statements.

Year Ended December 31, 2012 Compared to Year Ended December 31, 2011

The table below sets forth our consolidated statements of operations and OIBDA for the years ended December 31, 2012 and 2011 (dollars in thousands and percentage changes that are not meaningful are marked NM):

	Year Ended December 31,			
	2012	2011	$ Change	% Change
Revenues	$681,683	$675,556	$ 6,127	0.9%
Costs and expenses:				
Service costs (exclusive of depreciation and amortization)	295,067	293,940	1,127	0.4%
Selling, general and administrative expenses	114,992	114,300	692	0.6%
Management fee expense	11,885	11,896	(11)	(0.1%)
Depreciation and amortization	115,324	117,352	(2,028)	(1.7%)
Operating income	144,415	138,068	6,347	4.6%
Interest expense, net	(95,868)	(97,681)	1,813	(1.9%)
Loss on early extinguishment of debt	(6,468)	—	(6,468)	NM
Gain (loss) on derivatives, net	5,083	(15,178)	20,261	NM
Gain on sale of cable systems, net	4,920	—	4,920	NM
Investment income from affiliate	18,000	18,000	—	NM
Other expense, net	(1,591)	(1,913)	322	(16.8%)
Net income	$ 68,491	$ 41,296	$27,195	65.9%
OIBDA	$259,739	$255,420	$ 4,319	1.7%

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The table below represents a reconciliation of OIBDA to operating income, which is the most directly comparable GAAP measure (dollars in thousands):

	Year Ended December 31, 2012	Year Ended December 31, 2011	$ Change	% Change
OIBDA	$ 259,739	$ 255,420	$ 4,319	1.7%
Depreciation and amortization	(115,324)	(117,352)	2,028	(1.7%)
Operating income	$ 144,415	$ 138,068	$ 6,347	4.6%

Revenues

The tables below set forth revenue and selected subscriber, customer and average monthly revenue statistics as of, and for the years ended, December 31, 2012 and 2011 (dollars in thousands, except per unit data):

	Year Ended December 31, 2012	Year Ended December 31, 2011	$ Change	% Change
Video	$ 359,804	$ 377,946	$(18,142)	(4.8%)
HSD	187,473	172,587	14,886	8.6%
Phone	60,724	60,968	(244)	(0.4%)
Business services	56,990	48,573	8,417	17.3%
Advertising	16,692	15,482	1,210	7.8%
Total	$ 681,683	$ 675,556	$ 6,127	0.9%

	Year Ended December 31, 2012	Year Ended December 31, 2011	Increase (Decrease)	% Change
Video customers	442,000	473,000	(31,000)	(6.6%)
HSD customers	410,000	383,000	27,000	7.0%
Phone customers	166,000	159,000	7,000	4.4%
Primary service units (PSUs)	1,018,000	1,015,000	3,000	0.3%
Average total monthly revenue per video customer (1)	$ 124.17	$ 112.26	$ 11.91	10.6%
Average total monthly revenue per PSU (2)	$ 55.88	$ 54.11	$ 1.78	3.3%

(1) Represents average total monthly revenues for the year divided by average video customers for the year.

(2) Represents average total monthly revenues for the year divided by average PSUs for the year.

Revenues increased 0.9%, primarily due to greater contributions from HSD and, to a lesser extent, business services revenues, mostly offset by lower video and, to a lesser extent, phone revenues. Average total monthly revenue per video customer increased 10.6% to $124.17, and average total monthly revenue per PSU increased 3.3% to $55.88.

Video revenues declined 4.8%, mainly due to residential video customer losses, which were partly offset by higher unit pricing. During the year ended December 31, 2012, we lost 28,600 video customers, excluding the net effect of an acquisition and a disposition, compared to a loss of 57,000 video customers in the prior year. As of December 31, 2012, we served 442,000 video customers, or 34.0% of our estimated homes passed.

HSD revenues grew 8.6%, largely as a result of higher unit pricing and, to a lesser extent, a greater residential HSD customer base. During the year ended December 31, 2012, we gained 27,800 HSD customers, excluding the net effect of an acquisition and a disposition, compared to an increase of 4,000 HSD customers in the prior year. As of December 31, 2012, we served 410,000 HSD customers, or 31.5% of our estimated homes passed.

Phone revenues declined 0.4%, largely as a result of lower revenues provided by additional services and essentially flat recurring monthly revenues. During the year ended December 31, 2012, we gained 6,400 phone customers, excluding the effect of an acquisition, compared to an increase of 2,000 in the prior year. As of December 31, 2012, we served 166,000 phone customers, or 12.8% of our estimated homes passed.

