LIBERTY CABLEVISION OF PUERTO RICO LLC

Condensed Financial Statements
March 31, 2013

LIBERTY CABLEVISION OF PUERTO RICO LLC
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LIBERTY CABLEVISION OF PUERTO RICO LLC

CONDENSED FINANCIAL STATEMENTS

MARCH 31, 2013

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LIBERTY CABLEVISION OF PUERTO RICO LLC

CONDENSED BALANCE SHEETS
(unaudited)

	March 31, 2013	December 31, 2012
	in millions	
ASSETS		
Current assets:		
Cash	$ 4.9	$ 2.4
Trade receivables, net	4.7	5.4
Other current assets	5.6	5.3
Total current assets	15.2	13.1
Property and equipment, net (note 5)	256.4	248.3
Goodwill (note 5)	156.1	155.6
Franchise rights and other	507.3	507.3
Intangible assets subject to amortization, net (note 5)	126.1	129.5
Other assets, net	27.8	28.8
Total assets	$ 1,088.9	$ 1,082.6
LIABILITIES AND MEMBERS' CAPITAL		
Current liabilities:		
Accounts payable	$ 21.3	$ 13.9
Deferred revenue and advance payments from subscribers	8.7	7.4
Current portion of debt and capital lease obligations (note 6)	5.4	5.3
Other accrued and current liabilities	32.9	26.6
Total current liabilities	68.3	53.2
Long-term debt and capital lease obligations (note 6):		
Third-party	658.0	659.2
Related-party	10.0	10.0
Other long-term liabilities	5.1	5.1
Total liabilities	741.4	727.5
Commitments and contingencies (notes 2, 6 and 9)		
Members' capital (note 8)	347.5	355.1
Total liabilities and members' capital	$ 1,088.9	$ 1,082.6

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

LIBERTY CABLEVISION OF PUERTO RICO LLC

CONDENSED STATEMENTS OF OPERATIONS
(unaudited)

	Three months ended March 31,	
	2013	2012
	in millions	
Revenue	$ 73.2	$ 29.2
Operating costs and expenses:		
Operating (other than depreciation and amortization) (including stock-based compensation)	37.2	14.4
Selling, general and administrative (SG&A) (including stock-based compensation)	12.5	3.8
Depreciation and amortization	14.9	5.5
Impairment, restructuring and other operating items, net (note 2)	0.8	0.1
	65.4	23.8
Operating income	7.8	5.4
Financial and other expense:		
Interest expense:		
Third-party	(12.2)	(1.1)
Related-party	(0.3)	—
Realized and unrealized losses on derivative instruments, net	—	(1.0)
Net financial and other expense	(12.5)	(2.1)
Earnings (loss) before income taxes	(4.7)	3.3
Income tax expense (note 7)	—	(1.9)
Net earnings (loss)	$ (4.7)	$ 1.4

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

LIBERTY CABLEVISION OF PUERTO RICO LLC

CONDENSED STATEMENT OF CHANGES IN MEMBERS' CAPITAL
(unaudited)

	Class A preferred units	Class B common units	Total members' capital
		in millions	
Balance at January 1, 2013	$ 260.7	$ 94.4	$ 355.1
Priority Return (note 8)	(2.6)	—	(2.6)
Net loss	—	(4.7)	(4.7)
Other, net	(0.1)	(0.2)	(0.3)
Balance at March 31, 2013	$ 258.0	$ 89.5	$ 347.5

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

LIBERTY CABLEVISION OF PUERTO RICO LLC

CONDENSED STATEMENTS OF CASH FLOWS
(unaudited)

	Three months ended March 31,	
	2013	**2012**
	in millions	
Cash flows from operating activities:		
Net earnings (loss)	$ (4.7)	$ 1.4
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:		
Stock-based compensation expense	0.1	0.1
Depreciation and amortization	14.9	5.5
Impairment, restructuring and other operating items, net	0.8	0.1
Amortization of deferred financing costs	0.8	0.1
Realized and unrealized losses on derivative instruments, net	—	1.0
Deferred income tax expense	—	0.9
Changes in operating assets and liabilities:		
Receivables and other operating assets	0.6	2.5
Payables and accruals	2.0	(2.7)
Net cash provided by operating activities	14.5	8.9
Cash flows from investing activities:		
Capital expenditures	(10.7)	(4.9)
Net cash used by investing activities	(10.7)	(4.9)
Cash flows from financing activities:		
Repayments of third-party debt and capital lease obligations	(1.3)	(0.4)
Other financing activities	—	(0.2)
Net cash used by financing activities	(1.3)	(0.6)
Net increase in cash	2.5	3.4
Cash:		
Beginning of period	2.4	9.7
End of period	$ 4.9	$ 13.1
Cash paid for interest	$ 11.1	$ 1.7

