



KNOLOGY®

FCC Form 394:
Application for Franchise Authority Consent to Assignment
of Cable Television Franchise

CITY OF LAWRENCE, KANSAS

August 23, 2010



KNOLOGY®

FCC Form 394:
Application for Franchise Authority Consent to Assignment
of Cable Television Franchise

City of Lawrence

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August 23, 2010

Via Federal Express

Tracking #798974371290

Dave Corliss
City Manager
City of Lawrence
6 East 6th Street
Lawrence, KS 66044

Re: The World Company d/b/a Sunflower Broadband ("Sunflower") and Knology of Kansas, Inc., a wholly-owned subsidiary of Knology, Inc. ("Knology"); Request for Transfer of Cable Franchise by City of Lawrence, Kansas ("City").

Dear Mr. Corliss:

This letter provides notice of the pending sale by The World Company to Knology of the cable system serving your community. The transaction will include the transfer of Sunflower's cable franchises to Knology, including the cable franchise granted by the City. With this letter and the attached materials, Sunflower and Knology respectfully request the City's consent to the sale and transfer of the franchise.

Knology

Publicly-traded (NASDAQ: KNOL) and headquartered in West Point, Georgia, Knology is a leading provider of interactive communications and entertainment services. Like Sunflower, Knology has a rich history in the communications business, originating over 100 years ago as the Interstate and Valley Telephone Company.

Today, Knology's systems offer over 200 channels of digital cable, local and long distance digital telephone service, and broadband Internet access. Knology currently serves over 100 communities in eight states – Alabama, Florida, Georgia, Iowa, Minnesota, South Carolina, South Dakota, and Tennessee. Knology's networks pass over 930,000 homes, providing nearly 700,000 cable, telephone, and broadband connections. As a publicly-traded company, Knology makes extensive company and financial information readily available. For more information, see www.knology.com.

Knology recognizes that Sunflower has built a premier cable, telephone, and broadband business. Knology looks forward to continuing Sunflower's record of service and innovation.

Enclosures

To formally request consent to transfer the franchise, and to assist with the approval process, we attach:

- FCC Form 394: Application for Franchise Authority Consent to Assignment or Transfer of Control of Cable Television Franchise (original and 2 copies), including ownership and contact information, a copy of the purchase agreement (confidential information redacted) and a copy of Knology's most recent SEC Form 10-K; and
- A proposed Ordinance approving the transfer.

Request of Consent to Transfer Franchise

We respectfully request the City place the transfer Ordinance on the agenda for the next available public meeting. Please notify the points of contact below so we can schedule company representatives to attend the meetings.

The World Company

Ralph Gage
Director, Special Projects
609 New Hampshire
Lawrence, KS 66044
(785) 832-7125
rgage@lwworld.com

Knology

Chad Wachter
General Counsel
1241 O.G. Skinner Drive
West Point, GA 31833
(706) 773-2663
chad.wachter@knology.com

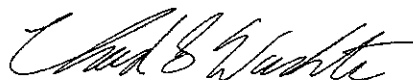
Please direct any questions you have about the Form 394 to our attention.

Thank you for your consideration. We appreciate your assistance in this matter, and we look forward to working with you.

Sincerely,



Name: Dan Simons
Title: President, Electronics Division
The World Company



Name: Chad Wachter
Title: General Counsel
Knology, Inc.

FCC 394

APPLICATION FOR FRANCHISE AUTHORITY
CONSENT TO ASSIGNMENT OR TRANSFER OF CONTROL
OF CABLE TELEVISION FRANCHISE

FOR FRANCHISE AUTHORITY USE ONLY

SECTION I. GENERAL INFORMATION

DATE: August 23, 2010	1. Community Unit Identification Number: KS 0062
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2. Application for: ☒ Assignment of Franchise ☐ Transfer of Control

3. Franchising authority: CITY OF LAWRENCE, KANSAS	
4. Identify community where the system/franchise that is the subject of the assignment or transfer of control is located: Lawrence, Kansas	
5. Date system was acquired or (for system's constructed by the transferor/assignor) the date on which service was provided to the first subscriber in the franchise area:	December 1971
6. Proposed effective date of closing of the transaction assigning or transferring ownership of the system to transferee/assignee:	November 30, 2010

7. Attach as an Exhibit a schedule of any and all additional information or material filed with this application that is identified in the franchise as required to be provided to the franchising authority when requesting its approval of the type of transaction that is the subject of this application.

Exhibit No.
N.A.

PART I - TRANSFEROR/ASSIGNOR

1. Indicate the name, mailing address, and telephone number of the transferor/assignor.

Legal name of Transferor/Assignor (if individual, list last name first) The World Company			
Assumed name used for doing business (if any) Sunflower Broadband			
Mailing street address or P.O. Box 609 New Hampshire			
City Lawrence	State KS	ZIP Code 66044	Telephone No. (include area code) 785-832-7125

2. (a) Attach as an Exhibit a copy of the contract or agreement that provides for the assignment or transfer of control (including any exhibits or schedules thereto necessary in order to understand the terms thereof). If there is only an oral agreement, reduce the terms to writing and attach. (Confidential trade, business, pricing, or marketing information, or other information not otherwise publicly available, may be redacted.)

Exhibit No.
1

(b) Does the contract submitted in response to (a) above embody the full and complete agreement between the transferor/assignor and transferee/assignee?

☒ Yes ☐ No

If No, explain in an Exhibit.

Exhibit No.
N.A.

PART II - TRANSFEREE/ASSIGNEE

1.(a) Indicate the name, mailing address, and telephone number of the transferee/assignee

Legal name of Transferee/Assignee (if individual, list last name first)

Knology of Kansas, Inc.

Assumed name used for doing business (if any)

Knology

Mailing street address or P.O. Box

1241 O.G. Skinner Drive

City West Point	State GA	ZIP Code 31833	Telephone No. (include area code) 706-634-2663
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(b) Indicate the name, mailing address, and telephone number of the person to contact, if other than the transferee/assignee.

Name of contact person (list last name first)

Wachter, Chad

Firm or company name (if any)

Knology, Inc.

Mailing street address or P.O. Box

1241 O.G. Skinner Drive

City West Point	State GA	ZIP Code 31833	Telephone No. (include area code) 706-773-2663
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(c) Attach as an Exhibit the name, mailing address, and telephone number of each additional person who should be contacted, if any.

Exhibit No.

2

(d) Indicate the address where the system's records will be maintained.

Street address

One Riverfront Plaza Suite 301

City Lawrence	State KS	ZIP Code 66044
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2. Indicate on an attached Exhibit any plans to change the current terms and conditions of service and operations of the system as a consequence of the transaction for which approval is sought.

Exhibit No.

3

SECTION II. TRANSFEREE'S/ASSIGNEE'S LEGAL QUALIFICATIONS

1. Transferee/Assignee is:

<input checked="checked" type="checkbox"/> Corporation	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%; padding: 5px;"> a. Jurisdiction of incorporation: Delaware </td> <td style="width: 50%; padding: 5px;"> d. Name and address of registered agent in jurisdiction: Corporation Service Company 2711 Centerville Road Suite 400 Wilmington, DE 19808 </td> </tr> <tr> <td style="padding: 5px;"> b. Date of incorporation: July 26, 2010 </td> <td></td> </tr> <tr> <td style="padding: 5px;"> c. For profit or non-for-profit: For profit </td> <td></td> </tr> </table>	a. Jurisdiction of incorporation: Delaware	d. Name and address of registered agent in jurisdiction: Corporation Service Company 2711 Centerville Road Suite 400 Wilmington, DE 19808	b. Date of incorporation: July 26, 2010		c. For profit or non-for-profit: For profit		
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b. Date of incorporation: July 26, 2010								
c. For profit or non-for-profit: For profit								
<input type="checkbox"/> Limited Partnership	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%; padding: 5px;"> a. Jurisdiction in which formed: </td> <td rowspan="2" style="width: 50%; padding: 5px;"> c. Name and address of registered agent in jurisdiction: </td> </tr> <tr> <td style="padding: 5px;"> b. Date of formation: </td> </tr> </table>	a. Jurisdiction in which formed:	c. Name and address of registered agent in jurisdiction:	b. Date of formation:				
a. Jurisdiction in which formed:	c. Name and address of registered agent in jurisdiction:							
b. Date of formation:								
<input type="checkbox"/> General Partnership	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%; padding: 5px;"> a. Jurisdiction whose laws govern formation: </td> <td style="width: 50%; padding: 5px;"> b. Date of formation: </td> </tr> </table>	a. Jurisdiction whose laws govern formation:	b. Date of formation:					
a. Jurisdiction whose laws govern formation:	b. Date of formation:							
<input type="checkbox"/> Individual								
<input type="checkbox"/> Other - Describe in an exhibit		<table border="1" style="margin: auto;"> <tr> <td>Exhibit No. N.A.</td> </tr> </table>	Exhibit No. N.A.					
Exhibit No. N.A.								

2. List the transferee/assignee, and, if the transferee/assignee is not a natural person, each of its officers, directors, stockholders beneficially holding more than 5% of the outstanding voting shares, general partners, and limited partners holding an equity interest of more than 5%. Use only one column for each individual or entity. Attach additional pages if necessary. (Read carefully - the lettered items below refer to corresponding lines in the following table.)

- (a) Name, residence, occupation or principal business, and principal place of business. (If other than an individual, also show name, address and citizenship of natural person authorized to vote the voting securities of the applicant that it holds.) List the applicant first, officers next, then directors and, thereafter, remaining stockholders and/or partners.
- (b) Citizenship.
- (c) Relationship to the transferee/assignee (e.g., officer, director, etc.)
- (d) Number of shares or nature of partnership interest.
- (e) Number of votes.
- (f) Percentage of votes.

(a) See Exhibit 4		
(b)		
(c)		
(d)		
(e)		
(f)		

3. If the applicant is a corporation or a limited partnership, is the transferee/assignee formed under the laws of, or duly qualified to transact business in, the State or other jurisdiction in which the system operates?

☒ Yes ☐ No

If the answer is No, explain in an Exhibit.

Exhibit No.
N.A.

4. Has the transferee/assignee had any interest in or in connection with an application which has been dismissed or denied by any franchise authority?

☐ Yes ☒ No

If the answer is Yes, describe circumstances in an Exhibit.

Exhibit No.
N.A.

5. Has an adverse finding been made or an adverse final action been taken by any court or administrative body with respect to the transferee/assignee in a civil, criminal or administrative proceeding, brought under the provisions of any law or regulation related to the following: any felony; revocation, suspension or involuntary transfer of any authority (including cable franchises) to provide video programming services; mass media related antitrust or unfair competition; fraudulent statements to another governmental unit; or employment discrimination?

☐ Yes ☒ No

If the answer is Yes, attach as an Exhibit a full description of the persons and matter(s) involved, including an identification of any court or administrative body and any proceeding (by dates and file numbers, if applicable), and the disposition of such proceeding.

Exhibit No.
N.A.

6. Are there any documents, instruments, contracts or understandings relating to ownership or future ownership rights with respect to any attributable interest as described in Question 2 (including, but not limited to, non-voting stock interests, beneficial stock ownership interests, options, warrants, debentures)?

☐ Yes ☒ No

If Yes, provide particulars in an Exhibit.

Exhibit No.
N.A.

7. Do documents, instruments, agreements or understandings for the pledge of stock of the transferee/assignee, as security for loans or contractual performance, provide that: (a) voting rights will remain with the applicant, even in the event of default on the obligation; (b) in the event of default, there will be either a private or public sale of the stock; and (c) prior to the exercise of any ownership rights by a purchaser at a sale described in (b), any prior consent of the FCC and/or of the franchising authority, if required pursuant to federal, state or local law or pursuant to the terms of the franchise agreement will be obtained?

☒ Yes ☐ No

If No, attach as an Exhibit a full explanation.

Exhibit No.
N.A.

SECTION III - TRANSFEE/ASSIGNEE'S FINANCIAL QUALIFICATIONS

1. The transferee/assignee certifies that it has sufficient net liquid assets on hand or available from committed resources to consummate the transaction and operate the facilities for three months.
2. Attach as an Exhibit the most recent financial statements, prepared in accordance with generally accepted accounting principles, including a balance sheet and income statement for at least one full year, for the transferee/assignee or parent entity that has been prepared in the ordinary course of business, if any such financial statements are routinely prepared. Such statements, if not otherwise publicly available, may be marked CONFIDENTIAL and will be maintained as confidential by the franchise authority and its agents to the extent permissible under local law.

☒ Yes ☐ No

Exhibit No.
5

SECTION IV - TRANSFEREE'S/ASSIGNEE'S TECHNICAL QUALIFICATIONS


Set forth in an Exhibit a narrative account of the transferee's/assignee's technical qualifications, experience and expertise regarding cable television systems, including, but not limited to, summary information about appropriate management personnel that will be involved in the system's management and operations. The transferee/assignee may, but need not, list a representative sample of cable systems currently or formerly owned or operated.

Exhibit No.
6

SECTION V - CERTIFICATIONS

PART I - Transferor/Assignor

All the statements made in the application and attached Exhibits are considered material representations, and all the Exhibits are a material part hereof and are incorporated herein as if set out in full in the application.

I CERTIFY that the statements in this application are true, complete and correct to the best of my knowledge and belief and are made in good faith.	Signature 
WILLFUL FALSE STATEMENTS MADE ON THIS FORM ARE PUNISHABLE BY FINE AND/OR IMPRISONMENT. U.S. CODE, TITLE 18, SECTION 1001.	Date August 23, 2010
	Print full name Dan Simons
Check appropriate classification: <input type="checkbox"/> Individual <input type="checkbox"/> General Partner <input checked="" type="checkbox"/> Officer <input type="checkbox"/> Other. Explain: President, Electronics Division The World Company	

PART II - Transferee/Assignee

All the statements made in the application and attached Exhibits are considered material representations, and all the Exhibits are a material part hereof and are incorporated herein as if set out in full in the application.

The transferee/assignee certified that he/she:

- (a) Has a current copy of the FCC's Rules governing cable television systems.
- (b) Has a current copy of the franchise that is the subject of this application, and of any applicable state laws or local ordinances and related regulations.
- (c) Will use its best efforts to comply with the terms of the franchise and applicable state laws or local ordinances and related regulations, and to effect changes, as promptly as practicable, in the operation of the system, if any changes are necessary to cure any violations thereof or defaults thereunder presently in effect or ongoing.

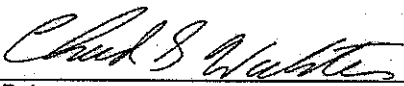
I CERTIFY that the statements in this application are true, complete and correct to the best of my knowledge and belief and are made in good faith.	Signature 
WILLFUL FALSE STATEMENTS MADE ON THIS FORM ARE PUNISHABLE BY FINE AND/OR IMPRISONMENT. U.S. CODE, TITLE 18, SECTION 1001.	Date August 23, 2010
	Print full name Chad Wachter
Check appropriate classification: <input type="checkbox"/> Individual <input type="checkbox"/> General Partner <input checked="" type="checkbox"/> Officer <input type="checkbox"/> Other. Explain: General Counsel, Knology, Inc.	

Exhibit 1
Asset Purchase Agreement

Asset Purchase Agreement between The World Company and Knology of Kansas, Inc.
dated August 3, 2010 (confidential information redacted).

ASSET PURCHASE AGREEMENT

THIS ASSET PURCHASE AGREEMENT is dated as of _____, by and between _____, a _____ corporation ("Seller"), and _____, a _____ corporation ("Buyer").

RECITALS:

A. Through its unincorporated division known as _____ and _____ (collectively, the "Division") Seller is in the business of providing (i) cable television, high speed data, voice and other services to residential and business customers in _____ and _____ and in nearby rural areas in _____ and _____ in _____ and (ii) original programming through the operation of _____, a local origination channel and video production services to commercial and corporate clients (collectively, the "Business"); and

B. In operating the Business, Seller, through the Division, utilizes a 750/860 MHz hybrid fiber coax network (the "System") and holds seven municipal or county Franchises (as defined below) plus a state Franchise; and

C. Seller desires to sell, and Buyer wishes to purchase, all of the Assets (as defined below) for the price and on the terms and subject to the conditions hereinafter set forth.

AGREEMENTS:

In consideration of the above recitals and the covenants and agreements contained herein, Buyer and Seller agree as follows:

1. DEFINED TERMS

In addition to the other terms defined throughout this Agreement, the following terms shall have the following meanings in this Agreement:

1.1 "2009 Financials" means a compilation of the combined balance sheets of the Division as of December 31, 2009 and 2008, and the related combined statements of income, division equity and cash flows for the years then ended, subject to the preparer's footnotes therein, prepared by _____ and dated _____, all of which solely relates to the assets, liabilities and operations of the Division and is based on the books and records of the Seller that were subject to a consolidated audit of the Seller as of the fiscal year ended December 31, 2009.

1.2 "Accounts Receivable" means the accounts receivable and other rights to payment for goods or services provided by the Business that are unpaid immediately prior to the Adjustment Time, including all accounts receivable that have been heretofore written off.

1.3 "Active Customers" means, as of any date of determination, the number of subscribers of the applicable service from the Division, but excluding (i) any subscriber who is Past Due in the payment of any amount in excess of \$90.00 (or any subscriber who would be Past Due in the payment of any such amount, but for the issuance of credits outside of the ordinary course of business); (ii) any subscriber who has not paid at least two full month's payment for the applicable service (after application of promotions and bundled discounts) no later than ninety (90) days after Closing; (iii) any subscriber (A) pending disconnection for any reason (provided, that with respect to any pending disconnect for non-payment, only such subscribers that would be Past Due at Closing will be deemed to be a pending disconnect) or (B) for whom a service termination notice has been received, if any, in excess of those subscribers pending connection; and (iv) any subscriber that has been obtained after the date hereof by offers made, promotions conducted or discounts given other than those offers, promotions and discounts (X) set

forth on Schedule 1.3 or which have substantially the same economic impact as the offers, promotions and discounts set forth on Schedule 1.3, (Y) in the ordinary course of business or (Z) approved by Buyer.

1.4 “**Adjustment Time**” means 12:01 a.m. on the Closing Date.

1.5 “**Affiliates**” of a Person means: (i) any Person directly, or indirectly through one or more intermediaries, controlling, controlled by or under common control with such Person (with “control” for such purpose meaning the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person whether through ownership of voting securities or voting interests, by contract or otherwise); or (ii) any executive officer, director, manager or member of such Person.

1.6 “**Agreement**” means this Asset Purchase Agreement.

1.7 “**Antitrust Division**” has the meaning set forth in Section 5.7.

1.8 “**Assets**” has the meaning set forth in Section 2.1.

1.9 “**Assumed Contracts**” means all contracts, agreements, leases and licenses, including any amendments and other modifications thereto, that relate solely to the Business, written or oral, to which the Seller is a party or which are binding on any of the Assets and (i) are listed on Schedule 3.6.2 or Schedule 3.7; (ii) provide for or could reasonably be expected to involve annual costs or obligations on the part of the Seller or, as Seller’s assignee, Buyer, of less than \$30,000.00; (iii) are commercial services agreements; or (iv) were entered into between the date of this Agreement and the Closing as permitted by and subject to this Agreement and that are listed on the list of Material Contracts delivered by Seller to Buyer pursuant to Section 5.14.

1.10 “**Assumed Liabilities**” means (i) Seller’s obligations to subscribers of the Business for (a) the delivery of any service in the conduct of the Business to the subscribers of the System after Closing, (b) subscriber deposits held by Seller as of Closing, which are refundable and are reflected in the Closing Working Capital and (c) subscriber advance payments held by Seller as of Closing and reflected in the Closing Working Capital; (ii) all current and accrued liabilities of the Business listed on Schedule 1.10; (iii) those obligations and liabilities attributable to, and arising exclusively with respect to, periods after Closing under the Assumed Contracts (other than liabilities that arise due to breaches of the Assumed Contracts that occur on or prior to the Closing Date or that arise in connection with breaches of the Seller’s representations, warranties or covenants contained herein) and Governmental Permits transferred or conveyed to Buyer at Closing, including any Assumed Contract that is a capital lease; (iv) other obligations and liabilities of Seller listed on Schedule 1.10; (v) accrued vacation benefits of Division Employees who become Hired Employees; (vi) all obligations and liabilities arising out of Buyer’s ownership of the Assets or operation of the System solely attributable to, and arising exclusively with respect to, the period after Closing; (vii) any other obligations which Buyer is required to perform pursuant to the terms of this Agreement or any agreement executed pursuant to the terms of this Agreement; and (viii) any liabilities for counterclaims brought by a third party when Buyer or its assign attempts to enforce any Accounts Receivable that have been heretofore written off or the causes of action transferred pursuant to Section 2.1.8.

1.11 “**Base Purchase Price**” has the meaning set forth in Section 2.4.1.

1.12 “**Basket Amount**” has the meaning set forth in Section 9.3.3.

1.13 “**Basic Services**” or “**Basic Service**” means cable television programming offered to subscribers by the Division in connection with the Business as a package, including broadcast and satellite service programming for which a subscriber pays a fixed monthly fee, but not including Pay TV.

1.14 “**Business**” has the meaning set forth in Recital A of this Agreement.

1.15 “**Buyer**” has the meaning set forth in the preamble of this Agreement.

1.16 “**Buyer’s Cure Period**” has the meaning set forth in Section 8.1.3.

- 1.17 [Reserved]
- 1.18 [Reserved]
- 1.19 [Reserved]
- 1.20 “Closing” means the consummation of the transactions contemplated by this Agreement in accordance with the provisions of Article 7.
- 1.21 “Closing Date” means the date of the Closing specified in Section 7.1.
- 1.22 “COBRA” means the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended.
- 1.23 “COBRA Obligations” has the meaning set forth in Section 5.6.6.
- 1.24 “Code” means the Internal Revenue Code of 1986, as amended, and the regulations thereunder.
- 1.25 “Commercial Video Subscriber” means an Active Customer that is a Governmental Authority, bulk commercial account, such as a hotel, motel, hospital, apartment house and similar multiple dwelling unit, or other commercial account which receives Basic Services (either alone or in combination with any other service, including commercial high speed data and/or telephony) and that is billed on a bulk basis by the Division in connection with the Business.
- 1.26 “Communications Act” means the Communications Act of 1934, as amended, including the Cable Communications Policy Act of 1984, the Cable Television Consumer Protection and Competition Act of 1992 and the Telecommunications Act of 1996, each as amended, and the FCC’s rules and regulations, policies and published decisions thereunder, each as in effect from time to time.
- 1.27 “Compensation Arrangement” means any plan, program, arrangement or agreement or policy, other than (a) an Employee Plan and (b) any retention bonus, severance policy or agreement with Seller (if any) and any retirement plan or deferred compensation plan with Seller or an Affiliate of Seller, including without limitation the _____ Supplemental Management Retirement Plan (the “SERP”) and the _____ Management Bonus Plan and the _____ Management Bonus Plan (collectively, the “Bonus Plans”), which retention bonus, severance policies and agreements (if any), SERP, Bonus Plans or other deferred compensation plan, if any, are Excluded Liabilities, whether written or unwritten, which provides to current or former Division Employees or other current leased employees, consultants (other than attorneys or accountants) or agents of the Seller who work or consult in the Business conducted by the Division, any present or future rights to compensation or other benefits, whether deferred or not, in excess of base salary or wages, including, but not limited to, any bonus or incentive plan, equity-based compensation plan, deferred compensation arrangement, change in control, vacation, sick leave, medical, death benefit, dental, life insurance, Section 125 of the Code “cafeteria” or “flexible” benefit, or any other material employee fringe benefit plan.
- 1.28 “Confidentiality Agreement” means that certain letter agreement dated _____ by and between Seller and _____.
- 1.29 “Consents” shall mean all consents, authorizations, permits, orders, licenses, certificates, approvals or declarations of or with, or filings with, notices or notifications to Governmental Authorities and other Persons.
- 1.30 “Copyright Act” means the Copyright Act of 1976, as amended, and the published rules and regulations and decisions of the United States Copyright Office thereunder, as in effect from time to time.
- 1.31 “Copyright Office” means the United States Copyright Office.
- 1.32 [Reserved]

- 1.33 **“Designated Employees”** has the meaning set forth in Section 5.6.1.
- 1.34 **“Digital Services”** means an optional tier of digital programming services offered by the Division in connection with the Business.
- 1.35 [Reserved]
- 1.36 **“Division Employees”** has the meaning set forth in Section 3.11.1.
- 1.37 **“Effect”** has the meaning specified in Section 1.79.
- 1.38 **“Employee Plan”** means any retirement or welfare plan or arrangement or any other employee benefit plan as defined in Section 3(3) of ERISA to which the Seller sponsors, maintains or contributes to or has any obligation to maintain or contribute to, for the benefit of any Division Employees except for any retention bonus, severance policy or agreement with Seller (if any) and any retirement plan, SERP, Bonus Plans or deferred compensation plan with Seller or an Affiliate of Seller, which retention bonus, severance policies and agreements (if any), SERP, Bonus Plans or deferred compensation plan, if any, are Excluded Liabilities.
- 1.39 **“Enforceability Exceptions”** means the exceptions or limitations to the enforceability of contracts or agreements under principles of general application relating to bankruptcy, reorganization, insolvency, moratorium, public policy or similar Legal Requirement affecting creditors’ rights and relief of debtors generally, and rules of law and general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).
- 1.40 **“Environmental Claim”** means any written claim or notice of any investigation, charge, claim, action, suit or proceeding against the Seller before, or an audit or demand for information by, a Governmental Authority arising under or pertaining to any Environmental Legal Requirement or Hazardous Substance.
- 1.41 **“Environmental Legal Requirement”** means any Legal Requirement pertaining to land use, air, soil, surface water, groundwater (including the protection, cleanup, removal, remediation or damage thereof), the handling, storage, treatment or disposal of waste, including hazardous waste, and the handling, storage, manufacture, treatment or transportation of hazardous materials, or to the protection of public health and safety, or any other environmental matter (including the following statutes: (A) Clean Air Act (42 U.S.C. § 7401, et seq.); (B) Clean Water Act (33 U.S.C. § 1251, et seq.); (C) Resource Conservation and Recovery Act (42 U.S.C. § 6901, et seq.); (D) Comprehensive Environmental Response, Compensation and Liability Act (42 U.S.C. § 9601, et seq.); (E) Safe Drinking Water Act (42 U.S.C. 300f, et seq.); (F) the Hazardous Materials Transportation Act; (G) the Federal Insecticide, Fungicide and Rodenticide Act and (H) Toxic Substances Control Act (15 U.S.C. § 2601, et seq.)).
- 1.42 **“Environmental Permits”** means all permits, licenses, registrations, and other authorizations required under applicable Environmental Legal Requirements.
- 1.43 **“Environmental Survey”** has the meaning specified in Section 5.10.
- 1.44 **“Equivalent Billing Units”** or **“EBUs”** means, as of any date of determination, the sum of: (i) the number of Active Customers that subscribe to either Basic Service or Expanded Basic Service in a single household (without duplication) and (ii) the number of Active Customers that are Commercial Video Subscribers to either Basic Service or Expanded Basic Service (without duplication); provided, that the number of Active Customers that are Commercial Video Subscribers shall be determined by dividing the gross bulk-rate revenue for Basic Service or Expanded Basic Service (but not revenues from tier or premium services, installation or converter rental or from any outlet or connection other than such customer’s first or from any pass-through charges for sales taxes, line-itemized franchise fees, fees charged by the FCC and the like) attributable to such Commercial Video Subscribers during the most recent billing period ended prior to the date of calculation (but excluding billings in excess of a single month’s charge) by the applicable subscription rate for Basic Service and/or Expanded Basic Service for individual households within the System to which such Commercial Video Subscriber subscribes. When determining the number of Equivalent Billing Units or EBU’s, the Parties shall credit only payments received from

Active Customers in good faith and shall treat all payments received, unless otherwise specifically contested, as applicable to the earliest period for which any Account Receivable is due and payable from the customer making the payment. In no event shall any credit, rebate or similar form of price concession be taken into account when determining whether or not an account qualifies as an Equivalent Billing Unit or EBU unless such credit, rebate or similar form of price concession is given in the ordinary course of business and not for the purpose of qualifying an account as an Equivalent Billing Unit or EBU.

- 1.45 “ERISA” means Employee Retirement Income Security Act of 1974, as amended.
- 1.46 “Excluded Assets” has the meaning specified in Section 2.2.
- 1.47 “Excluded Liabilities” has the meaning set forth in Section 2.7.
- 1.48 “Expanded Basic Services” means an optional tier of video services offered to subscribers by the Division in connection with the Business other than Basic Services, such as a la carte tiers, premium services, additional digital video tiers, Pay TV, pay-per-view television, and internet.
- 1.49 “FCC” means the Federal Communications Commission.
- 1.50 “FCC License” means those licenses, permits, registrations, approvals or authorizations granted or issued by the FCC to the Seller and used exclusively in the construction and/or operation of the System and the Business that are listed on Schedule 1.50, including all amendments, modifications and renewals thereof; provided, however, the term “FCC License” shall not include any Franchise or Telecommunications Authorization.
- 1.51 “FCC Telecommunications Authorization” means an authorization granted or issued by the FCC to provide Telecommunications Services.
- 1.52 “Financial Statements” means the 2009 Financials.
- 1.53 “Franchise” means those franchises, permits, licenses, resolutions, contracts, certificates, agreements or similar authorizations, and any amendments, modifications or renewals thereof, granted or issued by a Franchising Authority to Seller, which are listed on Schedule 1.53; provided, however, the term “Franchise” shall not include any FCC License or Telecommunications Authorization.
- 1.54 “Franchising Authority” means any Governmental Authority which has issued a Franchise relating to the operation of the System.
- 1.55 “FTC” has the meaning set forth in Section 5.7.
- 1.56 “GAAP” means United States generally accepted accounting principles, consistently applied, as in effect as of any date of determination.
- 1.57 “Governmental Authority” means any United States federal, state, commonwealth, territorial, local (including county or municipal) or foreign governmental, regulatory or administrative, department, board, bureau, authority, agency, division, instrumentality or commission or any court of any of the same.
- 1.58 “Governmental Order” means any statute, rule, regulation, order, decree, judgment, writ, injunction, stipulation or determination issued, promulgated or entered by any Governmental Authority of competent jurisdiction.
- 1.59 “Governmental Permits” means all Franchises, FCC Licenses, Telecommunications Authorizations, Environmental Permits and all other Licenses that are required and held for use in the operation of the System, including all amendments, modifications and renewals thereof.
- 1.60 “Hazardous Substance” means any pollutant, contaminant, hazardous or toxic substance, material, constituent or waste or any pollutant or any release thereof that is labeled or regulated as such by any

Governmental Authority pursuant to an Environmental Legal Requirement, including, to the extent so labeled or regulated, electromagnetic fields, mold, petroleum or petroleum compounds, radioactive materials, asbestos or any asbestos-containing material, or polychlorinated biphenyls or that poses a hazard to human health, safety, natural resources, employees or the environment.