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Business services revenues rose 17.3%, primarily due to an increase in commercial HSD and phone customers and, to a lesser extent, greater revenues from our enterprise networks business.

Advertising revenues grew 7.8%, principally due to strong political revenues during a national election year and increased automotive advertising.

Costs and Expenses

Service costs increased 0.4%, primarily due to higher employee and field operating costs, largely offset by lower phone service costs and, to a lesser extent, decreased utility expenses. Employee costs increased 7.9%, principally due to higher staffing levels and unfavorable employee benefit adjustments. Field operating costs grew 14.5%, largely as a result of a greater use of outside contractors and, to a lesser extent, higher fiber lease payments. Phone service costs dropped 22.3%, substantially due to cost savings resulting from our transition from a third-party provider to an internal phone service platform. Utilities costs fell 8.1%, largely as a result of decreased electricity expenses. Service costs as a percentage of revenues were 43.3% and 43.5% for the years ended December 31, 2012 and 2011, respectively.

Selling, general and administrative expenses were 0.6% higher, mainly due to higher marketing and, to a lesser extent, employee expenses, largely offset by reductions in bad debt expense and taxes and fees. Marketing costs rose 18.3%, primarily due to greater spending on internet advertising, printed mail and costs related to our rebranding campaign. Employee costs increased 2.4%, principally due to increased marketing and customer service staffing levels and unfavorable employee benefit adjustments. Bad debt expense fell 12.3%, principally due to a lower number of written off accounts. Taxes and fees decreased 9.1%, mainly due to a decline in franchise fees and, to a lesser extent, property taxes. Selling, general and administrative expenses as a percentage of revenues were 16.9% for each of the years ended December 31, 2012 and 2011.

Management fee expense declined 0.1%, reflecting marginally lower fees charged by MCC. Management fee expense as a percentage of revenues was 1.7% and 1.8% for the years ended December 31, 2012 and 2011, respectively.

Depreciation and amortization decreased 1.7%, largely as a result of certain assets becoming fully reserved, offset in part by the depreciation of investments in shorter-lived customer premise equipment and our internal phone service platform.

OIBDA

OIBDA increased 1.7%, primarily due to greater revenues, offset in part by higher service costs and selling, general and administrative expenses.

Operating Income

Operating income grew 4.6% due to the growth in OIBDA and, to a lesser extent, lower depreciation and amortization.

Interest Expense, Net

Interest expense, net, decreased 1.9%, primarily due to lower average outstanding indebtedness.

Loss on Early Extinguishment of Debt

Loss on early extinguishment of debt totaled $6.5 million for the year ended December 31, 2012. This amount represents the write-off of certain deferred financing costs associated with prior financings that were repaid during the period.

Gain (loss) on Derivatives, Net

As of December 31, 2012, we had interest rate exchange agreements (which we refer to as "interest rate swaps") with an aggregate notional amount of $900.0 million, of which $200.0 million are forward-starting interest rate swaps. These interest rate swaps have not been designated as hedges for accounting purposes, and the changes in their mark-to-market values are derived primarily from changes in market interest rates and the decrease in their time to maturity. As a result of changes to the mark-to-market valuation of our interest rate swaps, based upon information provided by our counterparties, we recorded a net gain on derivatives of $5.1 million for the year ended December 31, 2012, compared to a net loss on derivatives of $15.2 million for the year ended December 31, 2011.

Gain on Sale of Cable Systems, Net

We recorded a gain on sale of cable systems, net, of $4.9 million in our statements of operations for the year ended December 31, 2012.

Investment Income from Affiliate

Investment income from affiliate was $18.0 million for each of the years ended December 31, 2012 and 2011. This amount represents the investment income on our $150.0 million preferred equity investment in Mediacom Broadband.

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Other Expense, Net

Other expense, net, was $1.6 million and $1.9 million for the years ended December 31, 2012 and 2011, respectively. During the year ended December 31, 2012, other expense, net, consisted of $1.3 million of revolving credit facility commitment fees and $0.3 million of other fees. During the year ended December 31, 2011, other expense, net, consisted of $1.7 million of revolving credit facility commitment fees and $0.2 million of other fees.

Net Income

As a result of the factors described above, we recognized net income of $68.5 million for the year ended December 31, 2012, compared to $41.3 million in the prior year.