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

(1) Basis of Presentation

Liberty Cablevision of Puerto Rico LLC is a broadband communications provider of video, broadband internet and telephony services in Puerto Rico. Liberty Cablevision Puerto Rico LLC was formed in connection with the November 8, 2012 Puerto Rico Transaction, which, as defined and further described in note 2, involved a series of transactions with certain investment funds affiliated with Searchlight Capital Partners L.P. (collectively, Searchlight), including the merger (the November 2012 Merger) of the Puerto Rican broadband communications subsidiary (Old Liberty Puerto Rico) of LGI Broadband Operations, Inc. (LGI Broadband Operations) with San Juan Cable LLC, doing business as OneLink Communications (OneLink), also a broadband communications operator in Puerto Rico, with OneLink as the surviving entity. Immediately following the November 2012 Merger, OneLink changed its name to Liberty Cablevision of Puerto Rico LLC (Liberty Puerto Rico). LGI Broadband Operations indirectly owns a 60.0% controlling interest in Liberty Puerto Rico, with the remaining 40.0% interest owned by Searchlight. LGI Broadband Operations is an indirect wholly-owned subsidiary of Liberty Global, Inc. (Liberty Global), an international broadband communications provider of video, broadband internet and telephony services. In the following text, the terms “we”, “our”, “our company”, and “us” refers to Liberty Puerto Rico or its predecessors, as applicable.

As a result of LGI Broadband Operations’ 60.0% controlling interest in Liberty Puerto Rico, Old Liberty Puerto Rico is deemed to be the acquirer of OneLink in the Puerto Rico Transaction and, accordingly, the predecessor company to Liberty Puerto Rico for financial reporting purposes. As a result, Old Liberty Puerto Rico’s cost to acquire OneLink is included in our financial statements effective November 9, 2012.

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

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

These condensed financial statements reflect our consideration of the accounting and disclosure implications of subsequent events through May 30, 2013, the date of issuance.

(2) Acquisition

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

Immediately prior to the acquisition of OneLink, LGI Broadband Operations contributed its 100% interest in Old Liberty Puerto Rico, and Searchlight contributed $94.7 million of cash, to Leo Cable LP (Leo Cable), a newly formed entity. Leo Cable in turn used the cash contributed by Searchlight to fund the acquisition of 100% of the equity of OneLink from a third party (the Seller) for a purchase price of $96.5 million, including closing adjustments and $1.8 million of transaction-related costs paid by Old Liberty Puerto Rico on behalf of the Seller. Such purchase price, together with OneLink’s consolidated net debt (aggregate fair value of debt and capital lease obligations outstanding less cash and cash equivalents) at November 8, 2012 of $496.0 million, resulted in total consideration of $592.5 million, excluding direct acquisition costs of $14.8 million. As a result of the Puerto Rico Transaction, LGI Broadband Operations indirectly owns a 60.0% controlling interest in Liberty Puerto Rico, with the remaining 40.0% interest owned by Searchlight. LGI Broadband Operations completed the Puerto Rico Transaction in order to achieve certain financial, operational and strategic benefits through the integration of OneLink with its existing operations in Puerto Rico.

The Seller agreed to retain $10.0 million of the purchase price to satisfy any claims. In the event that any claims are made under this provision, the Seller has agreed not to distribute funds until such claims are resolved. LGI Broadband Operations has informed the Seller of certain claims with respect to the funds retained by the Seller. The value and resolution of these claims is under discussion.

LGI Broadband Operations accounted for the Puerto Rico Transaction using the acquisition method of accounting, whereby Old Liberty Puerto Rico is deemed to be the acquirer of OneLink. As a result, the total purchase price was allocated to the acquired identifiable net assets of OneLink based on assessments of their respective fair values, and the excess of the purchase price over the fair values of these identifiable net assets was allocated to goodwill. The acquisition accounting for OneLink as reflected in these condensed financial statements is preliminary and subject to adjustment based on our final assessment of the fair values of the acquired identifiable assets and liabilities. Although most items in the valuation process remain open, the items with the highest likelihood of changing upon finalization of the valuation process include property and equipment, goodwill, cable television franchise rights and customer relationships.

Pro Forma Information

The following unaudited pro forma operating results for the three months ended March 31, 2012 give effect to the Puerto Rico Transaction, as if it had been completed as of January 1, 2012 (in millions). These pro forma amounts are not necessarily indicative of the operating results that would have occurred if this transaction had occurred on such date. The pro forma adjustments are based on certain assumptions that we believe are reasonable, including our tax status as a partnership that is not a separate tax-paying entity for U.S. federal or Puerto Rico income tax purposes.