1.61 **“High Speed Internet Services”** means internet services and backbone connectivity services offered to subscribers by the Division in connection with the Business through a cable modem and cable modem termination system.

1.62 **“Hired Employees”** has the meaning set forth in Section 5.6.1.

1.63 **“HSI Subscribers”** means, as of any date of determination, the number of Active Customers who subscribe for High Speed Internet Services, including residential and commercial high speed internet, fiber and WAN services.

1.64 **“HSR Act”** means the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended.

1.65 [Reserved]

1.66 [Reserved]

1.67 **“Intellectual Property”** means those patents, patent applications, trademarks, service marks, trade names, service names, logos, copyrights, trade secrets, domain names, URLs, copyrightable materials, logos, trade secrets, software, source codes, object codes, proprietary information, technical information and data, machinery and equipment warranties, maps, computer disks and tapes, plans, diagrams, blueprints and schematics and other intellectual property rights (any goodwill associated with any of the foregoing), applied for, issued to, transferred to, or owned by Seller or under which Seller is licensed or franchised and which are used or held for use in connection with the Business and are listed on Schedule 1.67.

1.68 **“Interim Financial Statements”** has the meaning set forth in Section 5.12.

1.69 **“IRS”** means the United States Internal Revenue Service.

1.70 **“Knowledge of Seller,” “to Seller’s Knowledge”** and words of similar import shall mean the knowledge of _____, _____, _____ and _____, including facts and matters that those individuals actually know and facts and matters that such individuals should have known due to their positions as officers, managers/directors and/or members/securities owners of Seller.

1.71 **“Leased Real Property”** has the meaning set forth in Section 3.6.2.

1.72 **“Legal Requirement”** means, as in effect on any date of determination, applicable common law or any applicable statute, permit, ordinance, code or other law, rule, regulation or order enacted, adopted, promulgated or applied by any Governmental Authority, including any applicable Governmental Order.

1.73 **“Licenses”** means permits, licenses, variances, exemptions and approvals issued by any Governmental Authority (other than the Franchises and Telecommunications Authorizations).

1.74 **“Liens”** means claims, liabilities, mortgages, liens, pledges, conditions, rights of first refusal, options to purchase, charges or encumbrances of any nature whatsoever.

1.75 [Reserved]

1.76 [Reserved]

1.77 **“Management Agreement”** has the meaning set forth in Section 5.16.

1.78 **“Management Period”** has the meaning set forth in Section 5.16.

1.79 **“Material Adverse Effect”** means any event, condition, change, occurrence, development, circumstance, effect or state of facts (each, an **“Effect”**) that, individually or in the aggregate with any such other Effect, (a) prevents the Seller from consummating the transactions contemplated by this Agreement or performing its obligations under this Agreement, or (b) is materially adverse to the assets, properties, operations, business, financial condition or results of operations of the Business, taken as a whole, except for any such Effect after the date of this Agreement arising out of, resulting from or attributable to (i) the public announcement of this Agreement or actions taken with Buyer’s written consent (including without limitation those provided for in, or contemplated in order to close the transactions provided for in, this Agreement), (ii) any federal, state, local or foreign governmental actions, including proposed or enacted legislation or regulatory changes, except to the extent such changes or legislation disproportionately affect (relative to other participants in the industry in which the Seller operates the Business) the Business, (iii) changes in GAAP, except to the extent such changes disproportionately affect (relative to other participants in the industry in which the Seller operates the Business) the Business, (iv) conditions generally applicable to the industry in which Seller operates the Business, except to the extent such conditions disproportionately affect (relative to other participants in the industry in which Seller operates the Business) the Business, (v) changes in conditions in the United States or global economy or capital, credit or financial markets generally, except to the extent such changes disproportionately affect (relative to other participants in the industry in which Seller operates the Business) the Business, and (vi) changes caused by hostilities, acts of terrorism or war, or any material escalation of any such hostilities, acts of terrorism or war existing as of the date hereof, except to the extent such changes disproportionately affect (relative to other participants in the industry in which Seller operates the Business) the Business.

1.80 **“Material Contract”** means any contract, agreement, lease or license relating to the Business which: (i) provides for, or could reasonably be expected to involve, annual costs or obligations on the part of the Seller or its assignee, or annual payments made to the Seller or its assignee, in excess of \$30,000 and which (A) relates to, or is evidence of, or is a guarantee of, or provides security for, indebtedness for borrowed money or the deferred purchase price of property (whether incurred, assumed, guaranteed or secured by any Asset); (B) is a letter of credit, bond or similar arrangement running to the account of, or for the benefit of, the Seller in connection with the Business; (C) is a lease or other agreement relating to any of the Owned Real Property that will be binding upon the owner of the Owned Real Property after the Closing or by which the Division leases any Leased Real Property; (D) is a lease or agreement under which the Seller is a lessor of or permits any other Person to hold or operate any Real Property or material Personal Property which is owned or controlled by the Seller and exclusively used in connection with the Business; (E) is a license or other agreement of the Seller or any of its Affiliates relating to the use of Intellectual Property, except for any of the foregoing related to the use of generally available off-the-shelf computer software; (F) is a contract or agreement under which the Seller has advanced or loaned, or agreed to advance or loan, any other Person in any amount that relates to the Business; (G) is a pole attachment agreements; (H) is a retransmission contracts or must carry requests; (I) is an advertising sales or programming agreements; (J) is an agreement relating to interconnection, reciprocal compensation, co-location, conduits and rights of way and access; (K) is a bulk agreement or right-of-entry agreement; (L) is an agreement affecting the Assets or Business after the Closing that are outside of the ordinary course of Business; (M) is a contract with any Affiliate of the Seller; or (N) is a contract, agreement, lease or license where the loss of such contract, agreement, lease or license together with any other related agreement could reasonably be expected to have a Material Adverse Effect; (ii) contains covenants limiting the right of the Seller or its successor owner of the Business to engage in any line of business in any geographic area or to have the Business compete with any Person, including any contract that contains any exclusivity, noncompetition, non-solicitation, no-hire or “most favored nations” provisions; (iii) is an employment, consulting (or other personal services by an independent contractor), sales or commissions contract, including contracts to employ executive officers and other contracts with officers or directors of such Person engaged in the Business; (iv) is a collective bargaining agreement covering Division Employees; (v) is a joint venture or partnership agreement or a limited liability company operating agreement to which the Seller is a party and which relates to the Business; (vi) any contract with any labor union representing Division Employees; (vii) is a general power of attorney or other similar Assumed Contract of the Seller; or (viii) is a franchise or similar agreement with a Franchising Authority; provided that “Material Contract” shall not include any contract, agreement, lease or license that is an Excluded Asset.

1.81 **"Net Working Capital"** means the amount as of the Adjustment Time, of: (a) the value of all current assets of the Division (as agreed upon by the Buyer and Seller) less (b) the amount of all current liabilities of the Division (as agreed upon by Buyer and Seller), calculated in the manner provided in Section 2.5 and the Estimated Working Capital Adjustment.

1.81.1 **"ordinary course of business"** or **"ordinary course of Business"** means the Division's ordinary course of business consistent with past custom and practice (including with respect to frequency and amount).

1.82 **"Organizational Documents"** means, with respect to any Person (other than an individual), the articles or certificate of incorporation, bylaws, certificate of limited partnership, partnership agreement, certificate of formation, limited liability company operating agreement, and all other organizational documents of such Person.

1.83 **"Owned Real Property"** has the meaning set forth in Section 3.6.1.

1.84 **"Parties"** means Buyer and Seller, collectively, and **"Party"** means each of Buyer and Seller, individually.

1.85 **"Past Due"** means any subscriber account upon which payment has not been made ninety (90) or more days after the invoice date to which the billing relates.

1.86 **"Payoff Amount"** means the aggregate amount set forth in the Payoff Letters.

1.87 **"Payoff Letters"** means letters, in form and substance reasonably satisfactory to Buyer, from each of the Seller's senior and subordinated lenders with Liens on the Assets, setting forth the amounts required to have the Assets released from such Liens which secure outstanding obligations to obligees as of the Closing (including all obligations in respect of principal, accrued interest, penalties, taxes, fees, expenses and other amounts) of Seller: (i) for borrowed money (including overdraft facilities or indebtedness evidenced by notes, bonds, debentures or similar contractual obligations), (ii) for the deferred purchase price of property, goods or services (excluding for purposes of this definition current trade payables or accruals incurred in the ordinary course of business), whether or not such amounts are accrued on the Financial Statements, (iii) under capital leases (in accordance with GAAP), (iv) in respect of letters of credit and bankers' acceptances, (v) for contractual obligations relating to interest rate protection, swap agreements and collar agreements, and (vi) in the nature of guaranties of the obligations described in clauses (i) through (v) above.

1.88 **"Pay TV"** means premium programming services selected by and sold to subscribers by the Division in connection with the Business on an a la carte and/or bundled price basis for monthly fees in addition to the fee for Basic Services.

1.89 **"Permitted Encumbrances"** means any of the following liens or encumbrances on any of the Assets: (i) liens for current taxes, assessments and governmental charges not yet due and for which adequate reserves have been established; (ii) statutory liens arising by operation of law in the ordinary course of business or other encumbrances that are minor or technical defects in title; (iii) interests of customers in customer premise equipment; (iv) restrictions set forth in, or rights granted to any Franchising Authority as set forth in, the Franchises; (v) immaterial imperfections of title that do not, individually or in the aggregate, impair the value of or interfere with the present use of the Assets to which they relate; (vi) any interest or title of a lessor under an operating lease or capitalized lease or of any licensor under any license; (vii) zoning, building, utility easements, rights of way or similar restrictions, easements or matters of record relating to or affecting property that do not, individually or in the aggregate, prevent the use of the Assets subject thereto in the ordinary course of business of the Business; and (viii) liens listed on Schedule 3.6.1.

1.90 **"Person"** means any natural person, Governmental Authority, corporation, general or limited partnership, limited liability company, joint venture, trust, association or unincorporated entity of any kind.

1.91 **"Personal Property"** means all of the personal property (other than personal property that is an Excluded Asset) owned by Seller and used primarily in connection with the operation of the Business by the Division, including the Tangible Personal Property, the Intellectual Property, that certain B block 700 MHz license

for 12 MHz of bandwidth for _____, _____ known as the "Spectrum Asset", the Governmental Permits, the Assumed Contracts, the Accounts Receivable, the Franchises and the property listed on Schedule 1.91 plus such additions thereto and less such deletions therefrom as are permitted by Section 5.1 of this Agreement between the date hereof and the Closing Date.

1.92 [Reserved]

1.93 **"Present Fair Salable Value"** means with respect to a Person the amount that may be realized if its aggregate assets (including goodwill) were sold in one or more transactions on a going concern basis each with reasonable promptness in an arm's length transaction between a willing buyer and a willing seller, neither being under a compulsion to buy or sell, under ordinary conditions for the sale of comparable business enterprises.

1.94 **"Purchase Price"** has the meaning specified in Section 2.4.1.

1.95 **"Real Property"** means all of the Owned Real Property (together with the buildings and other improvements located thereon) and the leasehold interests of the Seller as lessee in Leased Real Property.

1.96 **"Release"** means any presence, emission, spill, seepage, leak, escape, leaching, discharge, injection, pumping, pouring, emptying, dumping, disposal, migration, or release of Hazardous Substances from any source into or upon the environment, including the air, soil, improvements, surface water, groundwater, sewer, septic system, storm drain, publicly owned treatment works, or waste treatment, storage, or disposal systems.

1.97 **"RGUs"** means the sum of EBU's, HSI Subscribers and Telephony Subscribers.

1.98 **"Seller Consents"** has the meaning set forth in Section 3.3.

1.99 [Reserved]

1.100 **"Seller Indemnitees"** has the meaning set forth in Section 9.3.

1.101 **"Seller"** has the meaning set forth in the preamble of this Agreement.

1.102 [Reserved]

1.103 **"Seller's Cure Period"** has the meaning set forth in Section 8.1.2.

1.104 **"Solvent"** means when used with respect to Seller, that, as of the Closing Date, its Present Fair Salable Value of its assets will, as of such date, exceed all of its liabilities, contingent or otherwise, as of such date.

1.105 **"State Regulatory Authority"** means any state Governmental Authority with authority over the provision of Telecommunications Service.

1.106 **"State Telecommunications Authorization"** means an authorization granted or issued by a State Regulatory Authority to provide Telecommunications Services.

1.107 **"Surveys"** has the meaning set forth in Section 5.9.

1.108 **"System"** has the meaning set forth in Recital B of this Agreement.

1.109 **"Tangible Personal Property"** means all of the inventory, equipment, tools, vehicles, furniture, leasehold improvements, office equipment, plant, spare parts, and other tangible personal property which are owned or leased by the Seller and primarily used or held for use in the conduct of the Business by the Division and which are listed on Schedule 1.109.

1.110 **"Tax" or "Taxes"** means any and all federal, state, local or foreign income, gross receipts, license, payroll, employment, excise, business, severance, stamp, occupation, premium, windfall profits, environmental

(including taxes under Code Section 59A), customs, duties, capital stock, franchise, utilities, profits, withholding, social security (or similar), payroll, wage, unemployment, disability, real property, personal property, sales, use, transfer, registration, value added, alternative or add-on minimum, estimated or other taxes, charges, fees, levies and assessments of any kind whatsoever, including any interest, penalty (including any penalty for failure to file a Tax Return) or addition thereto, whether disputed or not and including any obligations to indemnify or otherwise assume or succeed to (whether by transferee liability or otherwise) the Tax liability of any other Person.

1.111 “**Tax Return**” means any return, declaration, report, claim for refund, or information return or statement relating to Taxes, including any associated schedules, attachments or amendments.

1.112 “**Telecommunications Authorization**” means those FCC Telecommunications Authorization or State Telecommunications Authorizations that authorize the provision of international, interstate or intrastate Telecommunications Services over the System that are listed on Schedule 1.112; provided, however, the term “**Telecommunications Authorization**” shall not include any Franchise or FCC License.

1.113 “**Telecommunications Service**” shall have the meaning set forth in Section 3(46) of the Communications Act as of the date of this Agreement, 47 U.S.C. Section 153(46).

1.113.1 “**Telephony Services**” means any level of residential or commercial telephony service.

1.114 “**Telephony Subscriber**” means, as of any date of determination, the number of Active Customers who subscribe for Telephony Services.

1.115 [Reserved]

1.116 [Reserved]

1.119 “**Title Commitments**” has the meaning set forth in Section 5.9.

1.118 “**Transaction Documents**” means this Agreement and any other agreement, document, instrument or certificate required to be executed and delivered pursuant to the terms of this Agreement.

1.119 “**Transaction Proposal**” has the meaning set forth in Section 5.13.

1.120 “**Transfer Taxes**” has the meaning set forth in Section 5.4.

1.121 “**TSA**” has the meaning set forth in Section 5.1.

2. SALE AND PURCHASE OF ASSETS

2.1 Agreement to Sell and Purchase. Subject to the terms and conditions set forth in this Agreement, Seller hereby agrees to sell, transfer, assign and deliver to Buyer on the Closing Date, and Buyer agrees to purchase and acquire from Seller on the Closing Date, all of Seller’s right, title and interest in the following assets (other than the Excluded Assets)(collectively, the “**Assets**”), free and clear of all Liens, other than Permitted Encumbrances:

2.1.1 all Personal Property;

2.1.2 the Real Property;

2.1.3 all of the Division’s then existing customer records, personnel records and other records of every kind, books, documents, files, accounts receivable information and credit history and customer lists, but only to the extent permitted under Legal Requirements and that they primarily relate to the Business;

2.1.4 all training materials, manuals, technical documents and other similar information of the Division primarily relating to the Business;

2.15 Seller's rights in current telephone listings (including "800", "877", "888" and other "toll free" and other numbers) primarily used in connection with the Business.

2.1.6 all prepaid expenses, charges and deposits paid by Seller prior to the Closing Date relating to the operation of the Business, to the extent included as an asset in the calculation of Net Working Capital;

2.1.7 all customer lockbox account numbers of Seller with respect to customers of the Business;

2.1.8 all rights under warranties from vendors and other third parties, claims (excluding only those claims described in Section 2.2.5), causes of action, going-concern value and goodwill used in the operation of, held for use primarily in the operation of, or associated with, the Business;

2.1.9 all rights of Seller in and to the assets primarily used in the business of _____; and

2.1.10 the proceeds of all outstanding property and casualty insurance claims as of Closing with respect to any Assets in existence as of the date of this Agreement or acquired after the date hereof and required to be transferred to Buyer on the Closing Date to the extent that any such Asset is damaged or destroyed after the date hereof and has not been repaired or replaced as of Closing, except to the extent such loss or damage is reflected in Net Working Capital.

2.2 **Excluded Assets.** Notwithstanding Section 2.1, the Assets shall not include any of the following (the "Excluded Assets"), all right, title and interest in, to or under which are retained by Seller:

2.2.1 Subject to Section 2.1.9, insurance policies of Seller and rights and claims thereunder (including any refund of premiums);

2.2.2 bonds, letters of credit, surety instruments, and other similar items;

2.2.3 cash and cash equivalents;

2.2.4 any rights under any contract governing or evidencing an obligation for borrowed money, other than capital leases listed on Schedule 3.7;

2.2.5 claims or other rights against third parties relating to the Business and arising out of transactions occurring prior to the Adjustment Time, except to the extent such claims or rights relate to (i) rights under third party warranties described in Section 2.1.8, (ii) damage incurred with respect to assets of the Business except for claims for damages or destruction of Assets described in Section 2.1.10; or (iii) the Assumed Liabilities;

2.2.6 rights to any Tax refunds or credits for periods (or portions thereof) ending on or prior to the Closing Date and Seller's Tax and financial records that are not exclusively related to the Business;

2.2.7 intercompany receivables and any advances to Affiliates, including advances to any employee of the Seller;

2.2.8 corporate records and, to the extent not transferred to Buyer pursuant to Section 2.1.3, personnel records;

2.2.9 all items of Tangible Personal Property consumed or disposed of in the ordinary course of business between the date of this Agreement and the Closing Date;

2.2.10 the employee benefit plans and arrangements of the Seller and any and all assets associated therewith;

2.2.11 all rights of the Seller under this Agreement and any other agreement, certificate, instrument or other document executed and delivered by Seller in connection with the transactions contemplated hereby;

2.2.12 all bank and other depository accounts of Seller;

2.2.13 any real property other than the Real Property;

2.2.14 all rights of the Seller to equity ownership interests in any entity that are owned by Seller;

2.2.15 any off-the-shelf office computer software that is not transferable;

2.2.16 all assets of Seller which are not currently primarily used in the Business by the Division (except for any asset that is specifically itemized on a schedule to this Agreement as being included within a category of Assets); and

2.2.17 the rights, assets, and properties described on Schedule 2.2.

2.3 Assumed Liabilities. At Closing, Buyer shall assume, and shall agree to pay, perform and discharge, only the Assumed Liabilities. Other than the Assumed Liabilities, Buyer shall not assume, and shall not have any responsibility, obligation or liability for, any Excluded Liabilities and any other liabilities or obligations of Seller.

2.4 Purchase Price.

2.4.1 As consideration for the transfer of the Assets, Buyer shall (a) pay the Seller _____ Dollars (_____) (the "**Base Purchase Price**"), plus the Estimated Working Capital Adjustment (which number shall be subtracted if it is a negative number) as determined in accordance with Section 2.5 (the Base Purchase Price, as so adjusted, the "**Purchase Price**"), and (b) assume the obligation to pay or perform the Assumed Liabilities. The services must be normal and reasonable broadband services.

2.4.2 Subject to the satisfaction or waiver of the conditions set forth in Article 6 hereof, Buyer shall pay the Purchase Price to Seller as follows: (a) the Payoff Amount will be delivered by Buyer, on behalf of and at the direction of Seller, by wire transfer of immediately available funds in accordance with the respective wire instructions set forth in the Payoff Letters; (b) _____ (\$_____) of the Purchase Price (the "**Escrow Amount**") will be delivered to the Escrow Agent, on behalf of and at the direction of Seller, in accordance with the Escrow Agreement; and (c) the balance of the Purchase Price will be paid by the Buyer to the Seller, by wire transfer of immediately available funds in accordance with written instructions delivered by the Seller prior to Closing.

2.5 Purchase Price Adjustments.

2.5.1 At least fifteen (15) days prior to the Closing Date, Seller shall deliver to Buyer a good faith estimate of what the Division's Net Working Capital will be as of the Adjustment Time on the Closing Date (the "**Seller's Estimated Working Capital**"), together with supporting documentation for such estimate and any additional information relating thereto reasonably requested by Buyer. The Seller's Estimated Working Capital shall be prepared in good faith in a manner consistent with the calculation of the Average Working Capital and shall be certified by an authorized officer of Seller. Buyer and its accountants and advisors shall be given full access to all of Seller's books and records with respect to the Division and the Business for purposes of evaluating the accuracy and completeness of the Seller's Estimated Working Capital. If Buyer believes, in good faith, that the Seller's Estimated Working Capital is in error, Buyer may challenge the amount of the Seller's Estimated Working Capital within ten (10) days following its receipt of the Seller's Estimated Working Capital by delivering a written notice of disagreement to Seller, which notice shall include an itemization of Buyer's objections and an explanation of such objections. If Buyer does not timely deliver a notice of disagreement to Seller, the amount of the Purchase Price to be paid at the Closing shall be based on the Seller's Estimated Working Capital as delivered to Buyer. If

Buyer timely delivers a written notice of disagreement to Seller, Buyer and Seller shall use their good faith efforts to resolve any disputes with respect to the Seller's Estimated Working Capital prior to the Closing Date, and the amount of Closing Consideration to be paid at the Closing shall be based on the Estimated Working Capital (as defined below) as mutually agreed to in writing by Buyer and Seller. If Buyer timely delivers a notice of disagreement to Seller but Buyer and Seller are unable to resolve their dispute regarding the Seller's Estimated Working Capital within four (4) days of the delivery by Buyer to Seller of such notice of disagreement, then the Purchase Price to be paid at the Closing shall be based on the Seller's Estimated Working Capital. "**Estimated Working Capital**" means the estimate of what Net Working Capital will be at the Adjustment Time on the Closing Date as determined by the Parties pursuant to this Section 2.5.1.

2.5.2 "Average Working Capital" means (\$ _____) in Net Working Capital calculated in the manner and methodology agreed to by Buyer and Seller as set forth on Schedule 2.5.2. "Target Working Capital Range" means a range between and including (i) an amount equal to the Average Working Capital less \$ _____ (the "Working Capital Floor") and (ii) an amount equal to the Average Working Capital plus \$ _____ (the "Working Capital Ceiling"). The "Estimated Working Capital Adjustment" shall be a dollar amount calculated as follows:

- (i) If Estimated Working Capital is within the Target Working Capital Range, then the Estimated Working Capital Adjustment shall be zero; or
- (ii) If Estimated Working Capital is less than the Working Capital Floor, then the Estimated Working Capital Adjustment shall be equal to (A) the amount of Estimated Working Capital calculated in accordance with Section 2.4(a) minus (B) the Working Capital Floor; or
- (iii) If Estimated Working Capital is greater than the Working Capital Ceiling, then the Estimated Working Capital Adjustment shall be equal to (A) the amount of Estimated Working Capital calculated in accordance with Section 2.4(a) minus the Working Capital Ceiling.

2.5.3 Within sixty (60) days following the Closing Date, Seller shall prepare and deliver to Buyer Seller's calculation of the actual Net Working Capital calculated in the manner and methodology agreed to by Buyer and Seller as set forth on Schedule 2.5.2 as of the Adjustment Time on the Closing Date (the "**Closing Working Capital**") and a certificate, based on such statement, of Seller's calculation of the Closing Working Capital Adjustment (such statement of Net Working Capital and certificate, collectively, are referred to herein as, the "**Closing Statement**"). The Closing Statement shall be prepared consistently with the Average Working Capital and shall be certified by an authorized officer of Seller. The preparation of the Closing Statement shall be for the sole purpose of determining the Closing Working Capital Adjustment. Buyer shall have twenty (20) business days following its receipt of the Closing Statement (the "**Review Period**") to review the same. During the Review Period, Buyer and its accountants and advisors shall be given full access to all of Seller's books and records with respect to the Division and the Business for purposes of evaluating the accuracy and completeness of the Seller's calculation of Closing Working Capital. On or before the expiration of the Review Period, Buyer shall deliver to Seller a written statement accepting or objecting to the Closing Statement. If Buyer objects to the Closing Statement, such statement shall include an itemization of Buyer's objections and an explanation of the objections. If Buyer does not deliver such statement to Seller within the Review Period, Buyer shall be deemed to have accepted the Closing Statement.

2.5.4 The "**Closing Working Capital Adjustment**" shall be a dollar amount calculated as follows:

- (i) If Closing Working Capital is within the Target Working Capital Range, then the Closing Working Capital Adjustment shall be zero, and any previously-made Estimated Working Capital Adjustment shall be reversed and, if applicable, refunded to the appropriate party (which amount will be paid directly by the parties without any deductions from the Escrow Fund); or
- (ii) If Closing Working Capital and Estimated Working Capital are both less than the Working Capital Floor, then the Closing Working Capital Adjustment shall be equal to (A) Closing Working Capital minus (B) Estimated Working Capital; or

- (iii) If Closing Working Capital is less than the Working Capital Floor and Estimated Working Capital is within the Target Working Capital Range, then the Closing Working Capital Adjustment shall be equal to (A) Closing Working Capital minus (B) the Working Capital Floor; or
- (iv) If Closing Working Capital is less than the Working Capital Floor and Estimated Working Capital is greater than the Working Capital Ceiling, then the Closing Working Capital Adjustment shall be equal to (A) Closing Working Capital minus (B) the Working Capital Floor minus (C) the Estimated Working Capital Adjustment; or
- (v) If Closing Working Capital is greater than the Working Capital Ceiling and Estimated Working Capital is less than the Working Capital Floor, then the Closing Working Capital Adjustment shall be equal to (A) Closing Working Capital minus (B) the Working Capital Ceiling minus (C) the Estimated Working Capital Adjustment; or
- (vi) If Closing Working Capital is greater than the Working Capital Ceiling and Estimated Working Capital is within the Target Working Capital Range, then the Closing Working Capital Adjustment shall be equal to (A) Closing Working Capital minus (B) the Working Capital Ceiling; or
- (vii) If Closing Working Capital and Estimated Working Capital are both greater than the Working Capital Ceiling, then the Closing Working Capital Adjustment shall be equal to (A) Closing Working Capital minus (B) the Working Capital Ceiling minus (C) the Estimated Working Capital Adjustment.

2.5.5 The Closing Working Capital Adjustment set forth on the Closing Statement, as accepted or deemed accepted under Section 2.5.3 or, if applicable, as determined in accordance with Section 2.5.6 below, shall constitute the “**Final Closing Adjustment**” for purposes of determining any adjustment to the Purchase Price and shall be binding and conclusive on the Parties and not subject to appeal.

2.5.6 If Buyer objects to the Closing Statement within the Review Period, Buyer and Seller shall promptly and in good faith attempt to resolve such objections. Any such objections that cannot be resolved between Buyer and Seller within thirty (30) days following Seller’s receipt of Buyer’s statement of objections shall be resolved in accordance with this Section 2.5.6. Any such unresolved objections shall be submitted to Ernst & Young’s _____ offices (the “**Accounting Referee**”) for review and resolution, with instructions to complete the same as promptly as practicable, but in any event within thirty (30) days of its engagement, and to make any calculations in accordance with the methodology specified above. Such Accounting Referee shall deliver a statement setting forth its own calculation of the Closing Working Capital Adjustment within thirty (30) days of the submission of the matter to such firm, which calculation, absent manifest error, shall be binding and conclusive on the Parties and not subject to appeal. The Accounting Referee will be directed to give to each of the Parties and their respective accountants and advisors access to all of the Accounting Referee’s work papers for purposes of determining whether there is a manifest error. The determination of the Accounting Referee shall be accompanied by a certificate of the Accounting Referee that its determination was prepared in accordance with the methodology specified above with respect to such dispute. The fees and expenses (including any related indemnity obligation to the Accounting Referee) shall be borne one-half by Buyer and one-half by Seller.

2.5.7 If the Final Closing Adjustment is a negative amount, Seller shall pay to Buyer an amount in cash equal to the Final Closing Adjustment. If the Final Closing Adjustment is a positive amount, then Buyer shall pay to Seller an amount in cash equal to the Final Closing Adjustment. Any payment made under this Section 2.5.7 shall be made within fifteen (15) days of the final determination of the Final Closing Adjustment.