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Year Ended December 31, 2011 Compared to Year Ended December 31, 2010

During the fourth quarter of 2011, we identified and corrected errors in the manner in which we recorded fixed assets and the related depreciation expense on fixed assets purchased by MCC on behalf of our operating subsidiaries. Such capital expenditures and associated depreciation were recorded at MCC, whereas they were related to, and should have been incurred by, our operating subsidiaries. Accordingly, we revised previously reported results for all affected periods. Refer to Note 2 in our Notes to Consolidated Financial Statements for more information about the financial statement impact of this revision. The discussion and analysis included herein includes statements based on the revised financial results for the year ended December 31, 2010.

The tables below set forth our unaudited consolidated statements of operations for the years ended December 31, 2011 and 2010 (dollars in thousands and percentage changes that are not meaningful are marked NM):

	Year Ended December 31,			
	2011	2010	$ Change	% Change
Revenues	$675,556	$651,326	$24,230	3.7%
Costs and expenses:				
Service costs (exclusive of depreciation and amortization)	293,940	291,946	1,994	0.7%
Selling, general and administrative expenses	114,300	109,752	4,548	4.1%
Management fee expense	11,896	12,123	(227)	(1.9%)
Depreciation and amortization	117,352	109,509	7,843	7.2%
Operating income	138,068	127,996	10,072	7.9%
Interest expense, net	(97,681)	(91,824)	(5,857)	6.4%
Loss on early extinguishment of debt	—	(1,234)	1,234	NM
Loss on derivatives, net	(15,178)	(18,214)	3,036	(16.7%)
Investment income from affiliate	18,000	18,000	—	NM
Other expense, net	(1,913)	(2,777)	864	(31.1%)
Net income	$ 41,296	$ 31,947	$ 9,349	29.3%
OIBDA	$255,420	$237,505	$17,915	7.5%

The following represents a reconciliation of OIBDA to operating income, which is the most directly comparable GAAP measure (dollars in thousands):

	December 31,			
	2011	2010	$ Change	% Change
OIBDA	$ 255,420	$ 237,505	$17,915	7.5%
Depreciation and amortization	(117,352)	(109,509)	(7,843)	7.2%
Operating income	$ 138,068	$ 127,996	$10,072	7.9%

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Revenues

The tables below set forth revenue and selected subscriber, customer and average monthly revenue statistics for the years ended December 31, 2011 and 2010 (dollars in thousands, except per unit data):

	Year Ended December 31, 2011	Year Ended December 31, 2010	$ Change	% Change
Video	$377,946	$377,807	$ 139	0.0%
HSD	172,587	157,406	15,181	9.6%
Phone	60,968	57,439	3,529	6.1%
Business services	48,573	41,708	6,865	16.5%
Advertising	15,482	16,966	(1,484)	(8.7%)
Total	$675,556	$651,326	$24,230	3.7%

	Year Ended December 31, 2011	Year Ended December 31, 2010	Increase (Decrease)	% Change
Video customers	473,000	530,000	(57,000)	(10.8%)
HSD customers	383,000	379,000	4,000	1.1%
Phone customers	159,000	157,000	2,000	1.3%
Primary service units (PSUs)	1,015,000	1,066,000	(51,000)	(4.8%)
Average total monthly revenue per customer	$ 112.26	$ 100.70	$ 11.56	11.5%
Average total monthly revenue per PSU	$ 54.11	$ 51.72	$ 2.39	4.6%

Revenues increased 3.7%, primarily due to higher HSD and, to a lesser extent, business services and phone revenues. Average total monthly revenue per video customer increased 11.5% to $112.26, and average total monthly revenue per PSU increased 4.6% to $54.11.

Video revenues were essentially flat, as higher unit pricing was mostly offset by residential video customer losses. During the year ended December 31, 2011, we lost 57,000 video customers, compared to a loss of 18,000 video customers in the prior year, as a result of aggressive marketing and promotional offers by our competitors, which included higher levels of discounted pricing. As of December 31, 2011, we served 473,000 video customers, or 36.5% of our estimated homes passed.

HSD revenues grew 9.6%, primarily due to higher unit pricing and a larger residential HSD customer base. During the year ended December 31, 2011, we gained 4,000 HSD customers, compared to an increase of 29,000 in the prior year. As of December 31, 2011, we served 383,000 HSD customers, or 29.6% of our estimated homes passed.

Phone revenues rose 6.1%, principally due to higher unit pricing and a larger residential phone customer base. During the year ended December 31, 2011, we gained 2,000 phone customers, compared to a gain of 22,000 phone customers in the prior year. As of December 31, 2011, we served 159,000 phone customers, or 12.3% of our estimated homes passed.