Revenue	$ 72.9
Net loss	$ (1.5)

(3) Derivative Instruments

We have entered into interest rate derivative contracts to manage interest rate exposure. We do not apply hedge accounting to these derivative instruments. Accordingly, changes in the fair values of these contracts are recorded in realized and unrealized gains or losses on derivative instruments, net, in our statements of operations. As of March 31, 2013, we have no outstanding interest rate derivative contracts.

(4) Fair Value Measurements

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

All of our Level 2 inputs (interest rates, yield curves and certain of the inputs for our weighted average cost of capital calculations) and certain of our Level 3 inputs (credit spreads) were obtained from pricing services. These inputs, or interpolations or extrapolations thereof, were used in our internal models to calculate, among other items, yield curves, forward interest and currency rates and weighted average cost of capital rates. In the normal course of business, we received fair value assessments from the counterparties to our derivative contracts. Although we compared these assessments to our internal valuations and investigated unexpected differences, we did not otherwise rely on counterparty quotes to determine the fair values of our derivative instruments. The midpoints of applicable bid and ask ranges generally were used as inputs for our internal valuations.

As further described in note 3, we previously had entered into interest rate derivative contracts to manage our interest rate exposure. The recurring fair value measurements of these derivative instruments were determined using discounted cash flow models. All but one of the inputs to these discounted cash flow models consisted of, or were derived from, observable Level 2 data for substantially the full term of these derivative instruments. This observable data included interest rates, swap rates and yield curves, which were retrieved or derived from available market data. Although we may have extrapolated or interpolated this data, we did not otherwise alter this data in performing our valuations. We incorporated a credit risk valuation adjustment in our fair value measurements to estimate the impact of our own nonperformance risk. Our credit spreads were Level 3 inputs that were used to derive the credit risk valuation adjustments with respect to our interest rate derivative valuations. As we did not expect changes in our credit spreads to have a significant impact on the valuations of these derivative instruments, we determined that these valuations fell under Level 2 of the fair value hierarchy. Our credit risk valuation adjustments with respect to our interest rate swaps were quantified and further explained in note 3.

Fair value measurements are also used in connection with nonrecurring valuations performed in connection with impairment assessments and acquisition accounting. These nonrecurring valuations include the valuation of intangible assets related to customer relationships and cable television franchise rights, property and equipment and the implied value of goodwill. The valuations of our customer relationships and cable television franchise rights intangible assets are each primarily based on an excess earnings methodology, which is a form of a discounted cash flow analysis. The excess earnings methodology requires us to estimate the specific cash flows expected from the respective customer relationship and cable television franchise rights intangible assets, considering such factors as estimated customer life, the revenue expected to be generated over the life of the customer or cable television franchise rights, contributory asset charges, and other factors. Tangible assets are typically valued using a replacement or reproduction cost approach, considering factors such as current prices of the same or similar equipment, the age of the equipment and economic obsolescence. The implied value of goodwill is determined by allocating the fair value of the reporting unit to all of the assets and liabilities of that unit as if the reporting unit had been acquired in a business combination, with the residual amount allocated to goodwill. All of our nonrecurring valuations use significant unobservable inputs and therefore fall under Level 3 of the fair value hierarchy. We did not perform nonrecurring fair value measurements during the three months ended March 31, 2013 or 2012.

(5) Long-lived Assets

Property and Equipment, Net

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

	March 31, 2013	December 31, 2012
	in millions	
Cable distribution systems	$ 318.6	$ 301.5
Support equipment, buildings and land	19.3	17.2
	337.9	318.7
Accumulated depreciation	(81.5)	(70.4)
Total property and equipment, net	$ 256.4	$ 248.3

Depreciation expense related to our property and equipment was $11.5 million and $5.5 million during the three months ended March 31, 2013 and 2012, respectively.

Goodwill

Our goodwill balance at March 31, 2013 relates to $158.5 million of goodwill recorded in connection with the Puerto Rico Transaction. For additional information, see note 2.

Intangible Assets Subject to Amortization, Net

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

	March 31, 2013			December 31, 2012		
	Gross carrying amount	Accumulated amortization	Net carrying amount	Gross carrying amount	Accumulated amortization	Net carrying amount
	in millions					
Customer relationships	$ 130.0	$ (5.1)	$ 124.9	$ 130.0	$ (1.9)	$ 128.1
Other	1.5	(0.3)	1.2	1.5	(0.1)	1.4
Total intangible assets subject to amortization, net	$ 131.5	$ (5.4)	$ 126.1	$ 131.5	$ (2.0)	$ 129.5

Amortization of intangible assets with finite useful lives was $3.4 million during three months ended March 31, 2013. We had no intangible assets subject to amortization during the three months ended March 31, 2012.