2.6 Allocation of Purchase Price. Buyer and Seller agree, with respect to the Assets and Assumed Liabilities to be acquired, sold and transferred hereunder, to allocate the Purchase Price, Assumed Liabilities and other relevant items (including, for example, adjustments to the Purchase Price) to individual assets (including to Seller Restrictive Covenant, as hereinafter defined) or classes of assets for all purposes and matters regarding Taxes

and Tax Returns in the manner and using the methodology (i.e., using Seller's tax basis as a starting point) as described in the example of an allocation set forth in Schedule 2.6, which allocation will be agreed upon in good faith in writing by the parties within sixty (60) days after Closing (the "**Agreed-Upon Allocation**"). Buyer and Seller (and their Affiliates) agree to use the Agreed-Upon Allocation in preparing and filing all required forms under Section 1060 of the Code and all other Tax Returns, and neither Buyer nor Seller (nor their Affiliates) will take any position before any Governmental Authority on any Tax Return or in any judicial proceeding concerning Taxes and Tax Returns that is in any way inconsistent with such Agreed-Upon Allocation unless otherwise required by Law. Each of Buyer and Seller (and their Affiliates) shall notify the other within fifteen (15) business days if it receives written notice that any Governmental Authority proposes any allocation that is different from the Agreed-Upon Allocation.

2.7 **Excluded Liabilities.** Specifically, and without in any way limiting the generality of Section 2.3, other than the Assumed Liabilities, Buyer does not, and in no event shall Buyer be deemed to, assume, agree to pay, or agree to or be required to discharge or perform, and Seller shall continue to be responsible for, any and all responsibilities, obligations and liabilities of Seller or any Affiliate of Seller, whether or not arising out of or relating to the System, the Business or the Division, of whatever kind or nature, whether presently in existence or arising hereafter, known or unknown, contingent or otherwise (the "**Excluded Liabilities**"). For the avoidance of doubt, the fact that any of the Excluded Liabilities are set forth or described on any Schedule to this Agreement does not change their status as Excluded Liabilities.

3. **REPRESENTATIONS AND WARRANTIES OF SELLER**

Seller hereby represents and warrants to Buyer as follows:

3.1 **Organization; Authority.** Seller is a corporation duly organized, validly existing and in good standing under the laws of the State of _____, and has all requisite corporate power and authority necessary to own, lease, use and transfer its properties, carry on its business as currently conducted and enter into and perform its obligations under this Agreement and to consummate the transactions contemplated hereby. Seller is qualified to do business and is in good standing under the laws of each jurisdiction in which the ownership, leasing or use of the assets owned, leased or used by it or the nature of its activities makes such qualification necessary, except where the failure to so qualify has not had, and would not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect. Buyer has been provided true and correct copies of the Organizational Documents of Seller, as in effect on the date hereof. Seller has no direct or indirect subsidiaries other than _____. Immediately prior to Closing, Seller will hold all of the Assets.

3.2 **Authorization; Enforceability.** The execution and delivery by Seller of this Agreement, the performance by Seller of its obligations hereunder and the consummation by Seller of the transactions contemplated hereby have been duly authorized by all necessary corporate and shareholder action on the part of Seller. The execution and delivery by Seller of the other Transaction Documents to which it is a party, the performance by Seller of its obligations thereunder and the consummation by Seller of the transactions contemplated thereby will be duly authorized by all necessary corporate and shareholder action of Seller prior to the Closing. This Agreement has been, and each other Transaction Document to be executed by Seller at or prior to the Closing will be, duly executed and delivered by Seller, and assuming the due authorization, execution and delivery of this Agreement and such other Transaction Documents by the other parties thereto, this Agreement constitutes, and each other Transaction Document to be executed by Seller will constitute, a valid and legally binding obligation of Seller, enforceable against it in accordance with its terms, except as enforceability may be limited by the Enforceability Exceptions.

3.3 **No Violation or Conflict.** Except for, and subject to the receipt of, the Consents disclosed on Schedule 3.3 (collectively, the "**Seller Consents**") and compliance with the HSR Act, the execution, delivery and performance by Seller of this Agreement and the other Transaction Documents to which it is a party and the consummation of the transactions contemplated hereby and thereby (with or without notice or lapse of time or both): (a) do not require any Consent of any Governmental Authority or other third party; (b) do not violate or result in a breach of any provision of the Organizational Documents of Seller; (c) do not violate, conflict with, or result in a breach of any Legal Requirement to which Seller is bound; (d) do not conflict with, violate, constitute grounds for termination, modification, amendment, or cancellation of, or loss of any benefits or rights under, result in a breach of, constitute a default under, or accelerate or permit the acceleration of any performance required by the terms of, or

give rise to any obligation of Seller or Buyer as Seller's assignee to make payment under, any Assumed Contract or Governmental Permit by which Seller is bound; and (e) do not and will not result in the creation of any Liens, upon the Assets, other than Permitted Encumbrances.

3.4 Licenses and Franchises.

3.4.1 Schedule 3.4 lists, as of the date hereof, all Licenses and Franchises that are required and held for use in the conduct of the Business and operations of the System as currently conducted as of the date hereof and as would reasonably be expected to be required as of the Closing Date except for any incidental local business or occupational license or any tax identification or business entity qualifications unique to Buyer that may be required by or from the State of _____. True, correct and complete copies of such Licenses and Franchises have been provided to Buyer. Such Licenses and Franchises constitute all Licenses and Franchises that are necessary to enable Seller to carry on the Business as it is currently conducted on the date hereof and as would reasonably be expected to be required as of the Closing Date except for any incidental local business or occupational license or any tax identification or business entity qualifications unique to Buyer that may be required by or from the State of _____. All such Licenses and Franchises are valid, binding and in full force and effect in all respects. No proceedings are pending or, to the Seller's Knowledge, threatened, to revoke, terminate or cancel any of such Licenses or Franchises or which would materially and adversely affect the validity of any of the Franchises or the terms and provisions thereof. Except as set forth on Schedule 3.4, the System and the other Assets are being operated, and the Business is being conducted, in compliance with the Franchises in all material respects, and Seller is in full compliance with all of the terms and requirements of each such Licenses and Franchises in all material respects, and no event has occurred, and to Seller's Knowledge no condition or circumstance exists, that might (with or without notice or lapse of time) (i) constitute or result directly or indirectly in a material violation of or a material failure to comply with any term or requirement of any such License or Franchises, or (ii) result directly or indirectly in the revocation, withdrawal, suspension, cancellation, termination or modification of any such License and Franchise. Seller has not received any notice or other written communication from any Governmental Authority or any other Person regarding (A) any actual, alleged, possible or potential violation of or failure to comply with any term or requirement of any such License or Franchise, (B) any actual, proposed, possible or potential revocation, withdrawal, suspension, cancellation, termination or material modification of any such License or Franchise or (C) any statement that the Franchises will not be renewed.

3.4.2 Except for regularly scheduled franchise fees that have accrued under the Franchises, which fees have been computed in accordance therewith and timely paid in full, there are no franchise fees payable with respect to the Franchises. All amounts payable with respect to the retransmission of local broadcast channels have been correctly calculated and in full. Except as disclosed on Schedule 3.4.2, all universal service fees, FCC fees with respect to telephone and cable, and state telecommunications relay service and 911 charges have been paid in full when due or an estimate of such liability has been accrued by Seller and is reflected on Schedule 2.5.2. All fees payable with respect to any conduit agreement, any agreement regarding man holes or hand holes or any agreement regarding static lines have been correctly calculated and paid in full. All amounts payable under all agreements regarding pole attachments have been calculated correctly and paid in full. Seller has not been notified in writing by any Governmental Authority or other Person regarding any material adjustment to the amount of franchise or other fees to be paid by Seller to such Governmental Authority or third party.

3.4.3 Notwithstanding any other provision of this Agreement, Buyer acknowledges and agrees that no representations or warranties are being given by Seller with respect to the Communications Act, the Copyright Act or FCC matters in this Section 3.4.

3.5 Title, Condition and Sufficiency of Assets. Upon Closing, Buyer will acquire from the Seller good and valid title to, or a valid and enforceable leasehold interest in, or other valid rights to use, the Assets, free and clear of all Liens, other than Permitted Encumbrances. All items of Tangible Personal Property that individually have a fair market value of \$50,000 or more or, for items that individually have a fair market value of less than \$50,000, that have a fair market value of \$100,000 in the aggregate, and that are currently being used in the operation of the System are in adequate operating condition for their respective present uses and operation, ordinary wear and tear excepted. Except with respect to any services provided by the Seller pursuant to the TSA and except with respect to the assets listed on Schedule 3.5, the Assets are all the assets necessary to permit Buyer to conduct the Business substantially as it is being conducted on the date of this Agreement and on the Closing Date.

3.6 Real Property.

3.6.1 Schedule 3.6.1 lists all Real Property owned by Seller and used in the operation of the Business that is included in the Assets ("**Owned Real Property**"). Except as set forth in Schedule 3.6.1, a Seller has good and marketable title in fee simple to the Owned Real Property and all buildings, improvements and fixtures thereon, free and clear of all Liens, other than Permitted Encumbrances.

3.6.2 Schedule 3.6.2 lists all leases (true and complete copies of which have been delivered to Buyer) of Real Property leased by Seller and exclusively used in the operation of the Business (the "**Leased Real Property**"). Except as set forth in Schedule 3.6.2, Seller is not in breach in any material respect of any lease identified on Schedule 3.6.2 and, to the Knowledge of Seller, no other party to any such lease is in breach thereof, and such lease or other agreement is in full force and effect. Seller has a valid and enforceable leasehold estate on the Leased Real Property, and Seller holds the leasehold estates of the Leased Real Property free and clear of all Liens, except for Permitted Encumbrances. All rents, additional rents and other sums, expenses and charges due to date by Seller under the leases for the Leased Real Property have been paid, and there are no outstanding claims of breach or indemnification or notice of default or termination under any lease for the Leased Real Property. Except as set forth in Schedule 3.6.2 and except for Permitted Encumbrances, all tenant fixtures and improvements owned or leased by the Seller and exclusively used in the Business and located on Leased Real Property are in adequate operating condition for their respective present uses and operation, ordinary wear and tear excepted. Seller does not owe any brokerage commission with respect to any Real Property. Except as set forth in Schedule 3.6.2, there does not exist any actual (or, to the Knowledge of Seller, threatened) condemnation or eminent domain proceedings, planned public improvements, annexation, special assessments, zoning or subdivision changes, or other adverse claims affecting any Owned Real Property, Leased Real Property or any part thereof, and Seller has not received any written notice of the intention of any Governmental Authority or other Person to take or use all or any part thereof. Except as set forth on Schedule 3.6.2 and except for Permitted Encumbrances there are no contracts or agreements entered into by Seller, or by which Seller is bound, granting to any Person other than the Seller, the right to occupy any Owned Real Property or, to Seller's Knowledge, any Leased Real Property.

3.6.3 There is no private restrictive covenant or governmental use restriction (including zoning) on all or any portion of the Owned Real Property or, to the Seller's Knowledge, the Leased Real Property that prohibits or materially interferes with the current use of the Owned Real Property or the Leased Real Property in connection with the Business.

3.6.4 All material permits required for the occupancy and operation of the Owned Real Property and Leased Real Property as presently being used by Seller in connection with the Business have been obtained and are in full force and effect, and Seller has not received any notices of default or violations in connection with such items.

3.6.5 Seller has paid all Taxes, assessments, or other charges payable by Seller with respect to the Owned Real Property and the Leased Real Property for 2009 and prior years.

3.7 Contracts. Schedule 3.7 lists each of the Material Contracts utilized by Seller in the conduct of the Business. Subject to the provisions of Section 5.14, Seller has made available to Buyer true, correct and complete copies of all Material Contracts (or descriptions thereof in the case of any oral Material Contracts). Except as set forth on Schedule 3.7, each Material Contract is in full force and effect (subject to expiration at the end of its current term) and is valid, binding and enforceable against Seller and, to the Knowledge of the Seller, the other parties thereto in accordance with its terms, subject to the Enforceability Exceptions. Except as disclosed on Schedule 3.7, the Seller is in compliance with, and not in material default under, the terms of each Material Contract, and to the Knowledge of Seller, as of the date hereof, each other party to each Material Contract is in compliance with, and not in material default under, the terms of such Material Contract. There does not exist any event, occurrence, condition, or act that, with or without the giving of notice, the lapse of time, or the happening of any further event or condition, would become a breach or default by Seller under any Material Contract. As of the date hereof, Seller has not received any written notice of the intention of any party to terminate any Material Contract and, to Seller's Knowledge, except with respect to the termination of such Material Contract at the expiration of its stated term, there is no reasonable basis for any such action to be taken by a third party for cause. Except as

specifically noted on Schedule 3.7, no Assumed Contract contains any provisions limiting or restricting the ability of Seller (or that would limit or restrict the ability of the Buyer or any of its Affiliates) from entering into or engaging or doing business in any market of line of business upon terms of their choosing, including any exclusivity provisions, "most favored customer" pricing provisions, non-compete or non-solicitation provisions, or similar terms, provisions or restrictions.

3.8 Taxes. Except as set forth on Schedule 3.8:

3.8.1 Seller has filed with the appropriate Governmental Authorities when due all Tax Returns required to be filed by Seller and all such Tax Returns were correct and complete in all material respects.

3.8.2 Seller has timely paid all Taxes due and payable with respect to the Business, the Assets and Seller's operations other than those Taxes described on Schedule 3.8 that are being disputed in good faith by appropriate proceedings.

3.8.3 All monies required to be withheld by Seller in connection with any amounts paid or owing by Seller to any employee, independent contractor, creditor, equity holder or other third party for Taxes have been collected or withheld and either timely paid to the respective Tax authority or set aside in accounts for such purpose..

3.8.4 Seller does not have any liability for the unpaid Taxes of any Person as a transferee or successor, by contract, or otherwise.

3.8.5 Seller (a) has not waived any statute of limitation, or agreed to an extension of time, with respect to any Tax assessments or deficiencies with respect to the Business or the Assets; and (b) to the Knowledge of Seller, has not received notice from or been threatened by any Governmental Authority where Seller does not currently pay Taxes that Seller is or may be subject to taxation by such jurisdiction with respect to the Business or the Assets.

3.8.6 Except as disclosed on Schedule 3.8, since January 1, 2006, no portion of any Tax Return that relates to the Assets or the operation of the Business has been the subject of any audit, action, suit, proceeding, claim or examination by any Governmental Authority, and no such audit, action, suit, proceeding, claim, deficiency or assessment is pending or, to the Seller's Knowledge, threatened. Seller is not currently the beneficiary of any extension of time within which to file any Tax Return.

3.9 Claims and Legal Actions. Except for any investigations and rule-making proceedings affecting the cable industry or telecommunications industry generally, and except as identified on Schedule 3.9, as of the date hereof, there is (i) no Governmental Order against Seller, and (ii) no claim, action, suit, proceeding or arbitration in progress or pending, or to the Knowledge of the Seller, threatened against Seller or the Assets except for any that involve less than \$500.00 individually or \$10,000 in the aggregate that are routine disputes undertaken in the ordinary course of business consistent with past practices and do not seek or threaten to seek class action certification, any that do not involve the Business or the Assets, or any that could not reasonably be expected to have a Material Adverse Effect

3.10 Compliance with Laws. Except as set forth on Schedule 3.10, to Seller's Knowledge, the ownership, leasing and use of the Assets as they are currently owned, leased and used, and the conduct of the Business as it is currently conducted, comply with all applicable Legal Requirements. Since December 31, 2005, Seller has not received any written notice of the violation of any Legal Requirement by Seller, except for any violation that has been fully resolved without subjecting Seller's successors in interest or the Business to any ongoing liability or obligation. Notwithstanding any other provision of this Agreement, Buyer acknowledges and agrees that no representations or warranties are being given by Seller with respect to the Communications Act, the Copyright Act or FCC matters in this Section 3.10.

3.11 Employees and Employee Benefit Plans Employees.

3.11.1 Schedule 3.11.1 lists _____, _____ and, as of the date hereof, all of the employees of Seller exclusively engaged in the operation of the Business, including the names and positions of each such employee, the hourly wage or salary information, bonus opportunity and accrued vacation for such employees and their respective dates of hire, but not any retirement plan, SERP, Bonus Plans or deferred compensation plan with Seller or an Affiliate of Seller, which retention bonus, severance policies and agreements (if any), SERP, Bonus Plans or deferred compensation plan, if any, are Excluded Liabilities. Each employee set forth on Schedule 3.11.1 who is employed by Seller immediately prior to the Closing exclusively in connection with the Business, and each additional employee who is hired to perform services exclusively in connection with the Business for Seller following the date hereof and who is employed by Seller exclusively in connection with the Business immediately prior to the Closing, shall be referred to herein as a "Division Employee" and, collectively, as the "Division Employees."

3.11.2 Except as disclosed on Schedule 3.11.2, the employment of all Division Employees is terminable at will by Seller. Except as disclosed on Schedule 3.11.2, no Division Employees have notified Seller that such Division Employee intends to resign or otherwise terminate its employment by Seller.

3.11.3 Except as set forth on Schedule 3.11.3, as of the date hereof, there is not pending or, to the Knowledge of the Seller, threatened in writing against Seller, any labor dispute, strike or work stoppage that affects or interferes with the operation of the Business, and to the Knowledge of the Seller, there is no organizational effort currently being made or threatened by or on behalf of any labor union with respect to any Division Employees. Seller has not experienced any strike, work stoppage or other similar significant labor difficulties within the twenty-four (24) months preceding the date of this Agreement.

3.11.4 Except as set forth on Schedule 3.11.4 hereto, as of the date hereof, (i) Seller is not a signatory or a party to, or otherwise bound by, any collective bargaining agreement which covers any Division Employees or former Division Employees, (ii) Seller has not agreed to recognize any union or other collective bargaining unit with respect to any Division Employees, and (iii) no union or other collective bargaining unit has been certified as representing any Division Employees. There is no unfair practice complaint pending with respect to any Division Employees or, to Seller's Knowledge, threatened before the National Labor Relations Board or any other Governmental Authority. There is no grievance arising under any collective bargaining agreement pending against or involving Seller with respect to any Division Employees. To Seller's Knowledge no representation petition with respect to any Division Employee has been filed with the National Labor Relations Board.

3.11.5 Except as set forth on Schedule 3.11.5, as of the date hereof, there are no known pending or, to the Knowledge of Seller, threatened in writing, proceedings, complaints, claims, disputes, investigations or charges relating to any alleged violation of any Legal Requirement pertaining to labor relations or employment matters relating to any Division Employees or former Division Employees.

3.11.6 Seller has delivered or made available to Buyer true, correct and complete copies of all contracts, employee manuals and handbooks relating to Seller's employment of the Division Employees.

3.11.7 Except as set forth on Schedule 3.11.7, (i) there is no written employment or employment related agreement with any Division Employee and none is being negotiated, (ii) there is no existing, or to Seller's Knowledge, threatened litigation involving any Division Employee, (iii) there is no existing, or to Seller's Knowledge, threatened internal charge, claim, action, suit, complaint, arbitration, inquiry, proceeding or investigation involving any Division Employee and (iv) Seller is not a party to, or otherwise bound by, any consent decree with, or citation by, any Governmental Authority relating to any Division Employee or any employment practice.

3.12 Employee Benefits.

3.12.1 List of Benefit Plans. All of the Employee Plans and Compensation Arrangements are listed on Schedule 3.12.1, except for any retirement plan, SERP, Bonus Plans or deferred compensation plan with Seller or an Affiliate of Seller, which retention bonus, severance policies and agreements (if any), SERP, Bonus

Plans or deferred compensation plan, if any, are Excluded Liabilities. Except as disclosed on Schedule 3.12.1, Seller does not sponsor, maintain or contribute to or have any obligation to maintain or contribute to, or have any direct or indirect liability, whether contingent or otherwise, with respect to any Employee Plan or Compensation Arrangement. With respect to each Employee Plan or Compensation Arrangements, Seller has made available to Buyer (a) true, correct and complete copies of the Employee Plans and Compensation Arrangements (or to the extent no such copy exists, or an Employee Plan or a Compensation Arrangement is not in writing, a materially accurate written description of the material terms thereof) with their related trust, if applicable, and amendments; (b) any and all material employee communications (including all summary plan descriptions and material modifications thereto); (c) the two most recent annual reports, if applicable; (d) the most recent annual and periodic account of plan assets, if applicable; and (e) the most recent determination letter received from the Internal Revenue Service, if applicable.

3.12.2 Compliance. Except as disclosed on Schedule 3.12.2, (i) each Employee Plan or Compensation Arrangement has been established and operated in compliance with its own terms and in material compliance with the requirements of all applicable Legal Requirements, including ERISA and the Code, (ii) there exists no suit or claim pending, or to the Knowledge of the Seller, threatened in writing with respect to any Employee Plan or Compensation Arrangement (other than routine claims for benefits in the ordinary course), and (iii) all required contributions to or in respect of each Employee Plan or Compensation Arrangement have been timely made.

3.12.3 Liabilities. Except as disclosed on Schedule 3.12.3, to Seller's Knowledge, with respect to each Employee Plan or Compensation Arrangement, there does not currently exist any condition or event, and no condition or event is reasonably expected to occur, that could subject, directly or indirectly, Buyer to any material liability, contingent or otherwise, or to the imposition of any Liens on the Assets under ERISA or the Code. Each Employee Plan that is intended to be qualified under Section 401(a) of the Code has received a favorable determination letter from the IRS or has a determination letter application pending with the IRS, or is entitled to rely on a favorable opinion letter issued by the IRS, and to the Knowledge of the Seller no fact or event has occurred since the date of such determination letter or letters from the IRS that would reasonably be expected to adversely affect the qualified status of any such Employee Plan or the exempt status of any such trust. No Employee Plan is subject to Title IV of ERISA.

3.12.4 Additional Payments. Except as disclosed on Schedule 3.12.4, the consummation of the transactions contemplated hereby, either alone or in combination with another event, will not (i) entitle any Division Employees to any payment, (ii) increase the amount of compensation due to any Division Employee, (iii) accelerate the time of vesting of any compensation, stock incentive or other benefit of any Division Employee or (iv) result in any "parachute payment" under Section 280G of the Code to any whether or not such payment is considered to be reasonable compensation for services rendered.

3.12.5 Post-Retirement Benefits. Except as disclosed on Schedule 3.12.5, Seller has no obligation to provide benefits, including death or medical benefits (whether or not insured) with respect to any Division Employee or former Division Employee beyond his or her retirement or other termination of service other than (i) coverage under COBRA, or (ii) disability benefits under any employee welfare plan that have been fully provided for by insurance.

3.13 Environmental Matters.

3.13.1 Except as disclosed on Schedule 3.13.1, to Seller's Knowledge, Seller's operations comply with all applicable Environmental Legal Requirements, and Seller has no liability with respect to any Real Property under the Environmental Legal Requirements.

3.13.2 Except as disclosed on Schedule 3.13.2, Seller has not used any Real Property for the manufacture, transportation, treatment, storage or disposal of Hazardous Substances, except for such uses of Hazardous Substances (e.g., cleaning fluids, solvents and other similar substances) that are customary in the maintenance and operation of businesses similar to the Business and in amounts or under circumstances that would not reasonably be expected to give rise to any material liability for remediation.

3.13.3 Except as disclosed on Schedule 3.13.3, to Seller's Knowledge, no Environmental Claim has been filed or issued or threatened against Seller.

3.13.4 Except as set forth in Schedule 3.13.4, Seller possesses and is in compliance with all Environmental Permits required under the Environmental Legal Requirements to operate the Business as it presently operates. A true, correct and complete list of all such Environmental Permits is set forth in Schedule 3.13.4.

3.13.5 Except as set forth in Schedule 3.13.5, all such Environmental Permits are transferable and none requires consent, notification or other action to remain in full force and effect following the Closing.

3.13.6 Except as set forth in Schedule 3.13.6, to Seller's Knowledge, there has been no Release of Hazardous Substances by Seller at, on, under or from the Real Property and there are no other facts, circumstances or conditions, existing, initiated or occurring prior to the Closing Date, that have resulted or will result in liability under the Environmental Legal Requirements.

3.13.7 Except as set forth in Schedule 3.13.7, Seller has not received any written communication from a third party, including a Governmental Authority, alleging that Seller's conduct of the Business is in material violation of, or that Seller has Liability under, any Environmental Legal Requirements, which allegation is not fully resolved.

3.13.8 Except as set forth in Schedule 3.13.8, Seller has not received any written notification alleging that it is liable for or requesting information pursuant to Section 104(e) of the Comprehensive Environmental Response, Compensation and Liability Act or a similar state statute, concerning any Release or threatened Release of Hazardous Substances at any Real Property, which is not fully and finally resolved.

3.13.9 Except as set forth on Schedule 3.13.9, to the Knowledge of Seller, none of the following is present at the Real Property: (i) underground improvements, including treatment or storage tanks, or underground piping associated with such tanks, used currently or in the past for the management of Hazardous Substances; (ii) any dump or landfill or other unit for the treatment or disposal of Hazardous Substances; (iii) PCBs; (iv) toxic mold; (v) lead-based materials, the presence of which constitutes a violation of applicable Environmental Legal Requirements; or (vii) asbestos-containing materials, the presence of which constitutes a violation of applicable Environmental Legal Requirements.

3.13.10 Seller has furnished to Buyer copies of all environmental assessments, reports, audits and other documents in its possession that relate to Seller's compliance with Environmental Legal Requirements in connection with the environmental condition of the Real Property.

3.14 FCC and Copyright Compliance.

3.14.1 Except as provided in Schedule 3.14.1, Seller's operation of the System is and since January 1, 2006 has been in compliance with the applicable provisions of the Communications Act and the Copyright Act. Seller is not in violation of, and has not received written notice claiming a violation by Seller or the Business of, any Legal Requirements applicable to the System or the Business as it is currently conducted.

3.14.2 Seller is permitted under all applicable Legal Requirements, including the Communications Act and the Copyright Act, to operate the System and to distribute the video programming and other information that it currently makes available to the customers of the System. Seller is permitted under all applicable Legal Requirements, including the Communications Act, to utilize all frequencies generated by the operation of the System, and, where required, is licensed to operate all the facilities required by applicable Legal Requirements to be licensed by the FCC. Seller has delivered or made available to Buyer true, correct and complete copies of all correspondence by Seller with any Governmental Authority relating to rate regulation generally or specific rates charged to subscribers with respect to the System, including copies of any complaints filed with the FCC with respect to any rates charged to subscribers of the System, and any other documentation supporting an exemption from the rate regulation provisions of the Cable Act claimed by Seller with respect to the System. Schedule 3.14.2 sets forth a list of (a) all pending complaints with respect to any rates which have been filed by

Seller with the FCC for the System, (b) any Franchising Authority that has filed FCC Form 328 for certification to regulate any of the rates of the System since January 1, 2006, and (c) any other complaints, formal or informal, which have been filed against Seller, at the FCC. Except as set forth in the Franchises, Seller has not received any notice from any Governmental Authority with respect to an intention to enforce customer service standards pursuant to the Cable Act, and Seller has not agreed with any Governmental Authority to establish customer service standards that exceed the FCC standards promulgated pursuant to the Cable Act. Since the 2006/1 cable copyright accounting period, except as set forth on either Schedule 3.14.2 or Schedule 3.14.3, no requests or communications have been received by Seller from the FCC, the United States Copyright Office or any other Governmental Authority challenging or questioning the right of Seller's operation of the System or any FCC-licensed or registered facility used in conjunction with Seller's operation of the System or questioning or challenging the calculation of any fees paid by Seller.

3.14.3 Except as set forth on Schedule 3.14.3, since January 1, 2006, Seller has timely submitted to the FCC, and has delivered or made available to Buyer true, correct and complete copies of, all filings with respect to the System and the Business, including cable television registration statements, current annual reports, employment reports, universal service fund worksheets, traffic and circuit reports, aeronautical frequency usage notices, and current cumulative leakage index reports, that are required under the Communications Act. Seller has delivered or made available to Buyer true, correct and complete copies of all current reports and filings for the reporting periods beginning with January 1, 2006, that have been made or filed by Seller pursuant to the Copyright Act and the rules and regulations of the U.S. Copyright Office with respect to the System, and, regarding those reports and filings to be made or filed by Seller with the U.S. Copyright Office with respect to the System between the date of this Agreement and the Closing, Seller will deliver the same to Buyer promptly after filing. Except as set forth on Schedule 3.14.3, Seller has timely filed all semi-annual statements of account, all of which were accurate and complete when filed, and has correctly calculated and paid all compulsory licensing fees required by the Copyright Act and the rules and regulations of the United States Copyright Office with respect to the System. Since January 1, 2006, the System is and has been in material compliance with signal leakage criteria prescribed by the FCC for each applicable reporting period, is and has been in material compliance with the must-carry and retransmission consent provisions of the Communications Act as well as with all provisions or terms in Seller's must-carry elections or retransmission consent agreements. Since January 1, 2006, Seller has not received any FCC order requiring the System to carry or terminate carriage of a television broadcast signal, and to Seller's Knowledge, no television broadcast station has filed a complaint with the FCC claiming that the System carried or refused to carry a television broadcast signal in violation of the rules of any Governmental Authority.

3.14.4 Seller has made available to Buyer access to or true, accurate and complete copies of: (a) all material correspondence between Seller and the FCC relating to the System and Business; and (b) all material correspondence between Seller and any Governmental Authority relating to rates charged to subscribers to the System.