Business services revenues rose 16.5%, primarily due to greater revenues from our enterprise networks business, principally for cell tower backhaul, and an increase in commercial HSD and phone customers.

Advertising revenues fell 8.7%, largely as a result of an unfavorable comparison to the prior year, which had strong political revenues due to an election year.

Costs and Expenses

Service costs increased 0.7%, primarily due to higher field operating, programming and, to a lesser extent, employee operating costs, largely offset by lower phone service costs. Field operating costs rose 14.9%, largely as a result of higher vehicle fuel and repair, fiber lease, pole rental and electricity costs, offset in part by a lower usage of outside contractors. Programming expenses increased 1.7%, mainly due to higher contractual rates and fees charged by our programming vendors and, to a lesser extent, greater retransmission consent expenses, offset in part by a lower video customer base. Employee operating costs grew 6.4%, primarily due to greater employee compensation and an unfavorable shift in employee benefit expenses. Phone service costs fell 37.4%, substantially due to cost savings resulting from our transition to an internal phone service platform. Service costs as a percentage of revenues were 43.5% and 44.8% for the years ended December 31, 2011 and 2010, respectively.

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Selling, general and administrative expenses were 4.1% higher, mainly due to higher marketing and, to a lesser extent, bad debt expense. Marketing expenses grew 9.3%, largely a result of greater staffing for our business services marketing and higher levels of contracted telemarketing and marketing research. Bad debt expense rose 8.7%, principally due to a higher average balance of written off accounts. Selling, general and administrative expenses as a percentage of revenues were 16.9% for each of the years ended December 31, 2011 and 2010.

Management fee expense declined 1.9%, reflecting lower fees charged by MCC. Management fee expense as a percentage of revenues was 1.8% and 1.9% for the years ended December 31, 2011 and 2010, respectively.

Depreciation and amortization increased 7.2%, largely a result of the depreciation of shorter-lived customer premise and headend equipment, and certain investments related to our internal phone service platform.

OIBDA

OIBDA grew 7.5%, primarily due to the increase in revenues and constrained service costs, offset in part by higher selling, general and administrative expenses.

Operating Income

Operating income increased 7.9%, as higher OIBDA was partly offset by an increase in depreciation and amortization.

Interest Expense, Net

Interest expense, net, was 6.4% higher, mainly due to greater average outstanding balances under our bank credit facility, offset in part by a lower weighted average cost of debt.

Loss on Early Extinguishment of Debt

Loss on early extinguishment of debt, which represented the write-off of certain deferred financing costs associated with prior financings that were repaid during the period, totaled $1.2 million for the year ended December 31, 2010.

Loss on Derivatives, Net

As a result of changes to the mark-to-market valuation of our interest rate swaps, based on information provided by our counterparties, we recorded a net loss on derivatives of $15.2 million and $18.2 million for the years ended December 31, 2011 and 2010, respectively.

Investment Income from Affiliate

Investment income from affiliate was $18.0 million for each of the years ended December 31, 2011 and 2010. This amount represents the investment income on our $150.0 million preferred equity investment in Mediacom Broadband.

Other Expense, Net

Other expense, net, was $1.9 million and $2.8 million for the years ended December 31, 2011 and 2010, respectively. During the year ended December 31, 2011, other expense, net, consisted of $1.7 million of revolving credit facility commitment fees and $0.2 million of other fees. During the year ended December 31, 2010, other expense, net, consisted of $2.2 million of revolving credit facility commitment fees and $0.6 million of other fees.

Net Income

As a result of the factors described above, we recognized net income of $41.3 million for the year ended December 31, 2011, compared to $31.9 million in the prior year.

Liquidity and Capital Resources

Our net cash flows provided by operating activities are primarily used to fund investments to enhance the capacity and reliability of our network and further expand our products and services, as well as for scheduled repayments of our indebtedness and periodic distributions to MCC. As of December 31, 2012, our near-term liquidity requirements included scheduled term loan amortization of $9.0 million in each of the years ending December 31, 2013 and 2014, and $67.2 million of outstanding revolving credit commitments, which expire on December 31, 2014.

As of December 31, 2012, our sources of liquidity included $9.4 million of cash and $148.5 million of unused and available commitments under our revolving credit commitments. We believe that cash generated by or available to us will meet our anticipated capital and liquidity needs for the next twelve months and the foreseeable future thereafter. See "— Capital

Structure" for a discussion of the expiration dates of our revolving credit commitments, term loans and senior notes.