Indefinite-lived Intangible Assets

Our indefinite-lived intangible assets, comprised primarily of cable television franchise rights, were $507.3 million at each of March 31, 2013 and December 31, 2012.

(6) Debt and Capital Lease Obligations

Our debt and capital lease obligations are as follows:

	March 31, 2013		Estimated fair value (c)		Carrying value (d)	
	Weighted average interest rate (a)	Unused borrowing capacity (b)	March 31, 2013	December 31, 2012	March 31, 2013	December 31, 2012
			in millions			
Third-party debt – Liberty Puerto Rico Bank Facility (e)	6.88%	$ 21.7	$ 668.2	$ 667.0	$ 662.8	$ 663.9
Related-party debt – Shareholder Loan (f)	10.00%	—	(f)	(f)	10.0	10.0
Total debt	6.93%	$ 21.7			672.8	673.9
Capital lease obligations					0.6	0.6
Total debt and capital lease obligations					673.4	674.5
Current maturities					(5.4)	(5.3)
Long-term debt and capital lease obligations					$ 668.0	$ 669.2

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(a) Represents the weighted average interest rate in effect at March 31, 2013 for all borrowings outstanding pursuant to each debt instrument including any applicable margin. The interest rates presented represent stated rates and do not include the impact of deferred financing costs, original issue discounts or commitment fees, all of which affect our overall cost of borrowing. Including the effects of original issue discounts and commitment fees, but excluding the impact of financing costs, our weighted average interest rate on our aggregate variable and fixed rate indebtedness was approximately 6.9% at March 31, 2013.

(b) Unused borrowing capacity represents the maximum availability under the revolving facility at March 31, 2013 without regard to covenant compliance calculations or other conditions precedent to borrowing. Our availability under the Liberty Puerto Rico Bank Facility (as defined and described below) was effectively limited to the amounts drawn at March 31, 2013 and we expect this to continue to be the case after the relevant March 31, 2013 compliance reporting requirements have been completed.

(c) The estimated fair values of our debt instruments were determined using the average of applicable bid and ask prices (mostly Level 1 of the fair value hierarchy) or, when quoted market prices are unavailable or not considered indicative of fair value, discounted cash flow models (mostly Level 2 of the fair value hierarchy). The discount rates used in the cash flow models are based on market interest rates and estimated credit spreads, to the extent available, and other relevant factors. For additional information concerning fair value hierarchies, see note 4.

(d) Amounts include the impact of premiums and discounts, where applicable.

(e) The Liberty Puerto Rico Bank Facility consists of (i) a $145.0 million second lien loan, (ii) a $345.0 million term loan, (iii) a $175.0 million term loan and (iv) a $25.0 million revolving credit facility.

(f) Our Shareholder Loan represents our loan payable to LGI Broadband Operations. The fair value is not subject to reasonable estimation due to the related-party nature of this loan.

Maturities of Debt

Maturities of our debt as of March 31, 2013 are presented below:

	Third-party debt	Shareholder Loan	Total
		in millions	
Year ending December 31:			
2013 (remainder of year)	$ 4.2	$ —	$ 4.2
2014	5.2	—	5.2
2015	5.2	—	5.2
2016	8.5	—	8.5
2017	493.2	—	493.2
2018	145.0	—	145.0
Thereafter	—	10.0	10.0
Total debt maturities	661.3	10.0	671.3
Unamortized premium	1.5	—	1.5
Total debt	$ 662.8	$ 10.0	$ 672.8
Current portion	$ 5.2	$ —	$ 5.2
Noncurrent portion	$ 657.6	$ 10.0	$ 667.6

(7) <u>Income Taxes</u>

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

Income tax expense for the three months ended March 31, 2012 consists of (in millions):

Current	$ (1.0)
Deferred	(0.9)
Total income tax expense	$ (1.9)

Income tax expense attributable to our company's earnings before income taxes for the three months ended March 31, 2012 differs from the amounts computed by applying the U.S. federal income tax rate of 35.0%, as a result of the following (in millions):

Computed "expected" tax expense	$	(1.2)
Puerto Rico tax		(0.8)
Other, net		0.1
Total income tax expense	$	(1.9)

(8) Members' Capital

We accrued $2.6 million during the three months ended March 31, 2013, in accordance with our limited liability agreement, for a Priority Return that shall be payable to our Class A Member, generally only when, as and if declared.