3.14.5 All necessary United States Federal Aviation Administration approvals have been obtained and all related notifications have been submitted and are effective with respect to the height and location of towers included in the Assets and all FCC antenna structure registrations have been filed with respect to such towers.

3.14.6 Except as set forth on Schedule 3.14.6, the notice contemplated by Section 626 of the Communications Act has been timely filed with respect to all Franchises that expire within thirty months following the date of this Agreement.

3.14.7 Schedule 3.14.7 lists, as of the date hereof, the stations within the System that have elected must-carry or retransmission consent status pursuant to the Communications Act. Except as described on Schedule 3.14.7, each station carried by the System is carried pursuant to a written retransmission consent agreement, written must-carry election or other written programming agreement, copies of which have been delivered to Buyer.

3.14.8 Schedule 3.14.8 lists, as of the date hereof, all material FCC Licenses and Telecommunications Authorizations that are held for use in the conduct of the Business and operations of the System as currently conducted by Seller. Copies of such FCC Licenses and Telecommunications Authorizations have been provided to Buyer. Such FCC Licenses and Telecommunications Authorizations constitute all FCC

Licenses or Telecommunications Authorizations that are necessary to enable Seller to carry on the Business as currently conducted. All such FCC Licenses and Telecommunications Authorizations are valid, binding and in full force and effect in all material respects. No proceedings are pending or, to the Seller's Knowledge, threatened, to revoke, terminate or cancel any of such FCC Licenses or Telecommunications Authorizations. Except as set forth on Schedule 3.14.8, to the Seller's Knowledge, Seller is in full compliance with all of the terms and requirements of each such FCC Licenses and Telecommunications Authorizations in all material respects and no event has occurred that might (with or without notice or lapse of time) (i) constitute or result directly or indirectly in a material violation of or a material failure to comply with any material term or material requirement of any such FCC License or Telecommunications Authorization, or (ii) result directly or indirectly in the revocation, withdrawal, suspension, cancellation, termination or material modification of any such FCC License or Telecommunications Authorization. Seller has not received any notice or other written communication from any Governmental Authority or any Person, regarding (A) any actual, alleged, possible or potential violation of or failure to comply with any term or requirement of any such FCC License or Telecommunications Authorization, or (B) any actual, proposed, possible or potential revocation, withdrawal, suspension, cancellation, termination or material modification of any such FCC License and Telecommunications Authorization.

3.15 Financial Statements; Absence of Certain Changes; No Undisclosed Liabilities.

3.15.1 Attached to Schedule 3.15.1 are true and complete copies of the Financial Statements. Subject to the footnotes in the Financial Statements, the Financial Statements have been prepared from, and are in accordance, in all material respects, with, the books and records of the Division. Subject to the footnotes in the Financial Statements, the Financial Statements: (i) have been prepared in accordance with GAAP applied on a consistent basis throughout the periods covered; and (ii) fairly present in all material respects the financial position of the Division and the results of operations and cash flows of the Division, as of the date thereof and for the periods presented therein.

3.15.2 Except as set forth on Schedule 3.15.2, since December 31, 2009 through the date hereof, (i) there have been no events, changes or circumstances with respect to Seller that, individually or in the aggregate, has had, or would reasonably be expected to have, a Material Adverse Effect; and (ii) Seller has carried on and operated the Business in the ordinary course of business and has not (a) made any material increase in compensation payable or to become payable, or benefits provided or to become provided, to any of the Division Employees, or any material change in personnel policies, insurance benefits or other compensation arrangements affecting the Division Employees, in each case other than in the ordinary course of business, (b) made any sale, assignment, lease or other transfer of, or incurred any indebtedness or Lien including leases and licenses granted by Seller to a third party (other than a Permitted Encumbrance) with respect to, any of the Assets (other than inventory used, sold or destroyed in the ordinary course of business), other than obsolete assets no longer usable in the operation of the Business or other assets sold or disposed of in the ordinary course of business with suitable replacements being obtained therefor as reasonably necessary or advisable for the continued operation of the Business, or (c) made any offers to existing or prospective customers inconsistent with the disclosure set forth on Schedule 3.15.2.

3.15.3 Except as set forth on Schedule 3.15.3, Seller has no material liabilities or obligations of any kind or nature, whether known or unknown, absolute or contingent, accrued or unaccrued, which are Assumed Liabilities and which would be required to be disclosed on a balance sheet prepared in accordance with GAAP (as in effect on the Adjustment Time applied in a manner consistent with the preparation of the Financial Statements), except for Assumed Liabilities (a) which are reflected or reserved for in the Financial Statements, (b) which are included in the calculation of Net Working Capital or (c) which are current liabilities incurred in the ordinary course of business and not in breach of this Agreement since December 31, 2009. Seller does not have any off-balance sheet arrangements (as such term is defined in Regulation S-K, Item 303), except to the extent otherwise set forth in the footnotes to the Financial Statements.

3.15.4 There are no material obligations to subscribers of the System except with respect to: (a) prepayments or deposits made by such subscribers as set forth in the books and records of the Division in the ordinary course of business and (b) the obligation to supply services to subscribers of the System in the ordinary course of business.

3.16 Intellectual Property. Except as set forth on Schedule 3.16, Seller has good and valid title to, or license or otherwise have the valid right to use all Intellectual Property used in the operation of the System, free and clear of all Liens, other than Permitted Encumbrances. Schedule 3.16 sets forth, as of the date hereof, all patents, federally registered trademarks and service marks and registered copyrights, and any pending applications therefor, and any internet domain names held by Seller and used, useful or held for use in the operation of the Business. Seller has not received any written notice alleging that Seller has violated any Intellectual Property rights of any other Person. Except as set forth on Schedule 3.16, Seller is not infringing upon the Intellectual Property rights of any other Person nor, to the Knowledge of the Seller, as of the date hereof, is any third party infringing upon the Intellectual Property rights of Seller. Seller has one or more privacy policies governing the collection and use of information by Seller, including Customer Proprietary Information. To Seller's Knowledge, such privacy policies are in compliance with all Legal Requirements. To Seller's Knowledge, such information, including any Customer Proprietary Information, has not been collected, disclosed or used in any manner in violation of any such privacy policies. "Customer Proprietary Information" means, to the extent contained in the billing system that is used to bill customers of the Business or in other Business-related books or records, that portion of the non-technical, non-public information included in the Intellectual Property as of the Closing Date and that is used in the Business as of the Closing Date and comprises personal information of a customer of the Business that was provided by such customer in connection with the Business and all information about such customer's subscription and account, including, without limitation, such customer's name, mailing address, email address, telephone number, category of subscription services, and billing and payment information. Notwithstanding any other provision of this Agreement, Buyer acknowledges and agrees that no representations or warranties are being given by Seller with respect to the Communications Act, the Copyright Act or FCC matters in this Section 3.16.

3.17 Insurance. Schedule 3.17 lists all insurance policies now in force and held or owned by Seller relating to the Assets, the System or the operation of the Business, specifying the insurer, the amount of and nature of coverage, and the risk insured against. Seller has not been refused or denied renewal of any of such insurance coverage or received any written correspondence thereof.

3.18 Transactions with Affiliates. Except as disclosed on Schedule 3.18, in connection with the Business, Seller is not currently a party to any Assumed Contract with any Affiliate of Seller, or directors or officers of the Seller or any such Affiliates (other than the Seller).

3.19 No Broker. Except as set forth on Schedule 3.19, no finder, broker, agent, financial advisor or other intermediary has acted on behalf of the Seller in connection with this Agreement or the transactions contemplated by this Agreement or is entitled to any payment in connection herewith or therewith which, in either case, would result in any obligation or liability on the part of Buyer.

3.20 System Information: RGUS; Homes Passed.

3.20.1 Schedule 3.20.1 sets forth a true and accurate description of the following information relating to the System by headend and/or Franchise, as applicable, in each case, as of the date hereof:

- (i) a list of the Basic Services, Digital Services, High Speed Internet Services and other services (e.g., Expanded Basic Services, Pay TV and a la carte services available from the System), and the rates charged by Seller for each such service (excluding pass-throughs and other charges) provided by the System;
- (ii) the stations and signals carried by the System and the channel position of each such signal and station;
- (iii) the approximate total number of miles of cable plant of the System;
- (iv) the bandwidth capacity of the System specified in MHz and the number of channels activated throughout the System; and
- (v) the approximate number of homes passed by the System.

3.20.2 As of June 3, 2010, (a) the aggregate number of RGUs, (b) the aggregate number of HSI Subscribers, (c) the aggregate number of Telephony Subscribers, and (d) the aggregate number of EBUs, in each case, was no less than the amount set forth in Schedule 3.20.2.

3.20.3 Except as set forth on Schedule 3.20.3 and other than direct broadcast satellite services providers and the certificated local exchange carrier and the local wireless internet service provider referenced in Schedule 3.20.3, as of the date hereof, to Seller's Knowledge, other than the System, there are no other providers of cable television services that have constructed, or publicly announced plans to construct, plants for the provision of cable television services within the service areas of the System.

3.21 Accounts Receivable. All of Seller's existing Accounts Receivable relating to the Business (except that Seller makes no representation as to Accounts Receivable previously written off by Seller) represent valid obligations of customers of Seller arising from bona fide transactions entered into in the ordinary course of business except for ordinary course of business accounts receivable which are less than the reserve in the Financial Statements for uncollectible accounts and billing errors.. Schedule 3.21 sets forth Seller's existing Accounts Receivable as of the date specified on Schedule 3.21, together with an aging report for such Accounts Receivable, as of such date.

3.22 Solvency. Seller is Solvent, and immediately following the Closing, Seller shall continue to be Solvent.

3.23 Exclusive Dealing. Neither Seller nor any of its Affiliates is a party to any currently effective agreement involving, directly or indirectly, the sale or transfer of any securities issued by Seller, the Assets (other than inventory in the ordinary course or agreements between Seller and an Affiliate by which Seller will acquire title thereto immediately prior to Closing) or the System to any Person other than Buyer or granting any Person any preferential right of purchase securities or assets.

3.24 Letters of Credit and Bonds. Except as set forth on Schedule 3.24, there are no letter of credit or franchise, construction, fidelity, performance, surety or other bonds, or guarantees in lieu of bonds, posted or required to be posted by Seller or its Affiliates in connection with the operation of the Business.

3.25 Disclaimer. EXCEPT AS EXPRESSLY PROVIDED IN THIS ARTICLE 3, OR ANY SCHEDULE, CERTIFICATE OR OTHER DOCUMENT DELIVERED BY SELLER PURSUANT TO THIS AGREEMENT, INCLUDING THE OTHER TRANSACTION DOCUMENTS, SELLER MAKES NO REPRESENTATIONS OR WARRANTIES OF ANY KIND, NATURE OR DESCRIPTION, EXPRESS OR IMPLIED, INCLUDING ANY WARRANTY OF TITLE, MERCHANTABILITY OR FITNESS OF ANY ASSET FOR A PARTICULAR PURPOSE OR WITH RESPECT TO ANY PROJECTIONS OR FUTURE PERFORMANCE OF THE SYSTEM, THE BUSINESS OR THE SELLER. SELLER'S DISCLOSURE OF ANY EXCEPTION TO ANY REPRESENTATION OR WARRANTY SHALL NOT BE CONSTRUED AS AN ADMISSION THAT THE EXCEPTION IS MATERIAL IN ANY RESPECT.

4. REPRESENTATIONS AND WARRANTIES OF BUYER

Buyer represents and warrants to Seller as follows:

4.1 Organization, Standing and Authority. Buyer is a corporation duly organized, validly existing and in good standing under the laws of Delaware and is qualified to conduct business as a foreign corporation in all jurisdictions in which the ownership, leasing or use of the assets owned, leased or used by it or the nature of its activities makes such qualification necessary, except where the failure to so qualify has not had, and would not reasonably be expected to have, individually or in the aggregate, a material adverse effect on Buyer. Buyer has the requisite corporate power and authority to execute and deliver this Agreement and to perform and comply with all of the terms, covenants and conditions to be performed and complied with by Buyer hereunder.

4.2 Authorization and Binding Obligation. The execution and delivery by Buyer of this Agreement, the performance by Buyer of its obligations hereunder and the consummation by Buyer of the transactions

contemplated hereby have been duly authorized by all necessary corporate action of Buyer. The execution and delivery by Buyer of the other Transaction Documents to which it is a party, the performance by Buyer of its obligations thereunder and the consummation by Buyer of the transactions contemplated thereby will be duly authorized by all necessary corporate action of Buyer prior to the Closing. This Agreement has been, and each other Transaction Document to be executed by Buyer at or prior to the Closing will be, duly executed and delivered by Buyer, and assuming the due authorization, execution and delivery of this Agreement and such other Transaction Documents by the other parties thereto, this Agreement constitutes, and each other Transaction Document to be executed by Buyer will constitute, a valid and legally binding obligation of Buyer, enforceable against it in accordance with its terms, except as enforceability may be limited by the Enforceability Exceptions.

4.3 Absence of Conflicting Agreements. Subject to obtaining the Seller Consents and compliance with the HSR Act, the execution, delivery and performance of this Agreement by Buyer will not: (i) require the consent, approval, permit or authorization of, or declaration to or filing with any Governmental Authority, or any other third party; (ii) violate the Organizational Documents of Buyer; (iii) violate any material law, judgment, order, ordinance, injunction, decree, rule or regulation of any court or governmental instrumentality binding on Buyer; or (iv) conflict with, constitute grounds for termination of, result in a breach of, constitute a default under, or accelerate or permit the acceleration of any performance required by the terms of any material agreement, instrument, license or permit to which Buyer is a party or by which Buyer may be bound, in all such cases, such that Buyer could not perform hereunder and acquire or operate the Assets.

4.4 Buyer Qualification. Buyer knows of no reason why it cannot become the owner of the Assets pursuant to the Franchises, and to Buyer's knowledge, Buyer has the requisite qualifications to own and operate the System.

4.5 Availability of Funds. Buyer has delivered to Seller a copy of those certain commitment letters dated _____ issued by _____ and (the "Commitment Letters"), which, subject to the conditions specified in such Commitment Letters, will provide Buyer with sufficient funds to consummate the transactions contemplated by this Agreement, including, without limitation, to pay the Purchase Price in accordance with this Agreement (such funding, the "Financing"). The Commitment Letters are not subject to any conditions other than as set forth therein, have been duly executed by Buyer and, to Buyer's knowledge, by all other parties thereto, and are in full force and effect on the date hereof. All commitment and other fees required to be paid under the Commitment Letters prior to the date hereof have been paid. As of the date hereof, Buyer believes in good faith that it will be successful in obtaining the Financing contemplated by the Commitment Letters.

4.6 No Broker. Except as set forth on Schedule 4.6, no finder, broker, agent, financial advisor or other intermediary has acted on behalf of the Buyer in connection with this Agreement or the transactions contemplated by this Agreement or is entitled to any payment in connection herewith or therewith which, in either case, would result in any obligation or liability on the part of Seller.

5. COVENANTS OF THE PARTIES

5.1 Conduct of the Business. Except as contemplated by this Agreement, as set forth on Schedule 5.1 or with the prior written consent of Buyer (which consent shall not be unreasonably withheld, conditioned or delayed and shall be deemed to have been given to any written request by Seller to which Buyer does not respond within five (5) business days after such request is sent), between the date hereof and the Closing Date, Seller shall operate the Business and maintain the Assets in the ordinary course of business (i.e., consistent with Seller's past custom and practice in conducting the Business) (including with respect to the handling of receipts and the collection of Accounts Receivable and the payment of payables of the Business) and shall use commercially reasonable efforts to preserve Seller's business relationships with Active Customers and other Persons (including without limitation Division Employees) who have an existing business relationship with the Business. Without limiting the generality of the foregoing, except as set forth on Schedule 5.1 or except with the prior written consent of Buyer (which consent shall not be unreasonably withheld, conditioned or delayed and shall be deemed to have been given to any written request by Seller to which Buyer does not respond within five (5) business days after such request is sent), Seller shall, to the extent applicable:

5.1.1 not sell, lease, assign, transfer or otherwise dispose of any of the Assets other than in the ordinary course of business except that Seller may demolish the structure at _____;

5.1.2 use commercially reasonable efforts to maintain its relations and goodwill generally with suppliers, customers, distributors and others having business relations with Seller relating to the Business;

5.1.3 comply in all material respects with all Legal Requirements applicable to Seller, and keep in full force and effect in all material respects all Governmental Permits applicable to Seller;

5.1.4 keep in full force and effect the insurance coverages (comparable in amount and scope) covering Seller, the Assets and the System as of the date hereof in the ordinary course of business;

5.1.5 maintain the Assets in adequate operating condition for their respective present uses and operation, ordinary wear and tear excepted, and maintain inventory and spare equipment at levels in the ordinary course of business;

5.1.6 deliver to Buyer, within 30 days following the end of each calendar month, all financial statements, financial reports, and other related information relating to the Business that are prepared in the ordinary course of business for regular review by executive management of Seller;

5.1.7 deliver to Buyer, within 10 days following the end of each calendar month, true and complete copies of monthly subscriber reports and subscriber account receivable aging reports with respect to the operation of the Business; and

5.1.8 not mortgage, pledge or otherwise subject to any Lien other than Permitted Encumbrances, any of the Assets;

5.1.9 not adopt a plan of liquidation, dissolution, merger, consolidation, restructuring, recapitalization or reorganization;

5.1.10 not make or rescind any express or deemed election relating to Taxes, settle or compromise any claim, action, suit, litigation, proceeding, arbitration, investigation, audit or controversy relating to Taxes, or change any of its methods of reporting income or deductions on its income Tax Returns, or the classifications of its existing property and assets, for any taxable period ending on or after December 31, 2009, in each case, to the extent such action could materially adversely affect Buyer after Closing, and not deviate from the federal depreciation schedules for its property and assets, except in either case as may be required by Legal Requirement or the IRS;

5.1.11 maintain the books of account relating exclusively to the Business in accordance with the methodology used to prepare the 2009 Financials in the ordinary course of business, and not make any change in any method of accounting or accounting practice or policy other than those required by GAAP or applicable Legal Requirements;

5.1.12 not implement any material increase or decrease in the rates charged to the subscribers of the System, add any channels or make any other changes in programming or give any notices to subscribers or local authorities concerning any material changes in rates or programming, or make any commitment regarding changes in or continuation of rates or programming, except as obligated pursuant to applicable Legal Requirements or the Material Contracts and other than marketing and promotional activities in the ordinary course of business;

5.1.13 bill and collect from subscribers in the ordinary course of business without delay or acceleration, continue to implement its procedures for disconnecting and discontinuance of service to subscribers whose accounts are delinquent, in accordance with past practice and continue to advertise in the ordinary course of business;

5.1.14 except in the ordinary course of business consistent with past practice, not enter into, modify, renew or amend any Assumed Contract, including any act or omission that effectuates or causes a material amendment or modification to, or a breach by Seller of or termination of (excluding any expiration due to the passage of time), any of the Material Contracts, and not enter into any lease for real property that will be assumed by, or binding upon, Buyer at Closing except any that is terminable without penalty on no more than sixty (60) days notice and not materially modify or amend or enter into any lease for any headend site;

5.1.15 not increase the rates of direct compensation or bonus compensation payable or to become payable to any Division Employee;

5.1.16 make capital expenditures in the ordinary course of business and as necessary to comply with the explicit terms of the Franchises and the other Governmental Permits and pay the debts and obligations incurred by Seller as they become due and not waive, release or assign any material rights or claims;

5.1.17 not settle any material claims, actions, arbitrations, disputes or other proceedings, including any such matters that would result in Seller being enjoined in any material respect from engaging in the transactions contemplated by this Agreement hereby or materially adversely affecting the Business; and

5.1.18 not agree or commit to do any action prohibited by this Section 5.1.

5.2 Access to Information. Subject to the Confidentiality Agreement, Seller shall allow Buyer and its authorized representatives reasonable access, upon reasonable advance notice and at Buyer's expense during normal business hours, to the Seller and the Assets, books and records relating solely to the Assets and the Business, the Governmental Permits, the Assumed Contracts, the key personnel reasonably designated by Seller for the purpose of inspection and Business franchisors, vendors and customers reasonably agreed upon in writing by Seller and Buyer in advance, it being understood that the rights of Buyer hereunder shall not be exercised in such a manner as to unreasonably interfere with the operations of the Seller's business, nor shall Buyer contact or otherwise discuss the transactions described herein with any franchisor, vendor, customer, Division Employee (subject to Section 5.6 hereof) or any other party, except upon the Seller's prior approval (not to be unreasonably withheld, conditioned or delayed). From and after the Closing, Buyer and Seller shall afford to each other, and their respective counsel, accountants and other authorized agents and representatives, including any Party's appraiser of the Assets, during normal business hours (and subject to the Confidentiality Agreement) reasonable access to those Division Employees reasonably designated by Seller and all books, records and other data solely relating to the Division and the Business in its possession with respect to periods prior to the Closing, and the right to make copies and extracts therefrom, to the extent that such access may be reasonably required by the requesting party (a) to facilitate the investigation, litigation and final disposition of any claims which may have been or may be made against any such party or Person or its Affiliates, (b) for the preparation of Tax Returns and audits, (c) the determination of the Net Working Capital, (d) such other matters as may be reasonably necessary for the operation of the System following Closing and (e) to comply with any post-Closing covenants in this Agreement, including the allocation of the Purchase Price pursuant to Section 2.6. Any such access shall be subject to such limitations as the non-requesting Party may reasonably require to prevent the disruption of such Party's business and/or the disclosure of any confidential or legally-privileged information. Neither Buyer nor Seller shall dispose of, alter or destroy any such materials without giving 45 days' prior written notice to the other Party so that such Party may, at its expense, examine, make copies or take possession of such materials. The primary point of contact of the Seller for any post-Closing access by Buyer shall be _____ and the primary point of contact of Buyer for any post-Closing access by Seller shall be _____; provided that either Seller or Buyer may change such designation by written notice (which may come in the form of an email) to the other Party's primary point of contact.

5.3 Consents. Following the execution hereof, the Seller shall make applications to the Franchising Authority and other third parties who are listed on Schedule 3.3 and whose consent is required for the consummation of the transaction contemplated hereby and shall otherwise use its commercially reasonable efforts to obtain the Seller Consents listed on Schedule 3.3 as expeditiously as possible. Following the execution hereof until the earlier of the Closing or the termination of this Agreement in accordance with Section 8.1, the Parties shall use their commercially reasonable efforts to obtain as expeditiously as possible the Seller Consents. Notwithstanding anything to the contrary contained herein, in no event shall Seller be required, as a condition of obtaining such Seller Consents, to expend any monies on, before or after the Closing Date (other than professional fees and expenses

incurred in connection with the efforts to obtain such Seller Consents, the applicable customary transfer fee and its administrative costs and expenses, which shall be paid prior to Closing), or to offer or grant any accommodations or concessions materially adverse to the Business; provided, however, that solely with respect to any Seller Consent for the Assumed Contracts, the Seller may grant, and Buyer hereby agrees to accept, accommodations and concessions to obtain any such Seller Consent that are customary and commercially reasonable. Buyer shall use its commercially reasonable efforts to promptly assist Seller and shall take such prompt and affirmative actions as may reasonably be necessary in obtaining such Seller Consents, and, except as set forth in the proviso in the immediately preceding sentence with respect to the Assumed Contracts, in no event shall Buyer be required, as a condition of obtaining any such Seller Consent to expend any monies on, before or after the Closing, or to offer or grant any accommodations, concessions, changes or conditions materially adverse to the Business or Buyer (including any amendment, modification, supplement or change to any Franchise or Assumed Contract to which any such Seller Consent related), and in no event shall Seller agree to (a) the payment of any amount by Buyer after Closing or, (b) except as set forth in the proviso in the immediately preceding sentence with respect to the Assumed Contracts, any accommodation, concession, charge or condition to any Assumed Contract or Franchise to which such Seller Consent relates attributable to the period after Closing in connection with obtaining any such Seller Consents that Buyer would not be required to accept pursuant to this Section 5.3. Seller agrees that it shall not, prior to the Closing, without the prior written consent of Buyer, seek amendments or modifications to any Franchise.

5.4 Taxes, Fees and Expenses. Except as provided in Schedule 5.4, the Seller and the Buyer shall each pay one-half (1/2) of all sales, use, transfer and similar federal and State of _____ taxes ("Transfer Taxes") arising out of or payable by reason of the transactions contemplated herein or the fees arising in connection with the filings described in Section 5.7; provided that Buyer shall be solely responsible for any other taxes that would be Transfer Taxes except that they arise under the laws of another jurisdiction. Seller shall prepare and timely file all Tax Returns required to be filed in respect of Transfer Taxes. Seller's preparation of any such Tax Returns shall be subject to Buyer's approval (which approval shall not be unreasonably withheld, conditioned or delayed). Except as specifically provided herein, including in Schedule 5.4, each Party shall pay its or their own expenses incurred in connection with the authorization, preparation, negotiation, execution, delivery and performance of this Agreement and the other Transaction Documents, including all fees and expenses of its counsel, accountants, agents and other representatives.

5.5 Bonds, Letters of Credit, Etc. Buyer shall use commercially reasonable efforts to execute and deliver all documents to insure that on the Closing Date Buyer has delivered such bonds, letters of credit, indemnity agreements and similar instruments in such amounts and in favor of such Franchising Authority and other persons requiring the same in connection with the Governmental Permits to the extent they are reasonable and customary in the industry for similarly situated cable system operators in terms of size and financial and operating qualifications.

5.6 Employee Matters.

5.6.1 Effective as of the Closing Date, Buyer shall offer employment to _____ and all of the Division Employees who are employed exclusively in the Business immediately prior to the Adjustment Time and that are listed on Schedule 5.6.1 (the "**Designated Employees**") for at least the same compensation and comparable benefits that _____ and such Designated Employees were receiving immediately prior to the Closing from Seller; provided that Buyer shall not offer employment to _____ prior to or within thirty-six (36) months after the Closing. Not later than 30 days prior to the Closing Date, Buyer shall notify Seller in writing of Division Employees to whom Buyer does not plan to offer employment in accordance with the previous sentence. Any Designated Employee or _____ to whom Buyer has made an offer of employment and who has accepted such offer of employment (each, a "**Hired Employee**") shall be subject, from and after the Closing, to the policies established from time to time by Buyer with respect to employment and employee benefits; provided, however, that Buyer shall offer _____ and each such Designated Employee an annualized base salary or hourly rate of pay that is no less than that paid by Seller as of the date of this Agreement. Nothing in this Agreement will be deemed to prevent or restrict in any way the right of the Buyer to terminate, reassign, promote or demote any of the Hired Employees after the Closing or to change adversely or favorably the title, powers, duties, responsibilities, functions, locations, compensation, benefits or terms or conditions of employment of such employees. Seller shall terminate the employment of the Hired Employees as of 11:59 p.m. on the day before the Closing Date. Seller shall be responsible for any liability arising under the Worker

Adjustment and Retraining Notification Act of 1988 and other similar statutes or regulations of any jurisdiction with respect to any termination of employment of _____ or any Division Employee.

5.6.2 Seller shall pay to _____, _____ and the Division Employees all compensation, including salaries, commissions, bonuses, retirement plan, SERP benefits, Bonus Plans, or deferred compensation, retention bonus, severance (if any), insurance, pensions profit sharing, sick pay and other compensation or benefits to which _____, _____ or the Division Employees are entitled up to the date before the Closing Date and for any payments that are triggered as a result of the Closing and/or the termination of such Designated Employees' employment with Seller (including any retention bonus or any severance payments due under any policy of or agreement with the Seller, if any). Seller shall not (a) without the prior written consent of Buyer, change the compensation of any Designated Employees from the execution of this Agreement prior to Closing or (b) change the benefits of any Designated Employees, other than in the ordinary course of business consistent with past practices and except for entering into or amending any retention bonus, severance policy or agreement with Seller (if any) and any retirement plan, SERP, Bonus Plans or deferred compensation plan with Seller or an Affiliate of Seller, which retention bonus, severance policies and agreements (if any), SERP, Bonus Plans or deferred compensation plan, if any, are Excluded Liabilities.

5.6.3 Seller shall be responsible for maintenance and distribution of benefits accrued under any Employee Plan prior to and as of Closing pursuant to, and except as prohibited by applicable law under the provisions of such plans. Buyer assumes neither any liability for any such accrued benefits nor any fiduciary or administrative responsibility to account for or dispose of any such accrued benefits under any Employee Plan.

5.6.4 All claims and obligations under, pursuant to or in connection with any welfare, medical, insurance, disability or other employee benefit plans of Seller or arising under any Legal Requirement affecting Division Employees incurred on or before the Closing, or resulting or arising from events or occurrences occurring or commencing on or prior to the Closing, shall remain the responsibility of Seller, whether or not such employees become Hired Employees. Buyer shall have and assume no obligation or liability under or in connection with any such plan except that Buyer shall assume the obligations for uninsured accrued vacation of Division Employees who become Hired Employees to the extent included in the Assumed Liabilities or the calculation of Net Working Capital.

5.6.5 Notwithstanding anything to the contrary in this Section 5.6, Buyer shall (i) permit the Hired Employees and the Hired Employees' spouses and dependents to participate in Buyer's employee benefit plans (other than any defined benefit plans) to the same extent as Buyer's similarly situated employees and their dependents; (ii) to the extent permitted under Buyer's employee benefit plans, waive any waiting periods with respect to any of Buyer's medical, dental or vision insurance employee benefit plans; (iii) not subject any Hired Employee to any limitations on benefits for pre-existing conditions under its employee benefit plans, including any group health and disability plans, in each case, to the extent permitted under Buyer's employee benefit plans and applicable Legal Requirements; and (iv) permit Hired Employees to participate in Buyer's 401(k) plan based on normal quarterly enrollment dates.