(9) Commitments and Contingencies

Commitments

In the normal course of business, we have entered into agreements that commit our company to make cash payments in future periods with respect to non-cancelable operating leases and certain other arrangements, including internet bandwidth commitments. We expect that in the normal course of business, operating leases that expire generally will be renewed or replaced by similar leases. As of March 31, 2013, such commitments are as follows:

	Payments due during:							
	Remainder of	Year ending December 31,						
	2013	2014	2015	2016	2017	2018	Thereafter	Total
	in millions							
Operating leases	$ 0.7	$ 1.0	$ 0.6	$ 0.3	$ 0.2	$ 0.2	$ 0.3	$ 3.3
Other commitments	4.2	1.2	1.2	1.2	1.2	1.2	6.8	17.0
Total	$ 4.9	$ 2.2	$ 1.8	$ 1.5	$ 1.4	$ 1.4	$ 7.1	$ 20.3

In addition to the obligations set forth in the table above, we have certain commitments under agreements with programming vendors, franchise authorities and municipalities pursuant to which we expect to make payments in future periods. While our programming commitments do not require that we pay any fixed minimum fees, we expect to make significant future payments under these contracts based on the actual number of subscribers to the programming services.

Legal and Regulatory Proceedings and Other Contingencies

Regulatory Issues. Future adverse regulatory developments could subject our businesses to a number of risks. Regulation could limit growth, revenue and the number and types of services offered. In addition, regulation may restrict our operations and subject them to further competitive pressure, including pricing restrictions, interconnect and other access obligations and restrictions or controls on content, including content provided by third parties. Failure to comply with current or future regulation could expose our businesses to various penalties.

OneLink. Liberty Puerto Rico, as the surviving entity in the Puerto Rico Transaction, is a party to certain lawsuits previously asserted against OneLink, including a claim that OneLink acted in an anticompetitive manner in connection with a series of legal and regulatory proceedings it initiated against the incumbent telephone operator in Puerto Rico beginning in 2009. We have recorded a provision representing our estimate of the low end of the range of potentially unfavorable outcomes. In light of the indemnity provided by the Seller in respect to this matter, we do not expect the ultimate resolution to have a material impact on our results of operations or financial condition.

ILC. On February 15, 2011, International Land & Contractors, Inc. ("ILC") and certain of its shareholders filed a lawsuit against Liberty Puerto Rico, JA Communication, Corp. and three unnamed insurance companies in the Commonwealth of Puerto Rico, Court of First Instance, Superior Chamber of San Juan, claiming $10.0 million in damages from Liberty Puerto Rico's alleged breach of contract. Among other things, ILC claims it was promised exclusivity for certain installation work for Liberty Puerto Rico and, in reliance on that promise, made significant investments and incurred significant expenses prior to termination of its relationship with Liberty Puerto Rico. Liberty Puerto Rico believes it complied with its requirements under the contract and that the plaintiffs are not entitled to damages for breach of contract or for any other tort claim and intends to vigorously defend this action.

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

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

- *Forward-Looking Statements.* This section provides a description of certain of the factors that could cause actual results or events to differ materially from anticipated results or events.
- *Overview.* This section provides a general description of our business, our product offerings and recent events.
- *Results of Operations.* This section provides an analysis of our historical results of operations for the three months ended March 31, 2013 and 2012.
- *Material Changes in Financial Condition.* This section provides an analysis of our liquidity and condensed cash flow statements.

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

Forward-Looking Statements

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

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

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

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

Overview

Liberty Puerto Rico is a broadband communications provider of video, broadband internet and telephony services in Puerto Rico. Liberty Puerto Rico was formed in connection with the Puerto Rico Transaction, which involved a series of transactions with Searchlight, including the November 2012 Merger with OneLink as the surviving entity. LGI Broadband Operations indirectly owns a 60.0% controlling interest in Liberty Puerto Rico, with the remaining 40.0% interest owned by Searchlight. LGI Broadband Operations is an indirect wholly-owned subsidiary of Liberty Global, an international broadband communications provider of video, broadband internet and telephony services.

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

As a result of LGI Broadband Operations’ 60.0% controlling interest in Liberty Puerto Rico, Old Liberty Puerto Rico is deemed to be the acquirer of OneLink in the Puerto Rico Transaction and, accordingly, the predecessor company to Liberty Puerto Rico for financial reporting purposes. As a result, Old Liberty Puerto Rico’s cost to acquire OneLink is included in our condensed financial statements effective November 9, 2012.

For additional information, see notes 1 and 2 to our condensed financial statements.

From an operational perspective, we focus on achieving organic revenue growth by developing and marketing bundled entertainment, information and communications services, and extending and upgrading the quality of our network where appropriate. While we seek to obtain new customers, we also seek to increase the average revenue we receive from each household by increasing the penetration of our digital video, broadband internet and telephony services to existing customers through product bundling and up-selling to higher tiers that provide various incremental service offerings.

Our digital video service offerings include basic and premium programming and incremental service offerings such as enhanced pay-per-view programming, including video-on-demand. We offer broadband internet access services across 100% of our fully upgraded two-way network, offering access to the internet via cable modems connected to personal computers. We determine pricing for each different tier of broadband internet access service through analysis of different speeds offered, data limits, market conditions and other factors. Our network is fully capable of providing digital telephony services to our customers, with flexible packages and pricing.

We are facing a challenging economic environment in Puerto Rico. This environment could adversely impact our ability to increase, or in certain cases, maintain the revenue, RGUs, operating cash flow and liquidity of our business, particularly if the economic environment were to weaken further.

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

Results of Operations

General

This section provides an analysis of our results of operations for the three months ended March 31, 2013 and 2012.

In the following discussion, we quantify the estimated impact of acquisitions on our operating results. The acquisition impact represents our estimate of the difference between the operating results of the periods under comparison that is attributable to an acquisition. In general, we base our estimate of the acquisition impact on an acquired entity's operating results during the first three months following the acquisition date such that changes from those operating results in subsequent periods are considered to be organic changes.

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

Our revenue includes revenue earned from residential and small business subscribers for ongoing video, broadband internet and telephony services, revenue earned from advertising, late fees and installation fees. We use the term "subscription revenue" in the following discussion to refer to amounts received from subscribers for ongoing services, excluding late fees and installation fees. At March 31, 2013, we owned and operated a network that passed 703,000 homes and served 491,800 RGUs, consisting of 205,400 video subscribers, 183,900 broadband internet subscribers and 102,500 telephony subscribers.

Our continuing operations added a total of 12,600 RGUs on an organic basis during the three months ended March 31, 2013. The organic RGU growth during the three months ended March 31, 2013 is attributable to the growth of our (i) telephony services, which added 8,200 RGUs, and (ii) broadband internet services, which added 4,900 RGUs. This growth was partially offset by a decline in our video services of 500 RGUs.

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

Revenue

Our revenue by major category is set forth below:

	Three months ended March 31,		Increase		Organic increase (decrease)
	2013	2012	$	%	%
	in millions				
Subscription revenue (a):					
Video	$ 36.1	$ 13.8	$ 22.3	161.6	(15.2)
Broadband internet	23.6	9.9	13.7	138.4	21.2
Telephony	7.2	3.1	4.1	132.3	16.1
Total subscription revenue	66.9	26.8	40.1	149.6	1.9
Non-subscription revenue (b)	6.3	2.4	3.9	162.5	12.5
Total	$ 73.2	$ 29.2	$ 44.0	150.7	2.7

(a) Subscription revenue includes amounts received from subscribers for ongoing services, excluding installation fees, late fees, advertising revenue and B2B services revenue. Subscription revenue from subscribers who purchase bundled services at a discounted rate is generally allocated proportionally to each service based on the standalone price for each individual service.

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

Our total revenue increased $44.0 million or 150.7% during the three months ended March 31, 2013, as compared to the corresponding period in 2012. This increase includes $43.2 million attributable to the impact of the acquisition of OneLink in the Puerto Rico Transaction. Excluding the effects of the Puerto Rico Transaction, total revenue increased $0.8 million or 2.7%.

Subscription revenue. The details of the increase in our subscription revenue during the three months ended March 31, 2013, as compared to the corresponding period in 2012, are as follows (in millions):

Increase (decrease) in subscription revenue due to change in:	
Average number of RGUs	$ 2.7
Average monthly subscription revenue per average RGU (ARPU)	(2.2)
Organic increase	0.5
Impact of the Puerto Rico Transaction	39.6
Total increase in subscription revenue	$ 40.1

Excluding the effect of the acquisition of OneLink in the Puerto Rico Transaction, our subscription revenue increased $0.5 million during the three months ended March 31, 2013, as compared to the corresponding period in 2012. This increase is attributable to the net effect of (i) an increase in subscription revenue from broadband internet services of $2.1 million or 21.2%, due to (a) an increase in our average number of broadband internet RGUs and (b) higher ARPU from broadband internet services, (ii) a decrease in subscription revenue from video services of $2.1 million or 15.2%, as the impact of lower ARPU from video services was only partially offset by an increase in our average number of video RGUs, and (iii) an increase in subscription revenue from telephony services of $0.5 million or 16.1%, as the impact of an increase in the average number of telephony RGUs was only partially offset by a decline in ARPU from telephony services.