5.6.6 Effective as of the Closing, Buyer shall assume responsibilities and obligations for continuation coverage under COBRA (the "**COBRA Obligations**") and any state continuation coverage requirements with respect to the Hired Employees and their beneficiaries solely with respect to COBRA "qualifying events" that occur after a Division Employee becomes a Hired Employee. Except as provided in the immediately preceding sentence, Seller shall retain responsibility and liability for COBRA Obligations. Buyer shall provide no incentive, directly or indirectly, for any Hired Employee to elect COBRA coverage under any group health plan of Seller.

5.6.7 Subsequent to Closing, Hired Employees' vested account balances in Seller's 401(k) plan may be left, rolled-over or distributed to Hired Employee, subject to and in accordance with the terms of Seller's 401(k) plan.

5.7 HSR Act Filing. As soon as practicable after the execution of this Agreement, but in any event no later than fifteen (15) business days after such execution (subject to extension for a period of up to an additional fifteen (15) business days, if reasonably necessary for a Party to complete its notification and report if not filed by

the expiration of such fifteen (15) business day period), the Parties will each complete and file, or cause to be completed and filed, any notification and report required to be filed under the HSR Act. The Parties shall use commercially reasonable efforts to respond as promptly as reasonably practicable to any inquiries received from the Federal Trade Commission (the "FTC") and the Antitrust Division of the Department of Justice (the "Antitrust Division") for additional information or documentation and use commercially reasonable efforts to respond as promptly as reasonably practicable to all inquiries and requests received from any other Governmental Authority in connection with antitrust matters. The Parties shall use commercially reasonable efforts to overcome any objections which may be raised by the FTC, the Antitrust Division or any other Governmental Authority having jurisdiction over antitrust matters; provided that Buyer's or Seller's obligations under this Section 5.6 shall not include (a) agreeing to hold separate or to divest any of its or its Affiliates' businesses, product lines or assets or agreeing to any material restriction as to the operation of the Business post-Closing or (b) defending any judicial administrative action brought by a Governmental Authority under any antitrust Legal Requirements. Notwithstanding any other provision of this Agreement, (i) Buyer shall not be required, as a condition to obtaining any such approval, to divest or hold separate or otherwise take or commit to take any action or enter into any agreement that limits its freedom of action with respect to all or any portion of Buyer's or any of its Affiliates' existing assets, businesses or lines of business, and Seller shall not make any such divestiture or take any such action or make any such commitment with respect to the Business or the Assets in connection with obtaining any such approval without Buyer's prior written consent; and (ii) neither Buyer, its Affiliates nor Seller shall be required to terminate existing contractual rights or obligations, relationships, joint ventures or strategic alliances (the items set forth in clauses (i) and (ii) above being "Burdensome Conditions").

5.8 Financing. Buyer shall use its commercially reasonable efforts to (i) arrange and obtain the Financing on the terms and conditions described in the Commitment Letters, (ii) negotiate and finalize definitive agreements with respect thereto on the terms and conditions contained in the Commitment Letters, (iii) satisfy on a timely basis all conditions applicable to Buyer in such definitive agreements that are within its control and (iv) consummate the Financing no later than the Closing. Notwithstanding the foregoing, Buyer shall not be prohibited from obtaining and consummating financing on terms other than those contemplated by the Commitment Letters, provided that Buyer's efforts to obtain such alternate financing terms are not reasonably expected to materially delay or prevent the Financing and consummation of the transactions contemplated by this Agreement.

5.9 Title Commitments and Surveys. Buyer may order at its own expense (i) commitments for owner's or lender's or leasehold title insurance policies (the "Title Commitments") on any parcel of Real Property owned or leased by the Seller and used in connection with the Business that is being sold or leased to Buyer pursuant to this Agreement upon Closing, and (ii) an ALTA survey (the "Surveys") on any parcel of Owned Real Property for which a title insurance policy is to be obtained certified to Buyer and the title company. Seller shall cooperate, at Buyer's sole cost and expense, in all commercially reasonable respects with Buyer in obtaining the Title Commitments and Surveys.

5.10 Environmental Matters. Subject to the Confidentiality Agreement, Buyer may, at its expense, obtain environmental surveys commonly known as Phase I environmental surveys (and if reasonably requested by Buyer, Phase II environmental surveys), conducted by an environmental company with respect to all Leased Real Property and Owned Real Property (each, an "Environmental Survey"), and Seller shall cooperate with Buyer, in all commercially reasonable respects and at Buyer's sole cost and expense, in obtaining such Environmental Surveys, including granting Buyer and Buyer's representatives access to such properties for purposes of obtaining such surveys and reports, subject to Buyer's agreement to commercially reasonable indemnification and liability arrangements; provided that Buyer shall provide Seller with reasonable advance written notice of the date(s) on which Buyer desires access to the Leased Real Property and Owned Real Property.

5.11 Tax Matters.

5.11.1 Seller shall timely file all Tax Returns required to be filed by Seller and, except to the extent included in the Assumed Liabilities or the calculation of Net Working Capital as an expense of Buyer, shall timely pay the Taxes due thereunder, when due on or before the Closing Date.

5.11.2 Buyer, on the one hand, and Seller, on the other hand, shall provide the other Party, at the expense of the requesting Party, with such assistance as may reasonably be requested by either of them in

connection with the preparation of any Tax Return, any audit or other examination by any Governmental Authority, or any judicial or administrative proceedings relating to liability for Taxes.

5.11.3 For purposes of payroll taxes with respect to all Division Employees that become Hired Employees, Seller shall not act in a manner inconsistent with Buyer's treatment of the transactions contemplated hereby as a transaction described in Treasury Regulation Sections 31.3121(a)(1)-I(b)(2) and 31.3306(b)(1)-(1)(b)(2). Seller shall timely pay all payroll taxes with respect to the Division Employees relating to all periods prior to the Adjustment Time.

5.12 Financial Statements. Seller shall, at Seller's expense, prepare and deliver to Buyer on or before the Closing Date the unaudited statements of operations of the Division for the applicable interim fiscal periods which shall be prepared in the ordinary course of business (the "**Interim Financial Statements**"). Seller shall use its reasonable best efforts to cause the Seller's independent public accountants to furnish their consent to the inclusion of the auditor's reports of the Seller's accountants in any applicable filings of Buyer required by the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended, and the rules of the Securities Exchange Commission promulgated thereunder. From the date hereof until the Closing, Seller shall, at Seller's expense, prepare and deliver to Buyer the unaudited statements of operations of the Division for the month ended August 31, 2010 and for each month thereafter, within thirty (30) days after the end of each such month. Seller shall use commercially reasonable efforts to cooperate with and assist Buyer and Buyer's accountants, at Buyer's expenses, with Buyer's preparation of any financial statements of Division required by the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended, and the rules of the Securities Exchange Commission promulgated thereunder.

5.13 No Shopping. During the period from the date of this Agreement until the earlier of the termination of this Agreement or the Closing, the Seller shall not, directly or indirectly, through any officer, director, employee, representative, Affiliate or agent, (a) take any action to solicit, initiate, encourage or support any inquiries or proposals that constitute, or could reasonably be expected to lead to, a proposal or offer for a merger, consolidation, business combination, sale of substantial assets including the Assets, sale of shares of capital stock (including by way of a tender offer) or similar transactions involving the Seller, the Division, the Assets or other than the transactions contemplated by this Agreement (any of the foregoing inquiries or proposals being referred to herein as a "Transaction Proposal"), (b) engage in negotiations or discussions concerning, or provide any non-public information to any Person relating to any Transaction Proposal, or (c) agree to approve or recommend any Transaction Proposal. Seller shall notify Buyer within 48 hours after receipt by Seller of any Transaction Proposal or any request for nonpublic information in connection with a Transaction Proposal or for access to the properties, books or records of the Seller by any Person that informs the Seller that it is considering making, or has made, a Transaction Proposal. Seller shall, and shall cause its officers, directors, employees, representatives, Affiliates or agents to, immediately cease and cause to be terminated any existing discussions or negotiations with any Persons (other than Buyer) conducted heretofore with respect to any Transaction Proposal.

5.14 Certain Confidential Contracts.

5.14.1 The Parties acknowledge that, under confidentiality provisions contained within certain contracts used in the Business that Seller proposes to designate as Assumed Contracts (the "**Confidential Contracts**"), Seller is prohibited from disclosing the existence or the terms and conditions of the Confidential Contracts without obtaining prior consent from the other parties thereto.

5.14.2 Seller agrees to use commercially reasonable efforts to obtain the necessary consents in order to disclose to Buyer the existence and terms and conditions of the Confidential Contracts within thirty (30) days after the date of this Agreement (the "**Consent Period**"). On or before the expiration of the Consent Period, Seller shall deliver to Buyer in writing a list of all Confidential Contracts the existence of which Seller has not previously disclosed to Buyer and for which Seller has obtained any consent necessary to do so, together with copies of all Confidential Contracts copies of which Seller has not previously disclosed to Buyer and for which Seller has obtained any consent necessary to do so. If Seller is unable to obtain any consent necessary to disclose the existence or a copy of any of the Confidential Contracts by the end of the Consent Period, then prior to the expiration of the Consent Period, Seller shall notify Buyer that there remain Confidential Contracts the existence or terms and conditions of which Seller is prohibited from disclosing to Buyer.

5.14.3 During the Consent Period Seller may deliver to Buyer revised copies of the Schedules to this Agreement. At Closing for purposes of Seller's representations and warranties and covenants in this Agreement, all references to the Schedules shall mean the version of the Schedules attached to this Agreement on the date of this Agreement as supplemented or revised by such revised Schedules delivered during the Consent Period, as the case may be.

5.14.4 Buyer shall have a period of fifteen (15) days after the expiration of the Consent Period ("**Buyer's Review Period**") in which to review any list and copies of previously undisclosed Confidential Contracts that Seller provides during the Consent Period and any revised Schedules delivered pursuant to Section 5.14.3 and provide Seller with written notice of its election to either (a) accept the information disclosed by Seller without objection, or (b) object to the information or revised Schedule disclosed by Seller and terminate this Agreement on the basis of such objection. If Buyer fails to provide Seller with written notice of an election to terminate within such fifteen (15) day period, Buyer shall be deemed to have accepted without objection any revised Schedules delivered by Seller and the information disclosed by Seller concerning the Confidential Contracts, in which case all of the disclosed Confidential Contracts shall become Assumed Contracts and Seller shall have no further obligation to transfer any still undisclosed Confidential Contracts, or the terms thereof, to Buyer, in which case Seller shall retain such undisclosed Confidential Contracts and may terminate the same in its discretion.

5.14.5 Not less than ten (10) business days prior to Closing, Seller shall deliver to Buyer a list of all of the Material Contracts that were entered into by Seller between the date of this Agreement and the Closing Date (excluding any that were entered into with Buyer's consent), which list shall be deemed to supplement Schedule 3.7 hereto. Buyer shall have a period of five (5) days after receipt of the list of Material Contracts provided for in the preceding sentence in which to review such list and provide Seller with written notice of its election to either (a) accept the revised Schedule 3.7, or (b) object to the revised Schedule disclosed by Seller and terminate this Agreement on the basis of such objection.

5.15 Notification of Certain Matters. Until the Closing, each Party shall promptly notify the other Party in writing if it becomes aware of any fact, change, condition, circumstance, or occurrence or nonoccurrence of any event that causes any representation or warranty of such Party to be inaccurate such that such inaccuracy will result in the conditions of the other Party set forth in Section 6 becoming incapable of being satisfied.

5.16 Lack of Consent for Transfer of Franchises. If, notwithstanding satisfaction or waiver of the conditions stated in Section 6, as of Closing any Franchising Authority has not consented to the transfer to Buyer of a cable television franchise, Buyer has not been successful in obtaining its own CLEC license or a judgment has been entered enjoining or disapproving the transfer of such cable television franchise to Buyer, such cable television franchise shall be excluded from the Assets conveyed at Closing. Closing shall occur with respect to all other Assets, and Buyer shall pay the full Purchase Price in accordance with this Agreement. In such case, at Closing, Seller and Buyer shall execute and deliver a Management Agreement in the form attached hereto as Exhibit 5.16 (Buyer and Seller agree to negotiate and attach the final form of Exhibit 5.16 to this Agreement within forty-five (45) days of the date hereof, the "**Management Agreement**"), pursuant to which Buyer shall manage the applicable System (or portion thereof) and Seller's performance under the applicable cable television franchise, subject to the following: (a) Buyer shall bear all expenses relating to such cable television franchise and the area served by such cable television franchise and the operation thereof and shall receive all revenues resulting from such area as its management fee; and (b) such management shall continue with respect to any such cable television franchise and the area served under such cable television franchise until the earliest of (i) revocation of such cable television franchise in an action from which no further appeal may be taken, as a result of the transactions described in this Section 5.16; (ii) the entry by a court of an order terminating such cable television franchise; (iii) 180 days after the Closing Date; and (iv) the date on which the applicable Franchising Authority consents to the transfer of such cable television franchise to Buyer (the "**Management Period**"). Upon the termination of the Management Period, the Management Agreement shall terminate without any liability hereunder for the exclusion of any such cable television franchise from the Assets conveyed at Closing, and, upon receipt of all necessary approvals, Seller shall assign and transfer to Buyer the cable television franchise by instruments in form and substance identical to those by which Assets shall have been transferred and assigned to Buyer at Closing.

5.17 Transition Planning. At all times from the date of this Agreement until the Closing, subject to applicable confidentiality protections and consistent with applicable Legal Requirements, the Seller shall assist Buyer on transition and integration planning as reasonably requested by Buyer in order to facilitate the transition of the System from the ownership of the Seller to the ownership of the Buyer, including such reasonable access as necessary with respect to billing, customer care, technical support and other similar back office functions relating to the System; provided, however, that Buyer shall not have access to Seller's customer billing software but shall have full access to all billing data and related information.

5.18 Transition Services Agreement. Within forty-five (45) days from the date of this Agreement, Buyer and Seller will agree upon the form of, and at Closing, Seller and Buyer shall execute and deliver a Transition Services Agreement in the form attached hereto as Exhibit 5.18 (the "TSA"), pursuant to which for a period of no less than 90 days after Closing, Seller shall make available to Buyer the services of certain employees of the Business to perform certain corporate services as outlined in the TSA for an amount per month specified in the TSA.

5.19 Post Closing Services Contract. Within forty-five (45) days from the date of this Agreement, Buyer and Seller will agree upon the form of, and at Closing Seller and Buyer shall execute and deliver, a Post Closing Services Contract, which provides for the items described on Schedule 5.19 (the "Post Closing Services Contract").

5.20 Restrictive Covenants Agreement. At Closing, Seller, _____ and _____, on the one hand, and Buyer, on the other hand, shall execute and deliver a Restrictive Covenants Agreement in the form attached hereto as Exhibit 5.20 (the "Seller Restrictive Covenants Agreement").

5.21 Escrow Agreement. At Closing, Seller, Buyer and _____ as the escrow agent (the "Escrow Agent") shall execute and deliver an Escrow Agreement in the form attached hereto as Exhibit 5.21 (the "Escrow Agreement"). Upon the consummation of the Closing, the Escrow Agent shall place the Escrow Amount in a segregated account designated by the Escrow Agent (the Escrow Amount together with all interest, dividends and other amounts earned that accrue thereon from the Closing Date through and until the date upon which such escrowed funds are distributed in accordance with the Escrow Agreement, the "Escrow") to be held and disbursed pursuant to the Escrow Agreement. Subject to the Escrow Agreement, the Escrow shall be held for a period of twelve months after the Closing Date, which period is subject to increase as provided for in the Escrow Agreement (the "Holdback Period"). From time to time during the Holdback Period and upon the expiration of the Holdback Period, the Escrow Agent shall disburse the funds in the Escrow in accordance with the terms of the Escrow Agreement.

5.22 License Agreement with respect to Video Archives. Within forty-five (45) days from the date of this Agreement, Buyer and Seller will agree upon the form of, and at Closing, Seller and Buyer shall execute and deliver a License Agreement with respect to Video Archives in the form to be attached hereto as Exhibit 5.22 (the "License Agreement"), pursuant to which Buyer shall grant a fully paid, unrestricted, permanent license to Seller to use the news and other video archives purchased by Buyer hereunder, and any additions thereto added in the ordinary course of the Business after Closing, and pursuant to which Buyer will agree to take commercially reasonable steps to preserve, store and maintain such archives. If the Parties are unable to agree on the form of the License Agreement in the time period set forth above, then Seller will retain the video archives and will grant a fully paid, unrestricted, permanent license to Buyer to use the news and other video archives retained by Seller hereunder, and any additions thereto added in the ordinary course of the Business after Closing, and pursuant to which Seller will agree to take commercially reasonable steps to preserve, store and maintain such archives.

5.23 Risk of Loss.

5.23.1 The risk of any loss, damage or impairment, confiscation or condemnation of any of the Assets from any cause whatsoever, including, without limitation, any loss or damage to, or impairment of the operations, financial condition or results of operations related to the foregoing, shall be borne by Seller at all times prior to the close of business on the Closing Date. Seller shall promptly notify Buyer in the event of any loss, damage or impairment, confiscation or condemnation of any of the Assets from any cause whatsoever (other than immaterial incidental loss incurred and consistent with past experience in connection with conducting the Business)

prior to the close of business on the Closing Date. Such notice shall report the loss or damage incurred, the cause thereof (if known) and the insurance coverage related thereto.

5.23.2 In the event of any damage or destruction of any Assets prior to the close of business on the Closing Date with respect to which the actual cost to repair or replace such Assets and to restore the services provided thereby to their levels immediately prior to such event (the “**Normal Business Level**”) together with the cost of any associated business interruption or impairment of the operations, financial condition or results of operation of the Business (collectively, the “**Total Losses**”) is reasonably estimated to be more than the Basket Amount, Buyer may elect at its option:

(i) to consummate the Closing (assuming all conditions set forth in Article 6 have been met or waived by the applicable Party) and complete the restoration and replacement of such damaged or impaired Assets after the Closing Date, in which event (A) Seller shall deliver to Buyer all insurance proceeds received from a third party, if any, in respect of such Total Losses, to the extent such proceeds were not already received and expended by Seller in connection with remedying such Total Losses and (B) Seller shall reimburse Buyer for all the Total Losses, to the extent not paid by the insurance proceeds from third parties remitted pursuant to this clause (i); or

(ii) except with respect to a loss of the type described in Section 6.1.11 or 6.2.6, to delay the Closing until such Assets are repaired or restored to their prior condition and the System’s normal and usual operation and the Normal Business Level is resumed or until the Buyer otherwise elects to proceed to Closing pursuant to Section 5.23.2(i); provided, that in no event may the Closing be delayed pursuant to this Section 5.23.2(ii) beyond the End Date; and provided, further, that as of the Closing, Seller shall remit to Buyer the amounts contemplated by Section 5.23.2(i) with respect to the Total Losses.

The exercise by Buyer of any of its rights, pursuant to this Section 5.23.2 shall not constitute a waiver of any conditions to Closing or of any other rights or remedies available to Buyer pursuant to this Agreement.

5.23.3 In the event of any damage or destruction of any Assets prior to the close of business on the Closing Date or any other event with respect to the Total Losses are reasonably estimated to be less than the Basket Amount, as a condition to Closing Seller shall have taken all actions necessary to repair and restore the Assets to their prior condition by the Closing Date so as to have resumed the System’s normal and usual operation and the Normal Business Level; provided, however, that the Parties proceeding to Closing shall not constitute a waiver of any rights or remedies of Buyer or constitute a waiver with respect to any representation or warranty or covenant of Seller made pursuant to this Agreement or any of the other Transaction Documents to which Seller is a party; provided however that Seller may, but shall not have the obligation, to repair or restore any Assets damaged or destroyed in connection with a loss of the type described in Section 6.1.11 or 6.2.6.

5.24 Good Faith Negotiations. Seller and Buyer agree to use good faith in negotiating the forms of the Management Agreement, the TSA, the Post Closing Services Contract and the License Agreement within forty-five (45) days from the date of this Agreement.

5.25 Bulk Sales Laws. The parties hereby waive compliance with any bulk sales or similar law that might otherwise apply to the sale of the portion of the Assets constituting inventory.

5.26 Disclosures on Schedules. Disclosure of information on any of the schedules or updates thereto shall be deemed to be disclosure by the Seller on all other schedules where such disclosure would be reasonably apparent to Buyer; provided, however, that no disclosure included on any Schedule shall be deemed to modify, amend or supplement the Financial Statements, the Interim Financial Statements, Schedule 2.5.2, or Closing Working Capital to be delivered pursuant to Section 2.5.3; provided further that a breach of a representation or warranty (other than the representations and warranties specifically relating to the Financial States and Interim Financial Statements) shall not be deemed to generate a breach of the representations or warranties concerning the Financial Statements and Interim Financial Statements.

6. CONDITIONS PRECEDENT TO OBLIGATIONS OF BUYER AND SELLER TO CLOSE.

6.1 Conditions Precedent to Obligations of Buyer to Close. The obligations of Buyer to consummate the transactions contemplated by this Agreement to occur at the Closing shall be subject to the satisfaction, at or before the Closing, of each of the following conditions, all or any of which may be waived in writing, in whole or in part, by Buyer for purposes of consummating such transactions:

6.1.1 Representations and Warranties. All representations and warranties of the Seller contained in this Agreement shall be true and correct in all material respects as of the date of this Agreement and at and as of the Closing with the same effect as though such representations and warranties were made at and as of the Closing (other than any representation or warranty that is expressly made as of a specified date, which shall be true and correct as of such date only), except for changes that are specifically consented to by the Buyer in writing.

6.1.2 Covenants and Conditions. Seller shall have performed and complied in all material respects with all covenants and agreements required by this Agreement to be performed or complied with by Seller prior to or at the Closing.

6.1.3 No Injunction, Etc. There shall not be in effect a Governmental Order prohibiting the consummation of the transactions contemplated by this Agreement.

6.1.4 Consents. Seller shall have obtained and delivered to Buyer the following, which shall remain in effect as of Closing, to-wit: (a) Consents pursuant to Franchises listed on Schedule 6.1.4 covering a number of RGUs, which when added to the number of RGUs covered by Franchises that do not require Consent, shall equal at least 90% of the total number of RGUs set forth on Schedule 6.1.4, (b) the Consents of the Governmental Authorities set forth on Schedule 6.1.4 related to Telecommunications Authorizations and (c) those other Consents set forth on Schedule 6.1.4; each of which shall have been obtained without the imposition of any Burdensome Condition and shall be in full force and effect.

6.1.5 HSR. All filings under the HSR Act shall have been made and the applicable waiting periods under the HSR Act, including any extensions thereof, shall have expired or been terminated.

6.1.6 Deliveries. Seller shall have made or stand willing and able to make all the deliveries to Buyer set forth in Section 7.2.

6.1.7 No Material Adverse Effect. Since the date hereof, no Material Adverse Effect shall have occurred.

6.1.8 Releases. Seller shall have delivered all instruments and documents necessary to release any and all Liens (other than Permitted Encumbrances) on the Assets, including appropriate UCC financing statement amendments (termination statements).

6.1.9 Financial Statements. Buyer shall have received the Interim Financial Statements required to have been delivered pursuant to Section 5.12.

6.1.10 Financing. Buyer shall have received the Financing substantially on the terms and conditions set forth in the Commitment Letters.

6.1.11 No Force Majeure. There shall not have occurred an act of God (including without limitation flood or tornado) or acts of vandalism or terrorism by a third party that has materially adversely impaired the outside plant of Seller to the extent that such event has materially hindered or delayed Seller's provision of services to the customers of the Business.

6.2 Conditions Precedent to Obligations of Seller to Close. The obligations of Seller to consummate the transactions contemplated by this Agreement to occur at the Closing shall be subject to the satisfaction, at or before the Closing, of each of the following conditions, all or any of which may be waived in writing, in whole or in part, by Seller for purposes of consummating such transactions:

6.2.1 Representations and Warranties. All representations and warranties of the Buyer contained in this Agreement shall be true and correct in all material respects as of the date of this Agreement and at and as of the Closing with the same effect as though such representations and warranties were made at and as of the Closing (other than any representation or warranty that is expressly made as of a specified date, which shall be true and correct in all material respects as of such date only), except for changes that are specifically consented to by Seller in writing.

6.2.2 Covenants and Conditions. Buyer shall have performed and complied in all material respects with all covenants and agreements required by this Agreement to be performed or complied with by it prior to or at the Closing.

6.2.3 No Injunction. There shall not be in effect a Governmental Order prohibiting the consummation of the transactions contemplated by this Agreement.

6.2.4 HSR. All filings under the HSR Act shall have been made and the applicable waiting periods under the HSR Act, including any extensions thereof, shall have expired or been terminated.

6.2.5 Deliveries. Buyer shall have made or stand willing and able to make all the deliveries set forth in Section 7.3.

6.2.6 No Force Majeure. There shall not have occurred an act of God (including without limitation flood or tornado) or acts of vandalism or terrorism by a third party that has materially adversely impaired the outside plant of Seller to the extent that such event has materially hindered or delayed Seller's provision of services to the customers of the Business.

7. CLOSING AND CLOSING DELIVERIES.

7.1 Closing. Subject to the satisfaction or waiver of all of the conditions to Closing set forth in Article 6, the Closing shall occur on the fifth (5th) business day after the date on which all of the conditions to Closing set forth in Sections 6.1.3, 6.1.4, 6.1.5, 6.1.7, 6.1.8, 6.1.9, 6.1.10, 6.2.3 and 6.2.4, shall have been satisfied or waived by the Party entitled to benefit therefrom (the "Closing Date"). The Closing shall be held at the offices of _____ at _____ at 10:00 a.m. local time or at such other location or time as the Parties may agree. Notwithstanding the foregoing, the Parties agree that the Closing shall be deemed effective as of 12:01 a.m. local time on the Closing Date.

7.2 Deliveries by Seller. Prior to or on the Closing Date, the Seller shall deliver to Buyer the following, in form and substance reasonably satisfactory to Buyer and its counsel:

7.2.1 Transfer Documents. A bill of sale and assignment of assets, and such lease assignments, deeds, vehicle titles, and other documents or instruments as may be reasonably necessary to transfer title to the Assets from Seller to Buyer, each in a form reasonably acceptable to the Buyer, duly executed by Seller;

7.2.2 Consents. A copy of the Seller Consents received prior to Closing;

7.2.3 Secretary's Certificate. Certificates, dated as of the Closing Date, executed by the Secretary of the Seller, without personal liability: (i) certifying that the resolutions, as attached to such certificate, were duly adopted by the Seller, authorizing and approving the execution and delivery of this Agreement and the consummation of the transactions contemplated hereby, and that such resolutions remain in full force and effect; (ii) certifying as to the incumbency of the person signing this Agreement on behalf of Seller; (iii) certifying that the copies of the Organizational Documents of Seller attached thereto are true, accurate and complete copies thereof and remain in full force and effect;

7.2.4 Certificate. A certificate, executed by a duly authorized officer of Seller, without personal liability, certifying that the conditions set forth in Sections 6.1.1, and 6.1.2 have been satisfied;

7.2.5 Lien Releases; Payoff Letters. Releases of all Liens affecting any of the Assets, except for Permitted Encumbrances, and the Payoff Letters;

7.2.6 Management Agreement. If required, the Management Agreement, duly executed by Seller;

7.2.7 Restrictive Covenants Agreement. The Seller Restrictive Covenants Agreement, duly executed by each of Seller, _____ and _____;

7.2.8 FIRPTA Affidavit. An affidavit of Seller, under penalty of perjury, that Seller is not a "foreign person" (as defined in the Foreign Investment in Real Property Tax Act and applicable regulations) and that Buyer is not required to withhold any portion of the consideration payable under this Agreement under the provisions of such Act, in a form mutually agreed to by Buyer and Seller; and

7.2.9 Legal Opinion. Buyer shall have received an opinion of _____, counsel to Seller, dated the Closing Date, in form and substance reasonably satisfactory to Buyer and its legal counsel;

7.2.10 Seller's Estimated Working Capital. Seller shall have delivered the Seller's Estimated Working Capital to Buyer at least ten (10) business days prior to the Closing Date;

7.2.11 Employee Matters. Seller shall have taken those actions with respect to its employment agreements, Compensation Arrangements and Employee Plans as may hereafter be agreed to in writing between Seller and Buyer, if any;

7.2.12 TSA and Other Closing Agreements. The TSA, the Post Closing Services Contract, the License Agreement and the Escrow Agreement, duly executed by Seller; and

7.2.13 Transfer of Assets. Seller shall have entered into all agreements and taken all actions necessary to acquire from _____ ("_____") all Assets held by _____ that are to be sold to Buyer hereunder. The form and content of the written agreements to be entered into between Seller and _____ (the "_____ Transfer Documents") must be approved in advance in writing by Buyer. Seller shall have provided Buyer with copies of the _____ Transfer Documents that are executed by Seller and _____.

7.3 Deliveries by Buyer. Prior to or on the Closing Date, Buyer shall deliver to the Seller the following, in form and substance reasonably satisfactory to the Seller and their counsel:

7.3.1 Purchase Price. The Purchase Price in accordance with Section 2.4.2;

7.3.2 Transfer Documents. An assignment and assumption agreement as may be necessary for Buyer to assume the Assumed Liabilities, in a form reasonably acceptable to Seller, duly executed by Buyer;

7.3.3 Secretary's Certificate. A certificate, dated as of the Closing Date, executed by Buyer's Secretary, without personal liability: (i) certifying that the resolutions, as attached to such certificate, were duly adopted by Buyer's Board of Directors, authorizing and approving the execution of this Agreement and the consummation of the transactions contemplated hereby and that such resolutions remain in full force and effect; and (ii) certifying as to the incumbency of the person signing this Agreement on behalf of Buyer;

7.3.4 Officer's Certificate. A certificate, dated as of the Closing Date, executed by a duly authorized officer of Buyer, certifying, without personal liability, that the conditions set forth in Sections 6.2.1 and 6.2.2 are satisfied;

7.3.5 Management Agreement. If required, the Management Agreement, duly executed on behalf of Buyer; and

7.3.6 TSA and Other Closing Agreements. The TSA, the Post Closing Services Contract, the Seller Restrictive Covenants Agreement, the License Agreement and the Escrow Agreement, duly executed by Buyer.