Non-subscription revenue. Excluding the effect of the acquisition of OneLink in the Puerto Rico Transaction, our non-subscription revenue increased $0.3 million or 12.5% during the three months ended March 31, 2013, as compared to the corresponding period in 2012.

Operating expenses

Operating expenses includes programming, network operations, interconnect, customer operations, customer care, stock-based compensation and other direct costs. Programming costs, which represent a significant portion of our operating costs, are expected to rise in future periods as a result of (i) expansion of service offerings, (ii) price increases and (iii) other factors. Any cost increases that we are not able to pass on to our subscribers through service rate increases would result in increased pressure on our operating margins.

Total operating expenses increased $22.8 million or 158.3% during the three months ended March 31, 2013, as compared to the corresponding period in 2012. This increase includes $22.7 million attributable to the impact of the acquisition of OneLink in the Puerto Rico Transaction. Excluding the effect of the acquisition of OneLink in the Puerto Rico Transaction, our total operating expenses increased $0.1 million or 0.7%. This increase is primarily due to the net effect of (i) an increase in programming and related costs, primarily due to increased rates, (ii) an increase in interconnection charges associated with increased levels of customer-facing activities, (iii) a slight increase in personnel costs, (iv) a decrease in bad debt expense primarily due to improved collection experience and (v) a slight increase in professional fees.

SG&A expenses

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

Total SG&A expenses increased $8.7 million or 228.9% during the three months ended March 31, 2013, as compared to the corresponding period in 2012. This increase includes $7.3 million attributable to the impact of the acquisition of OneLink in the

Puerto Rico Transaction. Excluding the effect of the acquisition of OneLink in the Puerto Rico Transaction, our total SG&A expenses increased $1.4 million. This increase is primarily due to (i) an increase in personnel costs, (ii) an increase in marketing and advertising costs and (iii) an increase in facilities-related costs.

Depreciation and amortization expense

Our depreciation and amortization expense increased $9.4 million or 170.9% during the three months ended March 31, 2013, as compared to the corresponding period in 2012. This increase is primarily attributable to the net effect of (i) the acquisition of OneLink in the Puerto Rico Transaction, (ii) an increase associated with property and equipment additions related to (a) new build and upgrade projects to expand services and (b) the installation of customer premises equipment and (iii) a decrease associated with certain assets becoming fully depreciated.

Impairment, restructuring and other operating items, net

We recognized impairment, restructuring and other operating items, net, of $0.8 million during the three months ended March 31, 2013, as compared to $0.1 million during the three months ended March 31, 2012. The 2013 amount is primarily attributable to $0.4 million in severance payments and $0.4 million in additional direct acquisition costs incurred in connection with the Puerto Rico Transaction.

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

Interest expense – third-party

Interest expense – third-party increased $11.1 million during the three months ended March 31, 2013, as compared to the corresponding period in 2012. This increase is primarily due to an increase in our debt balances attributable to the debt of OneLink that was added in connection with the Puerto Rico Transaction. For additional information, see note 6 to our condensed financial statements.

Interest expense – related-party

Interest expense – related-party increased $0.3 million during the three months ended March 31, 2013, as compared to the corresponding period in 2012. This increase is due to the Shareholder Loan entered into on December 31, 2012. For additional information, see note 6 to our condensed financial statements.

Realized and unrealized losses on derivative instruments, net

Our realized and unrealized gains or losses on derivative instruments include (i) unrealized changes in the fair values of our derivative instruments that are non-cash in nature until such time as the underlying contracts are fully or partially settled and (ii) realized gains or losses upon the full or partial settlement of the underlying contracts. We incurred net losses related to our interest rate exchange contracts of $1.0 million during the three months ended March 31, 2012. For additional information regarding our derivative instruments, see notes 3 and 4 to our condensed financial statements.

Income tax expense

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

We recognized income tax expense of $1.9 million during the three months ended March 31, 2012. The income tax expense differs from the expected income tax expense of $1.2 million (based on the U.S. federal income tax rate of 35.0%) due primarily to the impact of Puerto Rico tax expense recorded in excess of the U.S. federal tax rate.

Net earnings (loss)

We reported a net loss of $4.7 million and net earnings of $1.4 million during the three months ended March 31, 2013 and 2012, respectively.

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

Material Changes in Financial Condition

Sources and Uses of Cash

We had $4.9 million of cash at March 31, 2013. In addition to cash, the primary sources of our liquidity are cash provided by operations and borrowings availability under our credit facility. Our liquidity generally is used to fund capital expenditures, debt service requirements and other liquidity requirements that may arise from time to time. For a discussion of our condensed cash flows, see the discussion under *Condensed Cash Flow Statements* below. From time to time, we may also require funding in connection with acquisitions or other investment opportunities. No assurance can be given that any external funding would be available to us on favorable terms, or at all.

Capitalization

Our ability to generate cash from our operations will depend on our future operating performance, which is in turn dependent, to some extent, on general economic, financial, competitive, market, regulatory and other factors, many of which are beyond our control. We believe that our cash, the cash provided from our operations and any available borrowings under the Liberty Puerto Rico Bank Facility will be sufficient to fund our currently anticipated working capital needs, capital expenditures and debt service requirements through December 31, 2013, although no assurance can be given that this will be the case. For additional information regarding available borrowings under the Liberty Puerto Rico Bank Facility, see note 6 to our condensed financial statements. In addition, under certain circumstances, it is possible that LGI Broadband Operations would agree to increase the amount loaned to our company pursuant to the Shareholder Loan or a similar arrangement. No assurance can be given that LGI Broadband Operations would agree to loan additional amounts to our company on a subordinated basis. As our debt matures in later years, we anticipate that we will seek to refinance or otherwise extend our debt maturities. No assurance can be given that we will be able to complete refinancing transactions or otherwise extend our debt maturities. In this regard, it is not possible to predict how economic conditions, sovereign debt concerns and/or any adverse regulatory developments could impact the credit markets we access and accordingly, our future liquidity and financial position. In addition, sustained or increased competition, particularly in combination with adverse economic or regulatory developments, could have an unfavorable impact on our cash flows and liquidity.

At March 31, 2013, our outstanding third-party debt and capital lease obligations aggregated $663.4 million, including $5.4 million that is classified as current in our condensed balance sheet and $639.7 million that is due in 2017 or thereafter.

Our ability to service or refinance our debt and to maintain compliance with our leverage covenants is dependent primarily on our ability to maintain or increase our operating cash flow (defined as revenue less operating and SG&A expenses (excluding stock-based compensation, depreciation and amortization and impairment, restructuring and other operating items)) and to achieve adequate returns on our capital expenditures and acquisitions. In addition, our ability to obtain additional debt financing is limited by the leverage covenants contained in our credit agreement. In this regard, if our operating cash flow were to decline, we could be required to repay or limit our borrowings under the Liberty Puerto Rico Bank Facility in order to maintain compliance with applicable covenants. No assurance can be given that we would have sufficient sources of liquidity, or that any funding would be available on favorable terms, or at all, to fund any such required repayment.

Condensed Cash Flow Statements

Summary. Our condensed cash flow statements for the three months ended March 31, 2013 and 2012 are summarized as follows:

	Three months ended March 31,		
	2013	2012	Change
		in millions	
Net cash provided by operating activities	$ 14.5	$ 8.9	$ 5.6
Net cash used by investing activities	(10.7)	(4.9)	(5.8)
Net cash used by financing activities	(1.3)	(0.6)	(0.7)
Net increase in cash	$ 2.5	$ 3.4	$ (0.9)

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

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

The capital expenditures that we report in our cash flow statements do not include amounts that are financed under capital lease arrangements. Instead, these amounts are reflected as non-cash additions to our property and equipment when the underlying assets are delivered, and as repayments of debt when the principal is repaid. In the following discussion, we present (i) our capital expenditures as reported in our cash flow statements, which exclude amounts financed under capital lease arrangements, and (ii) our total property and equipment additions, which include changes in current liabilities associated with capital expenditures and amounts that are financed under capital lease arrangements. For additional information, see note 5 to our condensed financial statements.

During the three months ended March 31, 2013 and 2012, (i) our capital expenditures were $10.7 million and $4.9 million, respectively, and (ii) our property and equipment additions were $19.9 million and $10.1 million, respectively. The increase in property and equipment additions is primarily attributable to (a) an increase in expenditures for new build and upgrade projects to expand services and (b) an increase in expenditures for the purchase and installation of customer premises equipment. During three months ended March 31, 2013 and 2012, (1) capital expenditures represented 14.6% and 16.8% of our revenue, respectively, and (2) property and equipment additions represented 27.2% and 34.6% of our revenue, respectively.

Financing activities. The increase in cash used by our financing activities is primarily attributable to an increase in cash used of $0.9 million related to higher repayments of third-party debt and capital lease obligations.