8. TERMINATION.

8.1 Method of Termination. This Agreement may be terminated or abandoned only as follows:

8.1.1 by the mutual written agreement of Buyer, on the one hand and Seller, on the other hand;

8.1.2 by Buyer, at any time, provided that Buyer is not then in default or breach in any material respect of its representations, warranties, covenants or agreements contained in this Agreement, if Seller breaches or fails to perform in any respect any of its representations, warranties, covenants or agreements contained in this Agreement and such breach or failure to perform (i) would give rise to the failure of a condition set forth in Section 6.1.1 or Section 6.1.2 if such breach or failure to perform had occurred at the time scheduled for Closing, and (ii) if such breach relates to a representation or warranty of the Seller, such breach has not been cured by thirty (30) days following the Seller's receipt of written notice thereof (such 30-day period, "Seller's Cure Period") or waived by Buyer;

8.1.3 by Seller, at any time, provided that Seller is not then in default or breach in any material respect of its representations, warranties, covenants or agreements contained in this Agreement, if the Buyer breaches or fails to perform in any respect any of its representations, warranties, covenants or agreements contained in this Agreement and such breach or failure to perform (i) would give rise to the failure of a condition set forth in Section 6.2.1 or Section 6.2.2 if such breach or failure to perform had occurred at the time scheduled for Closing, and (ii) if such breach relates to a representation or warranty of the Buyer, such breach has not been substantially cured by thirty (30) days following Buyer's receipt of written notice thereof (such 30-day period, "Buyer's Cure Period") or waived by Seller;

8.1.4 by Buyer or Seller, (i) if any Governmental Authority of competent jurisdiction shall have issued an injunction or taken any other action (which injunction or other action the parties hereto shall use their commercially reasonable efforts (which shall not include any divestiture, commencement of litigation or other extraordinary act) to lift) that temporarily or permanently restrains, enjoins or otherwise prohibits the consummation of the transactions contemplated by this Agreement, and such injunction or other action shall have become final and non-appealable; or (ii) if the Closing shall not have occurred on or before December 15, 2010 or such other date, if any, as Buyer and Seller may agree in writing (the "End Date"); provided, however, that the right to terminate the Agreement under this Section 8.1.4 shall not be available to any Party whose failure to comply with any provision of this Agreement has been the cause of, or resulted in, the failure of the Closing to occur on or before the End Date;

8.1.5 by Buyer, pursuant to Section 5.23; or

8.1.6 by Buyer or Seller, as the case may be, if the closing conditions described in Section 6.1.11 or Section 6.2.6, respectively, have not been satisfied or such non-satisfaction has not been waived by both Parties prior the End Date.

8.2 Rights Upon Termination. In the event of the termination of this Agreement pursuant to Section 8.1, this Agreement shall forthwith become null and void and have no effect, without any liability on the part of Buyer or Seller or their respective directors, officers, employees, partners, managers, members or stockholders, and all rights and obligations of any Party hereto shall cease, except for the agreements contained in this Section 8.2

8.3 Survival after Termination. Section 8.2 and Article 10 survive termination of the Agreement.

9. SURVIVAL OF COVENANTS, AGREEMENTS, REPRESENTATIONS AND WARRANTIES;
INDEMNIFICATION.

9.1 Survival of Representations, Warranties and Covenants.

9.1.1 All covenants or agreements in this Agreement and the Transaction Documents which by their terms are to be performed, if at all, after the Closing Date shall survive the Closing. Except as otherwise provided in this Article 9, each of the representations and warranties contained in Article 3 and Article 4 and all covenants and agreements in this Agreement and the Transaction Documents which are to be performed at or prior to Closing including without limitation those in Article 5, will terminate, without further action, on the date that is the twelve (12) month anniversary of the Closing Date (the "Anniversary Date"); provided, however, that the representations and warranties set forth in Sections 3.1, 3.2, 3.3, 3.8, 3.13, 3.19, 4.1, 4.2, 4.6 and the first sentence only of Section 3.5 shall survive and continue until expiration of the statutes of limitations applicable with respect to matters arising under such sections.

9.1.2 The indemnification contained in this Article 9 will survive the Closing and shall remain in effect:

(i) to the expiration of the applicable statute of limitations with respect to any indemnifiable claim related to (A) the breach of any covenants or agreements in this Agreement and the Transaction Documents which by their terms are to be performed, if at all, after the Closing Date or (B) the breach of any representation or warranty that pursuant to Section 9.1.1 survives until the expiration of its applicable statute of limitations,

(ii) indefinitely with respect to any indemnifiable claim arising under Section 9.2.1(iii) or Section 9.2.2(iii); or

(iii) until the Anniversary Date for any indemnifiable claims that are not specified in Section 9.1.2(i) or Section 9.1.2(ii).

Unless a claim for indemnification with respect to any alleged breach of any such covenant, agreement, representation or warranty is asserted by notice given as herein provided that identifies a particular breach and the underlying facts relating thereto, which notice is given within the applicable period of survival for such covenant, agreement, representation or warranty, such claim may not be pursued and is irrevocably waived after such time. Without limiting the generality or effect of the foregoing sentence, no claim for indemnification with respect to any such covenant, agreement, representation or warranty will be deemed to have been properly made except (i) to the extent it is based upon a Third Party Claim or (ii) to the extent based on Indemnifiable Losses incurred by an Indemnitee for which indemnification is provided under Sections 9.2.1 or 9.2.2, and such indemnification claim is made or brought prior to the expiration of the survival period for such covenant, agreement, representation or warranty. For purposes of clarity, claims asserted in a written notice thereof (which reasonably describes such claim and provides reasonable evidence thereof) delivered to the other Party before the applicable period of survival for such covenant, agreement, representation or warranty terminates shall be deemed timely made regardless of whether litigation or arbitration proceedings are commenced by such date. Notwithstanding anything to the contrary in this Agreement, if either party makes a claim for indemnification in writing and in accordance with the terms of this Agreement with respect to any matter for which indemnification is provided under Section 9.2.1 or 9.2.2 prior to the applicable expiration date as provided in this Section 9.1.2, the indemnification contained in this Article 9 with respect to such claim shall survive with respect to all Indemnifiable Losses resulting from or with respect to the claim identified in such timely notice, whenever incurred, until such claim is finally resolved in accordance with the terms hereof.

9.2 Indemnification.

9.2.1 Following the Closing, and subject to the other sections of this Article 9, Seller will indemnify, defend and hold harmless Buyer and its Affiliates and their respective directors, officers, and agents from and against all Indemnifiable Losses relating to, resulting from or arising out of:

(i) any inaccuracy in or breach of any of the representations and warranties made by Seller in Article 3 and the certificate provided by Seller pursuant to Section 7.2.4 of this Agreement;

(ii) a breach by Seller of any covenant or agreement of Seller contained in this Agreement or any of the other Transaction Documents; and

(iii) any of the Excluded Liabilities.

9.2.2 Following the Closing, and subject to the other sections of this Article 9, Buyer will indemnify, defend and hold harmless Seller and its Affiliates and their respective directors, officers and agents from and against all Indemnifiable Losses relating to, resulting from or arising out of:

(i) any inaccuracy in or breach of any of the representations or warranties made by Buyer in Article 4 and the certificate provided by Buyer pursuant to Section 7.3.4 of this Agreement;

(ii) a breach by Buyer of any covenant or agreement of Buyer contained in this Agreement or any of the other Transaction Documents; and

(iii) any of the Assumed Liabilities.

9.2.3 All payments made by Seller or by Buyer (or any of their respective Affiliates), as the case may be, to or for the benefit of other Party pursuant to Section 2.5 or this Article 9 shall be treated as adjustments to the Purchase Price for tax purposes, and such agreed treatment shall govern for purposes of this Agreement. Buyer and Seller shall file all Tax Returns consistent with such treatment. As between Buyer and Seller, upon the settlement or resolution of any claim for indemnification while the Escrow remains held by the Escrow Agent, Buyer and Seller agree to provide joint written instructions to the Escrow Agent regarding the disbursement of funds to the applicable Party, all in accordance with the Escrow Agreement.

9.3 Limitations on Liability.

9.3.1 For purposes of this Agreement, the following terms have the meanings set forth below:

"Indemnification Payment" means any amount of Indemnifiable Losses required to be paid pursuant to this Agreement;

"Indemnitee" means any Person entitled to indemnification under this Agreement;

"Indemnifying Party" means any Person required to provide indemnification under this Agreement; and

"Indemnifiable Losses" means any losses, liabilities, damages, costs, expenses, assessments, fines, interest, penalties, awards, deficiencies and other obligations and expenses (including reasonable attorneys' fees and expenses and out-of-pocket expenses incurred in investigating, preparing or defending the foregoing) actually incurred, including any actual or threatened suits, claims, demands and assessments and all judgments and settlements related thereto, in any such case (x) reduced by the amount of insurance proceeds actually recovered from any Person or entity with respect thereto and (y) excluding any such losses, liabilities, damages, costs and expenses to the extent that the underlying liability or obligation or such losses, liabilities, damages, costs or expenses is the result of the gross negligence or willful misconduct of the Indemnitee, any of its Affiliates or any officer, employee, agent or the Indemnitee or any of its Affiliates.

9.3.2 As between Seller and any Affiliate, successor or assign of Seller, on the one hand, and Buyer and any Affiliate, successor or assign of Buyer, on the other hand, the remedies, rights and obligations set forth in this Article 9 will be the exclusive remedies, rights and obligations with respect to the liabilities and obligations referred to in Sections 9.2.1(i), 9.2.1(ii), 9.2.2(i) and 9.2.2(ii), except with respect to matters involving fraud. Without limiting the foregoing, as a material inducement to entering into this Agreement, to the fullest extent

permitted by law, each of the Parties waives any claim or cause of action that it otherwise might assert based upon any breach of the covenants, agreements, representations or warranties referenced in Sections 9.2.1(i), 9.2.1(ii), 9.2.2(i) and 9.2.2(ii) of this Agreement, except for claims or causes of action brought under and subject to the terms and conditions of this Article 9 and except with respect to matters involving fraud.

9.3.3 Notwithstanding any other provision of this Agreement or of any applicable law, except for Indemnifiable Losses arising out of or relating to any breach of covenants or agreements required to be performed after Closing or any breach or inaccuracy of representations and warranties under Sections 3.1, 3.2, 3.8, 4.1, 4.2 and the first sentence only of Section 3.5 (none of which shall be subject to this Section 9.3.3), no Indemnitee will be entitled to indemnification for a claim against an Indemnifying Party for any Indemnifiable Losses arising out of or relating to any breach of any covenant, agreement or breach or inaccuracy of representations or warranties under Sections 9.2.1(i) and 9.2.1(ii) for claims against Seller or under Sections 9.2.2(i) and 9.2.2(ii), for claims against Buyer, until the aggregate amount of Indemnifiable Losses incurred by such Indemnitee exceeds \$1,000,000.00 (all amounts up to and including such amount, the “Basket Amount”); provided, however, that in the event that the aggregate amount of Indemnifiable Losses incurred by such Indemnitee exceeds the Basket Amount, then such Indemnifying Party shall only be liable for Indemnifiable Losses to the extent they exceed the Basket Amount.

9.3.4 Notwithstanding any other provision of this Agreement, the indemnification obligations of the Seller under Sections 9.2.1(i) and 9.2.1(ii) or the indemnification obligations of Buyer under Section 9.2.2(i) and 9.2.2(ii) shall not exceed an amount equal to the amount of the Escrow, respectively (the “Cap Limitation”); provided, however, that the Cap Limitation shall not apply to breaches of the representations and warranties set forth in Sections 3.1, 3.2, 3.3, 3.8, 3.13, 3.19, 4.1, 4.2, 4.6 and the first sentence only of Section 3.5 or to matters involving fraud. Subject to the limitations in this Article 9, including without limitation Section 9.3.3 and 9.3.4, Seller shall be obligated to provide indemnification to Buyer from the Escrow Fund, and to the extent the Escrow Fund is insufficient, Seller shall be obligated to provide indemnification to Buyer directly, for all Indemnifiable Losses that are properly and timely asserted pursuant to Section 9.2.1, subject to the terms and conditions hereof. Buyer shall be obligated to provide indemnification to Seller directly for all Indemnifiable Losses that are properly and timely asserted pursuant to Section 9.2.2, subject to the terms and conditions hereof.

9.3.5 No Indemnifying Party shall be liable to or obligated to indemnify any Indemnitee hereunder for any punitive or exemplary damages, or any consequential, special or multiple damages, except to the extent such damages are asserted or have been recovered by a third person (including a Governmental Authority) and are the subject of a Third Party Claim for which indemnification is available under this Article 9.

9.3.6 No Indemnitee shall be entitled to indemnification hereunder for any Indemnifiable Losses arising from a breach of any representation, warranty, covenant or agreement set forth herein (and the amount of any Indemnifiable Losses incurred in respect of such breach shall not be included in the calculation of any limitations on indemnification set forth herein) to the extent that such liability is included as a specific monetary amount in the calculation of the Estimated Working Capital and/or the Closing Working Capital.

9.3.7 Any liability for indemnification under this Section 9.3 shall be determined without duplication of recovery by reason of the state of facts giving rise to such liability constituting a breach of more than one representation, warranty, covenant, or agreement.

9.4 Defense of Claims.

9.4.1 If any Indemnitee receives written notice of the assertion of any claim or of the commencement of any action or proceeding by any Third Party (a “Third Party Claim”) against such Indemnitee, with respect to which an Indemnifying Party is obligated to provide indemnification under this Agreement, the Indemnitee will give such Indemnifying Party reasonably prompt written notice thereof, but in any event not later than ten (10) calendar days after receipt of notice of such Third Party Claim; provided, however, that the failure of the Indemnitee to so notify the Indemnifying Party shall only relieve the Indemnifying Party from its obligation to indemnify the Indemnitee pursuant to this Article 9 to the extent that the Indemnifying Party is materially prejudiced by such failure (whether as a result of the forfeiture of substantive rights or defenses or otherwise). Upon receipt of notification of a Third Party Claim, the Indemnifying Parties, shall be entitled, upon written notice to the Indemnitee,

to assume the investigation and defense thereof, provided, however, that the Indemnifying Parties shall not have the right to assume and control the investigation and the defense (or to continue to control the investigation and defense) if (i) the Third Party Claim relates to or arises in connection with a criminal proceeding, action, indictment, allegation or investigation by a Governmental Authority, (ii) an Indemnifying Party has failed to defend or is failing to defend in good faith the Third Party Claim, (iii) an Indemnifying Party and the Indemnatee are both named parties to the Third Party Claim, and the Indemnatee reasonably concludes based on the advice of counsel that representation of both parties by the same counsel would be or could reasonably be expected to become inappropriate under applicable ethical standards due to actual or potential conflicting interests, (iv) in the case of any losses, liabilities, damages, claims, awards, judgments, costs and expenses (including, without limitation, reasonable attorneys' fees) (collectively, "Losses") suffered by Buyer, such Losses in Buyer's good faith judgment could result in Indemnifiable Losses in excess of the Cap Limitation, or (v) an Indemnifying Party does not, in the Indemnatee's reasonable judgment, have sufficient financial resources to satisfy the amount of any adverse judgment that is reasonably likely to result with respect to such Third Party Claim. Whether or not the Indemnifying Party elects to assume the investigation and defense of any Third Party Claim, the Indemnatee shall have the right to employ separate counsel and to participate in the investigation and defense thereof; provided, however, that the Indemnatee shall pay the fees and disbursements of such separate counsel unless (i) the employment of such separate counsel has been specifically authorized in writing by the Indemnifying Party, (ii) the Indemnifying Party has failed to assume the defense of such Third Party Claim within a reasonable time after receipt of notice thereof or has ceased (or is required to cease) the defense of such claim, or (iii) the named parties to the proceeding in which such claim, demand, action or cause of action has been asserted include both the Indemnifying Party and such Indemnatee and, in the reasonable judgment of counsel to such Indemnatee, there exists one or more defenses that are in conflict with those available to the Indemnifying Party. Notwithstanding the foregoing, the Indemnifying Party shall not be liable for the fees and disbursements of more than one counsel for all Indemnitees in connection with any one proceeding or any similar or related proceedings arising from the same general allegations or circumstances. Without the prior written consent of the Indemnatee, the Indemnifying Party will not enter into any settlement of any Third Party Claim that would result in (A) the imposition of a consent order, injunction, decree or judgment that would restrict the future activity or conduct of, or impose any non-monetary liability, obligation or commitment on, the Indemnatee or any of its Affiliates, (B) a finding or admission of a violation of Law or violation of the rights of any Person by the Indemnatee or any of its Affiliates, (C) a finding or admission that would have an adverse effect on other claims made or threatened or reasonably anticipated to be made against the Indemnatee or any of its Affiliates, or (D) any monetary liability of the Indemnatee that shall not be promptly paid or reimbursed by the Indemnifying Party. Any such settlement or compromise shall include as an unconditional term thereof the giving by the claimant of a release of the Indemnatee and the Indemnified Party from all liability with respect to such Third Party Claim. If a settlement offer solely for money damages is made by the applicable third party claimant (which offer provides for a full and unconditional release of the Indemnatee), and the Indemnifying Party notifies the Indemnatee in writing of the Indemnifying Party's willingness to accept the settlement offer and pay the amount called for by such offer without reservation of any rights or defenses against the Indemnatee, the Indemnatee may continue to contest such claim, free of any participation by the Indemnifying Party, and the Indemnifying Party shall have no obligation to the Indemnatee hereunder with respect to such claim and, if the Indemnifying Party is a co-defendant and as a result of not being able to settle on the terms rejected by the Indemnatee, the Indemnifying Party is found liable for, or settles the claims against the Indemnifying Party for more than the Indemnifying Party could have settled such claims, then the Indemnatee will indemnify the Indemnifying Party hereunder for such excess.

9.4.2 Any claim by an Indemnatee on account of an Indemnifiable Loss that does not result from a Third Party Claim will be asserted by giving the Indemnifying Party reasonably prompt written notice thereof, but in any event not later than 30 calendar days after the later to occur of the incurrance or discovery thereof, provided, however, that the failure of the Indemnatee to notify the Indemnifying Party within such 30 calendar days shall only relieve the Indemnifying Party from its obligation to indemnify the Indemnatee pursuant to this Article 9 to the extent that the Indemnifying Party is materially prejudiced by such failure (whether as a result of the forfeiture of substantive rights or defenses or otherwise); provided that no Indemnifying Party will have any liability for a claim notice of which is not received by the Indemnifying Party within 30 calendar days of the applicable expiration date specified in Section 9.1.2 or 9.2.2, respectively. The Indemnifying Party will have a period of 30 calendar days after receipt of a timely notice of claim within which to respond in writing to such claim. If the Indemnifying Party does not so respond within such thirty (30) calendar day period following receipt of a timely claim, the Indemnifying Party will be deemed to have rejected such claim, in which event the Indemnatee will be free to pursue such remedies as may be available to the Indemnatee on the terms and subject to the provisions of this Article 9.

9.4.3 If, after the making of any Indemnification Payment, the amount of the Indemnifiable Loss to which such payment relates is reduced by actual recovery, settlement or otherwise under any insurance coverage, or pursuant to any claim, recovery, settlement or payment by or against any other entity, the amount of such reduction (less any costs, expenses, premiums or Taxes incurred in connection therewith) will promptly be repaid by the Indemnatee to the Indemnifying Party. Upon making any Indemnification Payment, the Indemnifying Party will, to the extent of such Indemnification Payment, be subrogated to all rights of the Indemnatee against any third party in respect of the Indemnifiable Loss to which the Indemnification Payment relates; provided that (i) the Indemnifying Party shall then be in compliance with its obligations under this Agreement in respect of such Indemnifiable Loss, and (ii) until the Indemnatee recovers full payment of its Indemnifiable Loss, all claims of the Indemnifying Party against any such third party on account of said Indemnification Payment will be subrogated and subordinated in right of payment to the Indemnatee's rights against such third party on account of said Indemnification Payment. Without limiting the generality or effect of any other provision of this Article 9, each such Indemnatee and Indemnifying Party will duly execute upon request all instruments reasonably necessary to evidence and perfect the above-described subrogation and subordination rights.

10. MISCELLANEOUS.

10.1 Notices. All notices, demands and requests required or permitted to be given under the provisions of this Agreement shall be (i) in writing; (ii) delivered by personal delivery, facsimile transmission (with telephonic confirmation) or sent by commercial delivery service or certified mail, return receipt requested; (iii) deemed to have been given on the date of personal delivery, the date of facsimile transmission (with telephonic confirmation) or the date set forth in the records of the delivery service or on the return receipt (in each case, regardless of whether such notice, demand or request is actually received); and (iv) addressed as follows:

If to Seller:

Attention: _____

Facsimile: _____
Telephone: _____

With a copy to (which
shall not constitute
notice):

Attention: _____

Facsimile: _____
Telephone: _____

If to Buyer:

Attention: _____

Facsimile: _____
Telephone: _____

With a copy to (which
shall not constitute
notice):

Attention: _____

Facsimile: _____
Telephone: _____

or to any such other persons or addresses as the Parties may from time to time designate in a writing delivered in accordance with this Section 10.1.

10.2 No Assignment; Benefit and Binding Effect. No Party may assign this Agreement without the prior written consent of the other Party, except as expressly permitted in this Section 10.2. Buyer may assign this Agreement and its rights and interests herein, subject to the terms of this Agreement (including applicable conditions, limitations and qualifications hereunder): (a) for collateral security purposes to any lender providing financing to Buyer or its Affiliates for purposes of consummating the transactions contemplated by this Agreement (and any such lender may exercise all or any of the rights and remedies of Buyer hereunder after the date of this Agreement) and (b) to any successor, assignee or designee of the lender that is a purchaser or assignee of the Assets in connection with such lender's exercise of its rights and remedies under its collateral pledge hereof; (c) in connection with a change of control, merger or reorganization of Buyer or a sale of all or substantially all of Buyer's stock or assets; or (d) to any Affiliate of Buyer, provided that the assignee of Buyer agrees in writing to be bound by the provisions of this Agreement; provided that in the event of a transfer under (b), (c) or (d), Buyer shall remain liable to Seller for any liabilities which may accrue under Section 8.2. This Agreement shall be binding upon and inure to the benefit of the Parties and their respective successors and permitted assigns.

10.3 Governing Law/Consent to Jurisdiction. This Agreement and the rights of the Parties under it will be governed by and construed in all respects in accordance with the laws of the State of _____, without regard to the conflicts of laws principles of such state. THE PARTIES HEREBY IRREVOCABLY CONSENT TO THE EXCLUSIVE JURISDICTION AND VENUE OF THE COURTS OF THE STATE OF _____ AND OF THE UNITED STATES LOCATED IN THE STATE OF _____ FOR THE PURPOSE OF ANY LITIGATION RELATING TO THIS AGREEMENT AND WAIVE ANY OBJECTION THAT THEY AT ANY TIME MAY HAVE TO THE LAYING OF VENUE IN ANY SUCH COURT AND/OR TO ANY CLAIM THAT ANY SUCH LITIGATION HAS BEEN BROUGHT IN AN INCONVENIENT FORUM. THE PARTIES HEREBY WAIVE PERSONAL SERVICE OF ANY PROCESS IN CONNECTION WITH ANY SUCH ACTION OR PROCEEDING AND AGREE THAT THE SERVICE THEREOF MAY BE MADE BY CERTIFIED OR REGISTERED MAIL ADDRESSED TO OR BY PERSONAL DELIVERY TO THE OTHER PARTY AT SUCH OTHER PARTY'S ADDRESS SET FORTH IN SECTION 10.1. IN THE ALTERNATIVE, IN ITS DISCRETION, EITHER PARTY MAY EFFECT SERVICE UPON THE OTHER PARTY IN ANY OTHER FORM OR MANNER PERMITTED BY LAW.

10.4 Waiver of Jury Trial. THE PARTIES HEREBY WAIVE ANY RIGHT TO TRIAL BY JURY IN ANY PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR ANY OF THE CONTEMPLATED TRANSACTIONS OR RELATIONSHIPS CREATED UNDER OR BY THIS AGREEMENT, WHETHER NOW EXISTING OR HEREAFTER ARISING, AND WHETHER SOUNDING IN CONTRACT, TORT OR OTHERWISE. THE PARTIES AGREE THAT EITHER OF THEM MAY FILE A COPY OF THIS SECTION OF THIS AGREEMENT WITH ANY COURT OR OTHER TRIBUNAL AS WRITTEN EVIDENCE OF THE KNOWING, VOLUNTARY AND BARGAINED-FOR AGREEMENT AMONG THE PARTIES IRREVOCABLY TO WAIVE TRIAL BY JURY.

10.5 Headings. The headings herein are included for ease of reference only and shall not control or affect the meaning or construction of the provisions of this Agreement.

10.6 Gender and Number. Words used herein, regardless of the gender and number specifically used, shall be deemed and construed to include any other gender, masculine, feminine or neuter, and any other number, singular or plural, as the context requires.

10.7 Entire Agreement; Amendments. This Agreement, all schedules and exhibits hereto, and all documents and certificates to be delivered by the Parties pursuant hereto collectively represent the entire understanding and agreement between Buyer and Seller with respect to the subject matter hereof. Notwithstanding the foregoing or anything set forth in the Confidentiality Agreement, the Parties agree that the Confidentiality

Agreement shall remain in full force and effect until the Closing hereunder and the return or destruction of all of the Evaluation Materials (as defined therein) with a certificate certifying to such destruction being delivered to the Parties. If this Agreement is terminated in accordance with its terms, the Confidentiality Agreement shall remain in full force and effect in accordance with its terms. All schedules and exhibits attached to this Agreement shall be deemed part of this Agreement and incorporated herein, where applicable, as if fully set forth herein. This Agreement supersedes all prior negotiations among Buyer and the Seller with respect to the transactions contemplated hereby, and all letters of intent and other writings relating to such negotiations, and cannot be amended, supplemented or modified except by an agreement in writing signed by Buyer and Seller which makes specific reference to this Agreement or an agreement delivered pursuant hereto, as the case may be.

10.8 Further Assurances. All Parties covenant that at any time, and from time to time, after the Closing Date, it or they will execute such additional instruments and take such actions as may be reasonably requested by any Party to effect the transactions contemplated by this Agreement.

10.9 Waiver of Compliance; Consents. Except as otherwise provided in this Agreement, any failure of either Party to comply with any obligation, representation, warranty, covenant, agreement or condition herein may be waived by the Party entitled to the benefits thereof, but such waiver or failure to insist upon strict compliance with such obligation, representation, warranty, covenant, agreement or condition shall not operate as a waiver of, or estoppel with respect to, any subsequent or other failure to comply.

10.10 Severability. It is the desire and intent of the Parties that the provisions of this Agreement be enforced to the fullest extent permissible under the Legal Requirements and public policies applied in each jurisdiction in which enforcement is sought. Accordingly, if any particular provision of this Agreement shall be adjudicated by a court of competent jurisdiction to be invalid, prohibited or unenforceable for any reason, so long as the economic or legal substance of the transactions contemplated hereby is not affected in any manner materially adverse to any Party, such provision, as to such jurisdiction, shall be ineffective, without invalidating the remaining provisions of this Agreement or affecting the validity or enforceability of this Agreement or affecting the validity or enforceability of such provision in any other jurisdiction. Notwithstanding the foregoing, so long as the economic or legal substance of the transactions contemplated hereby is not affected in any manner materially adverse to any Party, if such provision could be more narrowly drawn so as not to be invalid, prohibited or unenforceable in such jurisdiction, it shall, as to such jurisdiction, be so narrowly drawn, without invalidating the remaining provisions of this Agreement or affecting the validity or enforceability of such provision in any other jurisdiction.

10.11 Counterparts; Delivery of Signatures by Facsimile or Electronic Delivery. This Agreement may be signed in any number of counterparts with the same effect as if the signature on each such counterpart were upon the same instrument, and a facsimile transmission or electronic delivery of a manual signature shall be deemed to be an original signature.

10.12 No Third Party Beneficiaries. This Agreement constitutes an agreement solely among the Parties, and is not intended to and will not confer any rights, remedies, obligations or liabilities, legal or equitable on any Person (including any employee or former employee of the Seller) other than the Parties and their respective successors or permitted assigns and, solely with respect to Article 9, the Indemnitees, or otherwise constitute any Person a third party beneficiary under or by reason of this Agreement.

10.13 Construction; Disclosure Schedules. This Agreement has been negotiated by Buyer and the Seller and their respective legal counsel, and legal or equitable principles that might require the construction of this Agreement or any provision of this Agreement against the party drafting this Agreement shall not apply in any construction or interpretation of this Agreement. In this Agreement (a) the words "hereof," "herein," "hereto," "hereunder," and words of similar import may refer to this Agreement as a whole and not merely to a specific section, paragraph, or clause in which the respective word appears, (b) words importing gender include the other gender as appropriate, (c) any terms defined in this Agreement may, unless the context otherwise requires, be used in the singular or the plural depending on the reference, (d) unless otherwise stated, references to any Section, Article, Schedule or Exhibit are to such Section or Article of, or Schedule or Exhibit to, this Agreement, (e) the words "include," "includes", and "including" are deemed in each case to be followed by the words "without limitation," (f) the word "shall" denotes a directive and obligation, and not an option, (g) references to a Person are also to its permitted successors and assigns and (h) the word "extent" in the phrase "to the extent" means the degree

to which a subject or thing extends, and such phrase shall not simply mean "if." Any reference to any federal, state, local or foreign statute or law shall be deemed also to refer to all rules and regulations promulgated thereunder, unless the context requires otherwise, and any reference to any agreement, instrument or statute herein means such agreement, instrument or statute as from time to time amended, modified or supplemented, including (in the case of agreements or instruments) by waiver or consent and (in the case of statutes) by succession of comparable successor statutes and references to all attachments thereto and instruments incorporated therein. Except where expressly provided otherwise in this Agreement, whenever a Party hereto is allowed or required to provide a consent, approval or waiver or to take any discretionary action or make any discretionary determination with respect to any matter, unless the applicable provision explicitly states to the contrary, such consent, approval, waiver action or determination may be given, taken, made or withheld in such Party's sole, complete and absolute discretion. Disclosure of information included on any disclosure schedule (or portion of any disclosure schedule) shall be considered disclosures for all other disclosure schedules (or other portions of other disclosure schedules) to the extent that it is reasonably apparent from the face of such disclosure that such disclosure is applicable to such other disclosure schedules (or other portions of disclosure schedules). In addition, (a) the fact that any disclosure on any schedule is not required to be disclosed in order to render the applicable representation or warranty to which it relates true, or that the absence of such disclosure on any schedule would not constitute a breach of such representation or warranty, shall not be deemed or construed to expand the scope of any representation or warranty hereunder or to establish a standard of disclosure in respect of any representation or warranty and (b) disclosure of a particular matter on any schedule shall not be construed to mean that such matter is material or would reasonably be expected to have a Material Adverse Effect.

10.14 Specific Performance. Seller acknowledges that the unique nature of the transactions contemplated by this Agreement may render money damages an inadequate remedy for the breach by Seller of its obligations under this Agreement. Seller agrees that in the event of such breach by Seller, absent any right of Seller at such time to terminate this Agreement in accordance with its terms, (i) Buyer may, upon proper action instituted by it, be entitled to seek a decree of specific performance of this Agreement, and (ii) such rights are cumulative and in addition to any other remedy to which Buyer may be entitled at law or equity; provided that Buyer may not exercise the right of specific performance so as to avoid the application of the risk of loss and other damages provisions of Sections 5.23, 6.1.11 or 6.2.6 or the indemnification provisions of Article 9 (including without limitation the application of the limitations therein on the survival of certain agreements, covenants, representations and warranties and the Basket Amount and Cap Limitation). Seller shall not be entitled to seek specific performance in order to cause Buyer to consummate the transaction contemplated by this Agreement.

(Signatures on following page.)

IN WITNESS WHEREOF, this Asset Purchase Agreement has been executed and delivered by authorized representatives of each of Buyer and Seller as of the date first above written.

SELLER:

By: _____
Name:
Title:

BUYER:

By: _____
Name:
Title:

Exhibit 2
Additional Contact Persons

Knology

Bruce Schoonover
Director, Regulatory Affairs
1241 O.G. Skinner Drive
West Point, GA 31833
(706) 645-3966
Bruce.schoonover@knology.com

Sunflower Broadband

Ralph Gage
Director, Special Projects
609 New Hampshire
Lawrence, KS 66044
(785) 832-7125
rgage@ljworld.com

Exhibit 3
Services and Operations

Knology has no plans to change the current terms and conditions of service or operations of the system solely as a consequence of the transaction.

Exhibit 4
Knology, Inc.'s
Officers, Directors, and Stockholders (more than 5% voting shares)

(a) Assignee and each party to the application holding an attributable interest	(b) Citizenship	(c) Relationship to transferee	(d) Number of shares	(e) Number of votes	(f) Percentage of votes
Knology of Kansas, Inc.	Incorporated in Delaware	Transferee			
Knology, Inc.	Incorporated in Delaware	Parent— Knology of Kansas, Inc.	—	—	100%
Officers of Knology, Inc.					
Rodger L. Johnson 800 Glengate Place Atlanta, GA 30328 Occupation: CEO and Chairman, Knology, Inc. 1241 O.G. Skinner Drive West Point, GA 31833	U.S.	CEO and Chairman, Knology, Inc.	680,559	680,559	1.85%
M. Todd Holt 2295 Glenn Brook Drive Auburn, AL 36830 Occupation: President and CFO, Knology, Inc. 1241 O.G. Skinner Drive West Point, GA 31833	U.S.	President and CFO, Knology, Inc.	154,296	154,296	0.42%
Bret T. McCants 5055 New Franklin Road Hogansville, GA 30230 Occupation: EVP of Operations, Knology, Inc. 1241 O.G. Skinner Drive West Point, GA 31833	U.S.	EVP Operations, Knology, Inc.	170,943	170,943	0.47%
John Treece 3206 Turkey Trot Way Opelika, AL 36801 Occupation: VP of Engineering and CTO, Knology, Inc. 1241 O.G. Skinner Drive West Point, GA 31833	U.S.	VP Engineering and CTO, Knology, Inc.	0	n/a	n/a

(a) Assignee and each party to the application holding an attributable interest	(b) Citizenship	(c) Relationship to transferee	(d) Number of shares	(e) Number of votes	(f) Percentage of votes
<p>Chad S. Wachter 1628 Lauren Lane Auburn, AL 36830</p> <p>Occupation: VP, General Counsel, and Secretary, Knology, Inc. 1241 O.G. Skinner Drive West Point, GA 31833</p>	U.S.	VP, General Counsel, and Secretary, Knology, Inc.	124,884	124,884	0.34%
Directors of Knology, Inc.					
<p>Rodger L. Johnson 800 Glengate Place Atlanta, GA 30328</p> <p>Occupation: CEO and Chairman, Knology, Inc. 1241 O.G. Skinner Drive West Point, GA 31833</p>	U.S.	CEO and Chairman, Knology, Inc.	680,559	680,559	1.85%
<p>Alan A. Burgess 1915 River Falls Drive Roswell, GA 30076</p> <p>Occupation: Retired</p>	U.S.	Director, Knology, Inc.	34,980	34,980	0.09%
<p>Donald W. Burton 614 West Bay Street Tampa, FL 33606</p> <p>Occupation: General Partner, The Burton Partnerships 565 Pine Drive Jackson, WY 83001-4643</p>	U.S.	Director, Knology, Inc.	4,868,689	4,868,689	13.25%
<p>Eugene I. Davis 5 Canoe Brook Drive Livingston, NJ 07039</p> <p>Occupation: CEO, Pirinate Consulting Group, LLC 5 Canoe Brook Drive Livingston, NJ 07039</p>	U.S.	Director, Knology, Inc.	17,535	17,535	0.05%

(a) Assignee and each party to the application holding an attributable interest	(b) Citizenship	(c) Relationship to transferee	(d) Number of shares	(e) Number of votes	(f) Percentage of votes
O. Gene Gabbard 102 Marseille Place Cary, NC 27511 Occupation: Limited Partner, Ballast Point Ventures 880 Carillon Parkway St. Petersburg, FL 33716	U.S.	Director, Knology, Inc.	110,707	110,707	0.30%
Campbell B. Lanier, III P.O. Box 510 West Point, GA 31833 Occupation: Chairman, ITC Holding Company, LLC 1791 O.G. Skinner Drive Suite A West Point, GA 31833	U.S.	Director, Knology, Inc.	933,073	933,073	2.54%
William H. Scott, III P.O. Box 510 West Point, GA 31833 Occupation: Entrepreneur 1791 O.G. Skinner Drive Suite A West Point, GA 31833	U.S.	Director, Knology, Inc.	135,568	135,568	0.37%
Five Percent (5%) Shareholders of Knology, Inc.					
Farallon Capital Management, LLC One Maritime Plaza Suite 2100 San Francisco, CA 94111 Person Authorized to Vote: William F. Mellin One Maritime Plaza Suite 2100 San Francisco, CA 94111 U.S. Citizen	Organized in Delaware	Shareholder, Knology, Inc.	3,342,394	3,342,394	9.10%
The Burton Partnerships 565 Pine Drive Jackson, WY 83001-4643 Person Authorized to Vote: Donald W. Burton 565 Pine Drive Jackson, WY 83001-4643	Organized in Delaware and Wyoming	Shareholder, Knology, Inc.	4,794,588	4,794,588	13.05%

(a) Assignee and each party to the application holding an attributable interest	(b) Citizenship	(c) Relationship to transferee	(d) Number of shares	(e) Number of votes	(f) Percentage of votes
<p>T. Rowe Price Associates, Inc. 100 E. Pratt Street Baltimore, MD 21202</p> <p>Person Authorized to Vote: David Oestreicher 100 E. Pratt Street Baltimore, MD 21202 U.S. Citizen</p>	<p>Incorporated in Maryland</p>	<p>Shareholder, Knology, Inc.</p>	<p>2,755,000</p>	<p>2,755,000</p>	<p>7.50%</p>
<p>Alydar Partners, LLC 222 Berkeley Street 17th Floor Boston, MA 02116</p> <p>Person Authorized to Vote: John A. Murphy 222 Berkeley Street 17th Floor Boston, MA 02116 U.S. Citizen</p>	<p>Organized in Delaware</p>	<p>Shareholder, Knology, Inc.</p>	<p>1,871,557</p>	<p>1,871,557</p>	<p>5.06%</p>
<p>John A. Murphy 222 Berkeley Street 17th Floor Boston, MA 02116</p> <p>Occupation: Managing Member, Alydar Partners, LLC 222 Berkeley Street 17th Floor Boston, MA 02116</p>	<p>U.S.</p>	<p>Shareholder, Knology, Inc.</p>	<p>1,871,557</p>	<p>1,871,557</p>	<p>5.06%</p>

Exhibit 5
Financial Qualifications

Knology of Kansas, Inc. is a wholly-owned subsidiary of publicly-traded Knology, Inc. (NASDAQ: KNOL). We attach Knology, Inc.'s most recent SEC Form 10-K, including financial statements.

10-K 1 d10k.htm FORM 10-K

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2009

or

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

For the transition period from _____ to _____

COMMISSION FILE NUMBER: 000-32647

KNOLOGY, INC.

(Exact name of registrant as specified in its charter)

DELAWARE

(State or other jurisdiction of
incorporation or organization)

58-2424258

(I.R.S. Employer
Identification No.)

KNOLOGY, INC.

1241 O.G. SKINNER DRIVE
WEST POINT, GEORGIA

(Address of principal executive offices)

31833

(Zip Code)

Registrant's telephone number, including area code: (706) 645-8553

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

<u>Title of Each Class</u>	<u>Name of Exchange on Which Registered</u>
Common Stock, \$0.01 par value	The NASDAQ Stock Market, LLC

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

Options to Purchase Shares of Common Stock

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its 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 registrant was 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 registrant's 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. "

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer "

Accelerated filer ☒

Non-accelerated filer "

Smaller reporting company "

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes " No ☒

The aggregate market value of the outstanding common equity held by non-affiliates of the registrant at June 30, 2009, computed by reference to the closing price for such stock on the NASDAQ Global Market on such date, was approximately \$203.7 million.

The number of shares outstanding of the registrant's common stock as of February 28, 2010 was 36,781,623 shares.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the registrant's definitive proxy statement relating to its 2010 Annual Meeting of Stockholders are incorporated by reference into Part III of this Annual Report on Form 10-K where indicated.

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This Annual Report on Form 10-K for the year ended December 31, 2009 contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 including, specifically, the information under the captions "Business" and "Management's Discussion and Analysis of Financial Condition and Results of Operations," as well as other places in this annual report. Statements in this annual report that are not historical facts are "forward-looking statements." Such forward-looking statements include those relating to:

- our anticipated capital expenditures;
- our anticipated sources of capital and other funding;
- plans to develop future networks and upgrade facilities;
- the current and future markets for our services and products;
- consumers' reactions to current and future general economic conditions;
- the effects of regulatory changes on our business;
- competitive and technological developments;
- possible acquisitions, alliances or dispositions; and
- projected revenues, liquidity, interest costs and income.

The words "estimate," "project," "intend," "expect," "believe," "may," "could," "plan," "will," "should" and similar expressions are intended to identify forward-looking statements. Wherever they occur in this annual report or in other statements attributable to us, forward-looking statements are necessarily estimates reflecting our best judgment. These statements relate to future events or our future financial performance and involve known and unknown risks, uncertainties and other factors that could cause our actual results, levels of activity, performance or achievements to differ materially from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements. The most significant of these risks, uncertainties and other factors are discussed above. We caution you to carefully consider these risks and those risks and uncertainties listed under the caption "Risk Factors" in this annual report and not to place undue reliance on our forward-looking statements. Except as required by law, we assume no responsibility for updating any forward-looking statements.

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For convenience in this annual report, "Knology," "we," "us," and "the Company" refer to Knology, Inc. and our consolidated subsidiaries, taken as a whole.

ITEM 1. BUSINESS

We were formed as a Delaware corporation in September 1998 and began trading publicly on the NASDAQ Global National Market in December 2003. We are a fully integrated provider of video, voice, data and advanced communications services to residential and business customers in ten markets in the Southeastern United States and two markets in the Midwestern United States. For the year ended December 31, 2009, our revenues were \$425.6 million and we had a net loss attributable to common stockholders of \$3.4 million. Video, voice, data and other revenues accounted for approximately 43%, 31%, 23% and 3%, respectively, of our consolidated revenues for the year ended December 31, 2009. We report an aggregate number of connections for video, voice and data services. For example, a single customer who purchases cable television, local telephone and Internet access services would count as three connections. As of December 31, 2009, we had approximately 693,871 total connections.

We provide our services over our wholly owned, fully upgraded minimum 750 MHz interactive broadband network. As of December 31, 2009, our network passed approximately 932,834 marketable homes, which are residential and business units passed by our broadband network that are listed in our database and which we do not believe are covered by exclusive arrangements with other providers of competing services. Our network is designed with sufficient capacity to meet the growing demand for high-speed and high-bandwidth video, voice and data services, as well as the introduction of new communications services.

We have operating experience in marketing, selling, provisioning, servicing and operating video, voice and data systems and services. We have delivered a bundled service offering for ten years, and we are supported by a management team with decades of experience operating video, voice and data networks. We provide a full suite of video, voice and data services in certain markets in Alabama, Florida, Georgia, Iowa, Minnesota, South Carolina, South Dakota and Tennessee, which are in the Southeastern and Midwestern regions of the United States. We offer our bundled service to all of our marketable passings.

We have built our Company through:

- construction and expansion of our broadband network to offer integrated video, voice and data services;
- organic growth of connections through increased penetration of services to new marketable homes and our existing customer base, along with new service offerings;
- upgrades of acquired networks to introduce expanded broadband services, including bundled voice and data services; and
- acquisitions of other broadband systems.

On January 4, 2008, we completed our acquisition of Graceba Total Communications Group, Inc. ("Graceba"), a voice, video and high-speed Internet broadband services provider in Dothan, Alabama. Our purchase of Graceba was a strategic acquisition that we believe fits well in our concentrated Southeastern footprint and combines companies with similar business models and philosophies, such as operating in secondary and tertiary markets, servicing bundled customers, providing solid financial margins and focusing on "best in class" customer service.

We used the \$59.0 million proceeds of our First Amendment to our Amended and Restated Credit Agreement and cash on hand to fund the \$75.0 million purchase price. The financial position and results of

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operations for Graceba are included in our consolidated statements since the date of acquisition. The acquisition has been accounted for in accordance with the Accounting Standards Codification ("ASC") Topic 805, "Business Combinations."

On November 17, 2009, we completed the acquisition of Private Cable Co., LLC ("PCL Cable"), a provider of video, voice and data services to residential and business customers in Athens and Decatur, Alabama for \$7.5 million cash. The acquisition was funded with cash on hand.

Website Access to SEC Filings

The Company makes its SEC filings, including its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to those reports, available free of charge on the Company's Internet website, www.knology.com, as soon as reasonably practicable after the reports are electronically filed with or furnished to the SEC.

Our Industry

In recent years, regulatory developments and advances in technology have substantially altered the competitive dynamics of the communications industry and blurred the lines among traditional video, voice and data providers. The Telecommunications Act of 1996 (the 1996 Act) and its implementation through Federal Communications Commission (FCC) regulation have encouraged competition in these markets. Advances in technology have made the transmission of video, voice and data on a single platform feasible and economical. Communications providers seek to bundle products to leverage their significant capital investments, protect market share in their core service offerings from new sources of competition and achieve operating efficiencies by providing more than one service over their networks at lower incremental costs while increasing revenue from the existing customer base.

Incumbent cable operators are working to expand their core services by offering a bundled package of services, including the provision of Internet Protocol (IP) based voice services for their customers. Most of the major providers have rolled out or announced plans to roll out Voice over Internet Protocol (VoIP) services. Likewise, incumbent telephone providers are expanding their services to include the bundled package of services. Many are providing dial-up or Digital Subscriber Line (DSL) Internet access to their customers and some are offering video service via third-party satellite companies. In addition, some telephone providers are offering video services over their networks.

We believe the future of the industry will include a broader competitive landscape in which communications providers will offer bundled video, voice and data services and compete with each other based on scope and depth of the service offering, pricing, customer service and convenience.

Our Strategy

Our goal is to be the leading provider of integrated broadband communications services to residential and business customers in our target markets and to fully leverage the capacity and capability of our interactive broadband network. The key components of our strategy include:

- *Focus on offering fully integrated bundles of video, voice and data services.* We provide video, voice and data services over our broadband network and promote the adoption of these services by new and existing customers in bundled offerings. Bundling is central to our operating strategy and provides us with meaningful revenue opportunities, enables us to increase penetration and operating efficiencies, facilitates customer service, and reduces customer acquisition and installation costs. We believe that offering our customers a bundle of video, voice and data services allows us to maximize the revenue generating capability of our network, increase revenue per customer, provide greater pricing flexibility and promote customer retention.

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- *Leverage our broadband network to provide new services.* We built our high-capacity, interactive broadband network with fiber optics as close to the customer as economically feasible. Our entire network is a minimum of 750MHz, which enables us to provide at least 750 MHz of capacity and two-way capability to all of our homes passed in these markets. We have invested in advanced technology platforms that support advanced communications services and multiple emerging interactive services such as video-on-demand, subscriber video-on-demand, digital video recorder, high-definition television, hosted IP Centrex services, SIP trunking, pure fiber services and Gigabit Ethernet services that allow for IP based voice and data services in all of our markets.
- *Deliver industry-leading customer service.* Outstanding customer service is a critical element of our operating philosophy. We deliver personalized and responsive customer care 24 hours a day, seven days a week through our Augusta, Georgia and Sioux Falls, South Dakota call centers. Through our network operations center (NOC), we monitor and evaluate network performance and quality of service. Our philosophy is to be proactive in retaining customers rather than reactive, and we strive to resolve service delivery problems prior to the customer becoming aware of them. Because we own our network and actively monitor our digital services from a centralized location to the customer premises, we have greater control over the quality of the services we deliver to our customers and, as a result, the overall customer experience. We have an enterprise management system that enhances our service capability by providing us with a single platform for sales, provisioning, customer care, trouble ticketing, credit control, scheduling and dispatch of service calls, as well as providing our customers with a single bill for all services.
- *Pursue expansion opportunities.* We have a history of acquiring, integrating, upgrading and expanding systems, enabling us to offer bundled video, voice and data services and increasing our revenue opportunity, penetration and operating efficiency. To augment our organic growth, we will pursue value-enhancing expansion opportunities meeting our target market criteria that allow us to leverage our experience as a bundled broadband provider and endorse our operating philosophy of delivering profitable growth. These opportunities include acquisitions and fill-in and edge-out expansion in existing markets. We will continue to evaluate growth opportunities based on targeted return requirements and access to capital.

Our Interactive Broadband Network

Our network is critical to the implementation of our operating strategy, allowing us to offer bundled video, voice and data services to our customers in an efficient manner and with a high level of service. In addition to providing high capacity and scalability, our network has been specifically engineered to have increased reliability, including features such as:

- redundant fiber routing and use of the Synchronous Optical Network (SONET) protocol which enables the rapid, automatic redirection of network traffic in the event of a fiber cut;
- back-up power supplies in our network which ensure continuity of our service in the event of a power outage; and
- network monitoring to the customer premises for all digital video, voice and data services.

Technical Overview

Our interactive broadband network consists of fiber-optic cable, coaxial cable and copper wire. Fiber-optic cable is a communications medium that uses hair-thin glass fibers to transmit signals over long distances with minimum signal loss or distortion. In most of our network, our system's main high capacity fiber-optic cables connect to multiple nodes throughout our network. These nodes are connected to individual homes and buildings by coaxial cable and are shared by a number of customers, generally 500 homes. We have sufficient fibers in our cables to further subdivide our nodes to 125 homes if growth so dictates. Our network has excellent broadband frequency characteristics and physical durability, which is conducive to providing video, voice service and data transmission.

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As of December 31, 2009, our network consisted of approximately 13,000 miles of network, passed approximately 932,834 marketable homes and served approximately 693,871 connections. Our interactive broadband network is designed using redundant fiber-optic cables. Our SONET rings are "self-healing," which means that they provide for the very rapid, automatic redirection of network traffic so that our service will continue even if there is a single point of failure on a fiber ring.

We distribute our bundled services from locations called hub sites, each of which is equipped with a generator and battery back-up power source to allow service to continue during a power outage. Additionally, individual nodes that are served by hubs are equipped with back-up generators or batteries. Our redundant fiber-optic cables and network powering systems allow us to provide circuit-based voice services consistent with industry reliability standards for traditional telephone systems.

We monitor our network 24 hours a day, seven days a week from our NOC in West Point, Georgia. Technicians in each of our service areas schedule and perform installations and repairs and monitor the performance of our interactive broadband network. We actively maintain the quality of our network to minimize service interruptions and extend the network's operational life.

Video

We offer video services over our network in the same way that other traditional cable companies provide cable TV service. Our network is designed for an analog and digital two-way interactive transmission with fiber-optic cable carrying signals from the headend to hubs and to distribution points (nodes) within our customers' neighborhoods, where the signals are transferred to our coaxial cable network for delivery to our customers.

Voice

We offer telephone service over our broadband network in much the same way local phone companies provide service. We install a network interface box outside a customer's home or an Embedded Multimedia Terminal Adapter (EMTA) in the home to provide dial tone service. Our network interconnects with those of other local phone companies. We provide long-distance service using leased facilities from other telecommunications service providers. We have multiple Class 4 and Class 5 full-featured switches located in West Point, Georgia; Huguley and Ashford, Alabama; and Rapid City and Viborg, South Dakota that direct all of our voice traffic and allow us to provide enhanced custom calling services. We also operate telephone systems in Valley and Ashford, Alabama; West Point, Georgia; and Viborg, South Dakota where we are the rural incumbent telephone companies.

Data

We provide Internet access using high-speed cable modems in much the same way customers receive Internet services over modems linked to the local telephone network. We provide our customers with a high level of data transfer rates through multiple peering arrangements with tier-one Internet facility providers.

Our Bundled Service Offering

We offer a complete solution of video, voice and data services in all of our markets.

We offer a broad range of service bundles designed to address the varying needs and interests of existing and potential customers. We sell individual services at prices competitive to those of the incumbent providers, but attractively price additional services from our bundle. Bundling our services enables us to increase penetration, average revenue per customer (ARPC) and operating efficiencies, facilitate customer service, reduce customer acquisition and installation costs, and increase customer retention.

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Our bundled strategy means that we may deliver more than one service to each customer, and therefore we report an aggregate number of connections for video, voice and data services. For example, a single customer who purchases video, voice and data services would count as three connections.

Video Services

We offer our customers a full array of video services and programming choices. Customers generally pay initial connection charges and fixed monthly fees for video service.

Our video service offering comprises the following:

- *Analog Cable Service:* All of our video customers receive a package of basic programming, which generally consists of local broadcast television and local community programming, including public, educational and government access channels. The expanded basic level of programming includes approximately 65 channels of satellite-delivered or non-broadcast channels, such as ESPN, MTV, USA, CNN, The Discovery Channel, Nickelodeon and various home shopping networks.
- *Digital Cable Service, HD channels, and Premiums:* This digital level of service includes approximately 275 channels of digital programming, including our expanded basic cable service and approximately 46 music channels. We have introduced new service offerings to strengthen our competitive position and generate additional revenues, including high definition TV, digital video recorder, video-on-demand and subscription video-on-demand. Video-on-demand permits customers to order movies and other programming on demand with DVD-like functions on a fee-per-viewing basis. Subscription video-on-demand is a similar service that has specific content available from our premium channel offerings for an incremental charge.
- *Premium Channels:* These channels, such as HBO, Showtime, Starz, Encore and Cinemax, provide commercial-free movies, sports and other special event entertainment programming and are available at an additional charge above our expanded basic and digital tiers of services.

Our platform enables us to provide an attractive service offering of extensive programming as well as interactive services.

Voice Services

Our voice services include local and long-distance telephone services. Our telephone packages can be customized to include different combinations of the following core services:

- local area calling plans;
- flat-rate local and long-distance plans;
- calling features; and
- measured and fixed rate toll packages based on usage.

For local service, our customers pay a fixed monthly rate, per month that includes custom and advanced calling features such as call waiting, caller ID, caller ID on TV and voicemail.

Residential Data Services

We offer tiered data services to residential customers that include always-on high-speed connections to the Internet using cable modems. Intronet, a high speed service aimed at first-time or dial-up Internet users, is offered at a download speed of one megabit per second, which is faster than traditional dial-up but slower than our typical high-speed service, and priced at a discount to our faster products. Our standard Internet product

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provides a targeted download speed of six megabits per second. The Edge product gives customers a higher download connection speed, offered at eight megabits per second. All three product offerings have been successful in capturing additional market share for us.

Our data packages generally include the following:

- specialized technical support 24 hours a day, seven days a week;
- access to exclusive local content, weather, national news, sports and financial reports;
- value-added features such as e-mail accounts, on-line storage, spam protection and parental controls; and
- a DOCSIS-compliant modem installed by a trained professional.

Business Voice and Data Services

Our broadband network also supports services to business customers, and accordingly, we have developed a full suite of products for small, medium and large enterprises. We offer the traditional bundled product offering to these business customers. We also have developed new products to meet the more complex voice and data needs of the larger business sector. We offer pure fiber services, which enable our customers to have T-1 voice services, data speeds of up to 1 gigabit per second on our fiber network, and office-to-office VLAN services that provide a secure and managed connection between customer locations. We have introduced our Matrix product offering, which can replace customers' aging, low functionality PBX products with an IP Centrex voice and data service that offers more flexible features at a lower cost. In addition, we have a SIP trunking service. It is a direct replacement for traditional telephone service used by large PBX customers and is delivered over our pure fiber services network and terminated via an Ethernet connection at the customer premise. We serve our business customers from locally based business offices with customer service and network support 24 hours a day, seven days a week.

Broadband Carrier Services

We use unused capacity on our network to offer wholesale services to other local and long distance telephone companies, Internet service providers and other integrated services providers, called broadband carrier services. This is additive to our core strategy and we believe our interactive broadband network offers other service providers a reliable and cost competitive alternative to other telecommunications service providers.

Customer Service

Customer service is an essential element of our operations and marketing strategy, and we believe our quality of service and responsiveness differentiates us from many of our competitors. A significant number of our employees are dedicated to customer service activities, including:

- sales and service upgrades;
- customer activations and provisioning;
- service issue resolutions; and
- administration of our customer satisfaction programs.

We provide customer service 24 hours a day, seven days a week. Our representatives are cross-trained to handle customer service transactions for all of our products and currently exceed the industry standards for call answer times. We operate two centralized customer service call centers in Augusta, Georgia and Sioux Falls, South Dakota, which handle all customer service transactions. In addition, we provide our business customers with a centralized Business Customer Care Center that is distinctly dedicated to our business customers 24 hours

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per day, 7 days per week. Also located in Augusta, Georgia, we have found this dedicated facility improves our responsiveness to customer needs and distinguishes our product in the market. We believe it is a competitive advantage to provide our customers with the convenience of a single point of contact for all customer service issues for our video, voice and data service offerings and is consistent with our bundling strategy.

We monitor our network 24 hours a day, seven days a week. Through our network operations center, we monitor our digital video, voice and data services to the customer level and our analog video services to the node level. We strive to resolve service delivery problems prior to the customer being aware of any service interruptions.

Sales and Marketing

We believe that we were the first-to-market service provider of a bundled video, voice and data communications service package in each of our current markets, except the Pinellas market, which we entered via acquisition at the end of 2003. Our sales and marketing materials emphasize the convenience, savings and improved service that can be obtained by subscribing to our bundled services.

We position ourselves as the local provider of choice in our markets, with a strong local customer interface and community presence, while simultaneously taking advantage of economies of scale from the centralization of certain marketing functions.

We have a sales staff in each of our markets including managers and direct sales teams for both residential and business services. Our standard residential team consists of direct sales, front counter sales and local market coordination as well as support personnel. Our business services sales team consists of our account executives, specialized business installation coordinators and dedicated installation service teams. Our call center sales team handles all inbound and outbound telemarketing sales for residential and business services.

Our sales team is cross-trained on all our products to support our bundling strategy. The sales team is compensated based on new connections or revenue and is therefore motivated to sell more than one product to each customer. Our marketing and advertising strategy is to target bundled service prospects utilizing a broad mix of media tactics including broadcast television, cross channel cable spots, radio, newspaper, outdoor space, Internet and direct mail. We have utilized database-marketing techniques to shape our offers, segment and target our prospect base to increase response and reduce acquisition costs.

We have implemented customer relationship management and retention techniques, as well as customer referral tactics, including newsletters and personalized e-mail communications. These programs are designed to increase loyalty and retention and to vertically integrate our current base of customers.

Pricing for Our Products and Services

We attractively price our services to promote sales of bundled packages. We offer bundles of two or more services with tiered features and prices to meet the demands of a variety of customers. The bundles significantly reduce the number of plans our sales and call center personnel handle, simplifying the customer's experience and reducing the products supported in the billing system. Product acceptance by new and existing customers has been strong.

We also sell individual services at prices competitive to those of the incumbent providers. An installation fee is charged to new and reconnected customers. We charge monthly fees for customer premise equipment.

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We purchase some of our programming directly from the program networks by entering into affiliation agreements with the programming suppliers. We also benefit from our membership with the National Cable Television Cooperative (NCTC), which enables us to take advantage of volume discounts. As of December 31, 2009, approximately 72% of our programming was sourced from the cooperative, which also handles our contracting and billing arrangements on this programming.

Markets***Current Markets***

As of December 31, 2009, we served the following markets with our interactive broadband network:

<u>Year Added</u>	<u>Source</u>	<u>Market</u>	<u>Marketable Homes 12/31/2009</u>	<u>Year Services First Offered By Knology</u>		
				<u>Video</u>	<u>Voice</u>	<u>Data</u>
1995	Acquired	Montgomery, AL	95,026	1995	1997	1997
1995	Acquired	Columbus, GA	74,363	1995	1998	1998
1997	Acquired	Panama City, FL	66,430	1997	1998	1998
1998	Acquired	Huntsville, AL	89,756	1998	1999	1999
1998	Built	Charleston, SC	72,682	1998	1998	1998
1998	Built	Augusta, GA	58,001	1998	1998	1998
1999	Acquired	West Point, GA	14,381	1999	1999	1999
2000	Built	Knoxville, TN	43,165	2001	2001	2001
2003	Acquired	Pinellas, FL	276,924	2003	2004	2003
2007	Acquired	Rapid City, SD	52,242	2007	2007	2007
2007	Acquired	Sioux Falls, SD	67,072	2007	2007	2007
2008	Acquired	Dothan, AL	22,792	2008	2008	2008

New Markets

We plan to evaluate expansion of our operations to other markets that have the critical mass, market conditions, demographics and geographical location consistent with our business strategy. We will evaluate target cities that have the following characteristics, among others:

- targeted return requirements;
- an average of at least 70 homes per mile;
- competitive dynamics that allow us to be the leading provider of integrated video, voice and data services; and
- conditions that will afford us the opportunity to capture a substantial number of customers.

Competition

We have at least one competitor in each market. Our competition comes from a variety of communications companies because of the broad number of video, voice and data services we offer. Competition is based on service, content, reliability, bundling, value and convenience. Virtually all markets for video, voice and data services are extremely competitive, and we expect that competition will intensify in the future. Our competitors are often larger, better-financed companies with greater access to capital resources. These incumbents presently have numerous advantages as a result of their historic monopolistic control of their respective markets, brand recognition, economies of scale and scope and control of limited conduit relationships.

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Video Services

Cable television providers. Cable television systems are operated under non-exclusive franchises granted by local authorities, which may result in more than one cable operator providing video services in a particular market. Other cable television operations exist in each of our current markets and many of those operations have long-standing customer relationships with the residents in those markets. Our competitors currently include Bright House Networks (Bright House), Charter Communications, Inc. (Charter), Comcast Corporation (Comcast), Mediacom Communication Corporation (Mediacom), Midcontinent Communications (Midco) and Time Warner Cable, Inc. (Time Warner). We also encounter competition from direct broadcast satellite systems, including Direct TV, Inc. (DirecTV) and Echostar Communications Corporation (Dish Networks) that transmit signals to small dish antennas owned by the end-user.

Competition from direct broadcast satellites could become significant as developments in technology increase satellite transmitter power and decrease the cost and size of equipment. Additionally, providers of direct broadcast satellites are not required to obtain local franchises or pay franchise fees. The Intellectual Property and Communications Omnibus Reform Act of 1999 permits satellite carriers to carry local television broadcast stations and is expected to enhance satellite carriers' ability to compete with us for customers. As a result, we expect competition from these companies to increase.

Other television providers. Cable television distributors may, in some markets, compete for customers with other video programming distributors and other providers of entertainment, news and information. Alternative methods of distributing the same or similar video programming offered by cable television systems exist. Congress and the FCC have encouraged these alternative methods and technologies in order to offer services in direct competition with existing cable systems. These competitors include local telephone companies and Internet content providers.

We compete with systems that provide multichannel program services directly to hotel, motel, apartment, condominium and other multiunit complexes through a satellite master antenna—a single satellite dish for an entire building or complex. These systems are generally free of any regulation by state and local governmental authorities. Pursuant to the 1996 Act, these systems, called satellite master antenna television systems, are not commonly owned or managed and do not cross public rights-of-way and, therefore, do not need a franchise to operate.

The 1996 Act eliminated many restrictions on local telephone companies offering video programming and we may face increased competition from those companies. Several major local telephone companies, including AT&T Inc. (AT&T, CenturyTel, Inc. (CenturyTel), Qwest Communications (Qwest) and Verizon Communications Inc. (Verizon), started to provide video services to homes.

In addition to other factors, we compete with these companies using programming content, including the number of channels and the availability of local programming. We obtain our programming by entering into contracts or arrangements with video programming suppliers. A programming supplier may enter into an exclusive arrangement with one of our video competitors, creating a competitive disadvantage for us by restricting our access to programming.

Voice Services

In providing local and long-distance voice services, we compete with the incumbent local phone company, various long-distance providers and VoIP telephone providers in each of our markets. AT&T, CenturyTel, Qwest and Verizon are the incumbent local phone companies in our current markets and are particularly strong competitors. We also compete with a number of providers of long-distance telephone services, such as AT&T, CenturyTel (which acquired Embarq Communications in 2009) and Verizon. In addition, we compete with a variety of smaller, more regional, competitors that lease network components from AT&T, CenturyTel, Qwest or Verizon and focus on the commercial segment of our markets.

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We expect to continue to face intense competition in providing our telephone and related telecommunications services. The 1996 Act allows service providers to enter markets that were previously closed to them. Incumbent local exchange carriers (ILECs) are no longer protected from significant competition in local service markets.

We are anticipating an increase in the deployment of VoIP telephone services. Following years of development, VoIP has been deployed by a variety of service providers including the other Multiple System Operators (MSOs) that we compete against and independent service providers such as Vonage Holding Corporation. Unlike circuit switched technology, this technology does not require ownership of the last mile and eliminates the need to rent the last mile from the Regional Bell Operating Companies (RBOCs). VoIP is essentially a data service and can be more feature-rich than traditional circuit-switched telephone service. The VoIP providers have differing levels of success based on their brand recognition, financial support, technical abilities, and legal and regulatory decisions.

Wireless telephone service is viewed by some consumers as a supplement to, and sometimes a replacement for, traditional telephone service. Wireless service is priced on a flat-rate or usage-sensitive basis and rates are decreasing quarterly. We expect there to be more competition between providers of wireless and traditional telephone service in the future.

Data Services

Competition for data services is rapidly growing in each of our markets, coming from cable television companies, ILECs that provide dial-up and DSL services, and satellite and other wireless Internet access services. Some of our competitors benefit from greater experience, resources, marketing capabilities and name recognition. The incumbent cable television company in each of our markets currently offers high-speed Internet access services for both residential and business customers. The data offerings from the competitors include a range of services from DSL to gigabit Ethernet.

A large number of companies provide businesses and individuals with Internet access and a variety of supporting services. These companies can offer services over traditional telephone networks or broadband data networks. Our services are offered via pure and hybrid fiber network connections. Additional services include spam filtering, email, private web space, online storage, customizable news and entertainment content.

Bundled Services

Most of our competitors have deployed their own versions of the triple-play bundle in our markets. Comcast, Charter, Bright House, Mediacom, Midco and other MSOs have launched VoIP and thereby enabled their third service offering.

AT&T, CenturyTel, Qwest and Verizon initiated agreements/partnerships with satellite providers enabling their third service offering, video. AT&T (U-Verse), CenturyTel and Verizon (FiOS) have begun to provide video via their broadband networks. Thus far, only Verizon (FiOS) has deployed broadband video in one of our markets (a portion of Pinellas).

Knology believes that its emphasis on customer service must continue to be a strategic initiative, and the additional focus on technology and deploying broadband data applications is the way to retain and attract customers.

Legislation and Regulation

We operate in highly regulated industries and both our cable television and telecommunications voice services are subject to regulation at the federal, state and local levels. Our Internet services are subject to more

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limited regulation. The following is a summary of laws and regulations affecting the growth and operation of the cable television and telecommunications industries. It does not purport to be a complete summary of all present and proposed legislation and regulations pertaining to our operations.

Regulation of Cable Services

The FCC, the principal federal regulatory agency with jurisdiction over cable television, has promulgated regulations covering many aspects of cable television operations. The FCC may enforce its regulations through the imposition of fines, the issuance of cease and desist orders and/or the imposition of other administrative sanctions. A brief summary of certain key federal regulations follows.

Rate regulation. The Cable Television Consumer Protection and Competition Act of 1992 (the 1992 Cable Act) authorized rate regulation for certain cable services and equipment. It also eliminated oversight by the FCC and local franchising authorities of all but the basic service tier. Cable service rate regulation does not apply where a cable operator demonstrates to the FCC that it is subject to effective competition in the community. We are not currently subject to rate regulation in any of our markets.

Program access. To promote competition between incumbent cable operators and independent cable programmers, the 1992 Cable Act placed restrictions on dealings between cable programmers and cable operators. Satellite video programmers affiliated with cable operators are prohibited from favoring those cable operators over competing distributors of multichannel video programming, such as satellite television operators and competitive cable operators such as us. The existing ban on these exclusive contracts will remain in place until October 5, 2012.

The Communications Act of 1934, as amended (the Communications Act) requires cable systems with 36 or more channels must make available a portion of their channel capacity for commercial leased access by third parties to facilitate competitive programming efforts. We have not been subject to many requests for carriage under the leased access rules. However, the FCC has modified the way that cable operators must calculate their rates for such access. It is possible that, unless this change is reversed on appeal, there may be more carriage requests in the future. We cannot assure that we would be able to recover our costs under the new methodology or that the use of our network capacity for such carriage would not materially impact our ability to compete effectively in our markets.

Carriage of broadcast television signals. The 1992 Cable Act established broadcast signal carriage requirements that allow local commercial television broadcast stations to elect every three years whether to require the cable system to carry the station ("must-carry") or whether to require the cable system to negotiate for consent to carry the station (retransmission consent). The most recent election by broadcasters became effective on January 1, 2009. For local, non-commercial stations, cable systems are subject to limited must-carry obligations but are not required to renegotiate for retransmission consent. We now carry most stations pursuant to retransmission consent agreements and pay fees for such consents or have agreed to carry additional services. We carry other stations pursuant to must-carry elections.

All cable television systems must file a registration statement with the FCC and periodically file various informational reports with the FCC. Cable operators that operate in certain frequency bands, including us, are required on an annual basis to file the results of their periodic cumulative leakage testing measurements. Operators that fail to make this filing or who exceed certain leakage indices risk sanctions including being prohibited from operating in those frequency bands.

Franchise authority. Cable television systems operate pursuant to franchises issued by franchising authorities (which are the states, cities, counties or political subdivisions in which a cable operator provides cable service). Franchising authority is premised upon the cable operator's facilities crossing the public rights-of-way. Franchises must be nonexclusive. The terms of franchises, while variable, typically include requirements

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concerning service rates, franchise fees, construction timelines, mandated service areas, customer service standards, technical requirements, public, educational and government access channels, and channel capacity. Franchises often may be terminated, or penalties may be assessed, if the franchised cable operator fails to adhere to the conditions of the franchise. Although largely discretionary, the exercise of state and local franchise authority is limited by federal statutes and regulations adopted pursuant thereto. We believe that the conditions in our franchises are fairly typical for the industry. Our franchises generally provide for the payment of fees of 5% of cable service revenues.

On December 20, 2006, the FCC established rules and provided guidance pursuant to the Communications Act, prohibiting local franchising authorities from unreasonably refusing to award competitive franchises for the provision of cable services. In order to eliminate the unreasonable barriers to entry into the cable market, and to encourage investment in broadband facilities, the FCC preempted local laws, regulations, and requirements, including local level-playing-field provisions, to the extent they impose greater restrictions on market entry than those adopted under the order. This order benefits us by facilitating our provision of cable service in a more expeditious manner subject to fewer requirements imposed by local franchising authorities.

Many state legislatures have enacted legislation streamlining the franchising process, including having the state, instead of local governments, issue franchises. Of particular relevance to Knology, states with new laws include Florida, Georgia, Iowa, South Carolina and Tennessee. These laws enable Knology to expand its operations more rapidly and with fewer government-imposed obligations. At the same time, they enable easier entry by other providers into Knology's service territories.

Franchise renewal. Franchise renewal, or approval for the sale or transfer of a franchise, may involve the imposition of additional requirements not present in the initial franchise and although franchise renewal is not guaranteed, federal law imposes certain standards to prohibit the arbitrary denial of franchise renewal. Our franchises generally have 10 to 15 year terms, and we expect our franchises to be renewed by the relevant franchising authority. The 2006 FCC order discussed in the "Franchise authority" section above reduces the potential for unreasonable conditions being imposed during renewal.

Pole attachments. The 1996 Act requires all local telephone companies and electric utilities, except those owned by municipalities and co-operatives, to provide cable operators and telecommunications carriers (with the exception of ILECs) with nondiscriminatory access to poles, ducts, conduit and rights-of-way at just and reasonable rates, except where states have certified to the FCC that they regulate pole access and pole attachment rates. The right to access is beneficial to facilities-based providers such as us. Federal law also establishes principles to govern the pricing of and terms of such access. Currently, 19 states plus the District of Columbia have certified to the FCC, leaving pole attachment matters to be regulated by those states. Of the states in which we operate, none has certified to the FCC. The FCC has clarified that the provision of Internet services by a cable operator does not affect the agency's jurisdiction over pole attachments by that cable operator, nor does it affect the rate formula otherwise applicable to the cable operator.

Internet service. The FCC has rejected requests by some Internet service providers to require cable operators to provide unaffiliated Internet service providers with direct access to the operators' broadband facilities. Although the FCC has indicated a clear preference for minimizing regulation of broadband services, future regulation of cable modem service by federal, state or local government entities remains possible. The future regulation of cable modem service could have a material adverse effect on our business, results of operations and financial condition. See also "Regulation of Telecommunications Services—Regulatory treatment of cable modem service" below.

Tier buy-through. The tier buy-through prohibition of the 1992 Cable Act generally prohibits cable operators from requiring subscribers to purchase a particular service tier, other than the basic service tier, in order to obtain access to video programming offered on a per-channel or per-program basis. In general, a cable television operator has the right to select the channels and services that are available on its cable system. With the

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exception of certain channels, such as local broadcast television channels, that are required to be carried by federal law as part of the basic tier, as discussed above, the cable operator has broad discretion in choosing the channels that will be available and how those channels will be packaged and marketed to subscribers. In order to maximize the number of subscribers, the cable operator selects channels that are likely to appeal to a broad spectrum of viewers. If the Congress or the FCC were to place more stringent requirements on how we package our services, it could have an adverse effect on our profitability.

Potential regulatory changes. The regulation of cable television systems at the federal, state and local levels is subject to the political process and has seen constant change over the past decade. Material additional changes in the law and regulatory requirements, both those described above and others such as the regulatory fees we pay the FCC as a cable operator and wireless licensee, must be anticipated in the future, even if what those changes will be cannot be ascertained with any certainty at this time. Our business could be adversely affected by future regulations.

Regulation of Telecommunication Services

Our telecommunications services are subject to varying degrees of federal, state and local regulation. Pursuant to the Communications Act, as amended by the 1996 Act, the FCC generally exercises jurisdiction over the facilities of, and the services offered by, telecommunications carriers that provide interstate or international communications services. Barring federal preemption, state regulatory authorities retain jurisdiction over the same facilities to the extent that they are used to provide intrastate communications services, as well as facilities solely used to provide intrastate services. Local regulation is largely limited to management of the occupation and use of county or municipal public rights-of-way. Various international authorities may also seek to regulate the provision of certain services.

Regulation of Local Exchange Operations

Our four ILEC subsidiaries are regulated by both federal and state agencies. Our interstate products and services and the regulated earnings are subject to federal regulation by the FCC and our local and intrastate products and services and the regulated earnings are subject to regulation by state Public Service Commissions (PSCs). The FCC has principal jurisdiction over matters including, but not limited to, interstate switched and special access rates. It also regulates the rates that ILECs may charge for the use of their local networks in originating or terminating interstate and international transmissions. The PSCs have jurisdiction over matters including local service rates, intrastate access rates and the quality of service.

The Communications Act places certain obligations, including those described below, on ILECs to open their networks to competitive access as well as heightened interconnection obligations and a duty to make their services available to resellers at a wholesale discount rate. The following are certain obligations that the Communications Act and the 1996 Act place on ILECs, which gives us important rights to connect with the networks of ILECs in areas where we operate:

- *Interconnection.* Preempts laws that prohibit competition for local telephone services, establishes requirements and standards for local network interconnection, unbundling of network elements, and resale and requires ILECs to enter into mutual compensation arrangements with competing local exchange carriers (CLECs) for transport and termination of local calls on each other's networks.
- *Reciprocal Compensation.* Requires all ILECs and CLECs to complete calls originated by competing local exchange carriers under reciprocal arrangements at prices set by the FCC, public utilities commissions or at negotiated prices.
- *Collocation of Equipment.* Allows CLECs to install and maintain their own network equipment in ILEC central offices.

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- *Number Portability.* Requires all providers of telecommunications services, as well as providers of interconnected VoIP service, to permit users of telecommunications services to retain existing telephone numbers without impairment of quality, reliability or convenience when switching from one telecommunications provider to another. Although number portability generally benefits our CLEC operations, it represents a burden to Valley Telephone, Knology of the Valley, Inc., Knology Community Telephone and Knology Total Communications.
- *Dialing Parity.* Requires ILECs and CLECs to establish dialing parity so that all customers must dial the same number of digits to place the same type of call.
- *Access to Rights-of-Way.* Requires ILECs to permit competing carriers access to poles, ducts, conduits and rights-of-way at regulated prices.

We have state-PSC approved local interconnection agreements with AT&T, CenturyTel (which acquired Embarq Communications in 2009), Qwest, and Verizon for, among other things, the transport and termination of local telephone traffic. These arrangements are subject to changes as a result of changes in laws and regulations, and there is no guarantee that the rates and terms concerning our interconnection arrangements with incumbent local carriers under which we operate today will be available in the future.

Inter-Carrier Compensation

Our ILEC subsidiaries currently receive compensation from other telecommunications providers, including long distance companies, for origination and termination of interexchange traffic through network access charges that are established in accordance with state and federal laws. Accordingly, we benefit from the receipt of intrastate and interstate long distance traffic. The FCC and many PSCs are considering proposals to substantially reduce both access charges and reciprocal compensation payments. Also, recent federal court decisions have called into question whether access charges apply to traffic originating or terminating as VoIP traffic. See also "Regulatory treatment of VoIP services" below. Revenue arising out of inter-carrier compensation could be at risk as these proposals and decisions are implemented.

Regulatory treatment of VoIP services.

Currently, the FCC and state regulators do not treat most IP-enabled services, including those offering real time voice transmissions, as regulated telecommunications services. A number of providers are using VoIP to compete with our voice services, and some providers using VoIP may be avoiding certain regulatory burdens or access charges for interexchange services that might otherwise be due if such voice over IP offerings were subject to regulation. However, in March 2004, the FCC initiated a rulemaking proceeding to examine issues relating to IP-enabled services, including VoIP services. Although we cannot predict when or if the FCC will issue a final decision in this proceeding, the FCC has issued subsequent decisions that address on a piecemeal basis certain issues identified in the rulemaking. It is not clear whether future decisions from the FCC will clarify the extent to which it intends to assert exclusive jurisdiction over VoIP and other IP-enabled services. The FCC currently has before it a series of petitions for declaratory rulings requesting clarification on which parties are interexchange carriers for purposes of access charge liability on any IP-enabled traffic subject to access charges, whether interexchange carriers not directly connected to local exchange carriers ("LECs") can be subject to access charges, and whether intermediate, terminating ILECs can rely on certification by their customers that traffic is enhanced services traffic in making decisions regarding the routing of an intercarrier compensation for access traffic and other issues. (See also "—Forbearance and other relief to dominant carriers" below) Decisions and regulations adopted in these and other similar proceedings could lead to an increase in the costs of VoIP providers if they become subject to additional regulation, and may change the compensation structure for IP-enabled services. At this time, we are unable to predict the impact, if any, that additional regulatory action on these issues will have on our business. Other aspects of VoIP and Internet telephony services, such as regulations relating to the confidentiality of data and communications, copyright issues, taxation of services, cooperation with law enforcement, licensing and 911 emergency access, may be subject to federal or state regulation.

Table of Contents**Index to Financial Statements*****Forbearance and other relief to dominant carriers.***

The 1996 Act permits the FCC to forbear from requiring telecommunications carriers to comply with certain regulations if certain conditions that make the regulations unnecessary are present. Future reduction or elimination of federal regulatory requirements could free us from regulatory burdens, but also might increase the relative flexibility of our major competitors. As a result of grants of forbearance, our costs (and those of our competitors) of purchasing broadband services from carriers could increase significantly, as the rates, terms and conditions offered in non-tariffed "commercial agreements" may become less favorable and we may not be able to purchase services from alternative vendors. Changes to the rates, terms and conditions under which we purchase broadband services may increase our costs and, thus, may have a material adverse effect on our business, results of operations, and financial condition.

Regulatory treatment of cable modem services.

The FCC classifies cable modem services that do not contain a separate telecommunications service offering as "information services." As a result, cable modem providers are not required to comply with common carrier telecommunications obligations. However, the FCC could decide to apply common carrier-like obligations using its authority under the Communications Act. However, we have offered, and will likely continue to offer, access to our network on a wholesale basis. Notwithstanding the determination that cable modem services are "information services," the FCC could decide to impose certain common carrier obligations on providers of cable modem service. Currently, the FCC has an open proceeding to determine whether to impose universal service contribution obligations and other consumer oriented regulations, as well as local franchise and right-of-way requirements. If imposed, these obligations and requirements would likely increase the costs of providing cable modem service.

Access to, and competition in, multiple tenant properties by and among telecommunications carriers.

The FCC has prohibited telecommunications carriers from entering into exclusive access agreements with building owners or managers in both commercial and residential multi-tenant environments. The FCC has also adopted rules requiring utilities (including LECs) to provide telecommunications carriers (and cable operators) with reasonable and non-discriminatory access to utility-owned or controlled conduits and rights-of-way in all multiple tenant environments (e.g., apartment buildings, office buildings, campuses, etc.) in those states where the state government has not certified to the FCC that it regulates utility pole attachments and rights-of-way matters. These requirements may facilitate our access (as well as the access of competitors) to customers in multi-tenant environments, at least with regard to our provision of telecommunications services.

Customer proprietary network information.

FCC rules protect the privacy of certain information about customers that communications carriers, including us, acquire in the course of providing communications services. Such protected information, known as Customer Proprietary Network Information (CPNI), includes information related to the quantity, technological configuration, type, destination and the amount of use of a communications service. Certain states have also adopted state-specific CPNI rules. The FCC's rules require carriers to implement policies to notify customers of their rights, take reasonable precautions to protect CPNI, notify law enforcement agencies if a breach of CPNI occurs, and file a certification with the FCC stating that its policies and procedures ensure compliance. We filed our most recent compliance certificate with the FCC on February 27, 2009, stating that we use our subscribers' CPNI in accordance with applicable regulatory requirements. However, if a federal or state regulatory body determines that we have implemented the FCC's requirements incorrectly, we could be subject to fines or penalties. Additionally, the FCC is considering whether additional security measures should be adopted to prevent the unauthorized disclosure of sensitive customer information held by telecommunications companies.

Table of Contents**Index to Financial Statements*****Taxes and regulatory fees.***

We are subject to numerous local, state and federal taxes and regulatory fees, including but not limited to FCC regulatory fees and public utility commission regulatory fees. We have procedures in place to ensure that we properly collect taxes and fees from our customers and remit such taxes and fees to the appropriate entity pursuant to applicable law and/or regulation. If our collection procedures prove to be insufficient or if a taxing or regulatory authority determines that our remittances were inadequate, we could be required to make additional payments, which could have a material adverse effect on our business.

Environmental Regulation

We are subject to a variety of federal, state, and local environmental, safety and health laws, and regulations governing matters such as the generation, storage, handling, use, and transportation of hazardous materials, the emission and discharge of hazardous materials into the atmosphere, the emission of electromagnetic radiation, the protection of wetlands, historic sites, and endangered species and the health and safety of employees. We also may be subject to laws requiring the investigation and cleanup of contamination at sites we own or operate or at third-party waste disposal sites. Such laws often impose liability even if the owner or operator did not know of, or was not responsible for, the contamination. We operate several sites in connection with our operations. Our switch site and some customer premise locations are equipped with back-up power sources in the event of an electrical failure. Each of our switch site locations has battery and diesel fuel powered backup generators, and we use batteries to back-up some of our customer premise equipment. We believe that we currently are in compliance with the relevant federal, state, and local requirements in all material respects, and we are not aware of any liability or alleged liability at any operated sites or third-party waste disposal sites that would be expected to have a material adverse effect on us.

Franchises

As described above, cable television systems and local telephone systems generally are constructed and operated under the authority of nonexclusive franchises, granted by local and/or state governmental authorities. Franchises typically contain many conditions, such as time limitations on commencement and completion of system construction, customer service standards including number of channels, the provision of free service to schools and certain other public institutions and the maintenance of insurance and indemnity bonds. As of December 31, 2009, Knology held approximately 82 cable franchises. We are currently in the process of renegotiating one of our existing franchises in Huntsville, Alabama.

Local regulation of cable television operations and franchising matters is currently subject to federal regulation under the Communications Act and the corresponding regulations of the FCC. As discussed in the "Legislation and Regulation" section above, the FCC has taken recent steps toward streamlining the franchising process. See "Legislation and Regulation—Regulation of Cable Services" above.

Prior to the scheduled expiration of most franchises, we may initiate renewal proceedings with the relevant franchising authorities. The Cable Communications Policy Act of 1984 provides for an orderly franchise renewal process in which the franchising authorities may not unreasonably deny renewals. If a renewal is withheld and the franchising authority takes over operation of the affected cable system or awards the franchise to another party, the franchising authority must pay the cable operator the "fair market value" of the system. The Cable Communications Policy Act of 1984 also established comprehensive renewal procedures requiring that the renewal application be evaluated on its own merit and not as part of a comparative process with other proposals.

Employees

At December 31, 2009 we had 1,642 full-time employees. We consider our relations with our employees to be good, and we structure our compensation and benefit plans in order to attract and retain high-caliber

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personnel. We will need to recruit additional employees in order to implement our expansion plan, including general managers for each new city and additional personnel for installation, sales, customer service and network construction. We recruit from several major industries for employees with skills in video, voice and data technologies.

Executive Officers of the Registrant

Information regarding our executive officers is included in Item 10 of this annual report and incorporated herein by reference.

ITEM 1A. RISK FACTORS***Risks Related to Our Business*****We have a history of net losses and may not be profitable in the future.**

As of December 31, 2009, we had an accumulated deficit of \$626.4 million. Our ability to generate profits will depend in large part on our ability to increase our revenues to offset the costs of operating our network and providing services. If we cannot achieve and maintain operating profitability or positive cash flow from operating activities, our business, financial condition and operating results will be adversely affected.

Failure to obtain additional funding may limit our ability to expand our business.

As of December 31, 2009, we had working capital of \$26.0 million. If we expand our build out in existing or new markets, it will have to be funded by cash flow from operations or from additional financings. Because of our substantial indebtedness and potential adverse changes in the capital markets, our ability to raise additional capital on a timely basis and with acceptable terms or at all is uncertain, and our ability to make distributions or payments is subject to availability of funds and restrictions under our debt instruments and under applicable law. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources."

Our substantial indebtedness may adversely affect our cash flows, future financing and flexibility.

As of December 31, 2009, we had approximately \$610.5 million of outstanding indebtedness, including accrued interest, and our stockholders' deficit was \$33.9 million. We pay interest in cash on our credit facilities. Our level of indebtedness could adversely affect our business in a number of ways, including:

- we may have to dedicate a significant amount of our available funding and cash flow from operating activities to the payment of interest and the repayment of principal on outstanding indebtedness;
- depending on the levels of our outstanding debt and the terms of our debt agreements, we may have trouble obtaining future financing for working capital, capital expenditures, general corporate and other purposes, especially given the current volatility and disruption in the capital and credit markets and the deterioration of general economic conditions;
- high levels of indebtedness may limit our flexibility in planning for or reacting to changes in our business; and
- increases in our outstanding indebtedness and leverage will make us more vulnerable to adverse changes in general economic and industry conditions, as well as to competitive pressure.

We may not be able to make future principal and interest payments on our indebtedness.

We currently generate sufficient cash flow from operating activities to service our indebtedness. However, our ability to make future principal and interest payments on our debt depends upon our future performance, which is subject to general economic conditions, industry cycles and financial, business and other factors

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affecting our operations, many of which are beyond our control. It is difficult to assess the impact that the general economic downturn and recent turmoil in the capital and credit markets will have on future operations and financial results. We believe that the general economic downturn could result in reduced spending by customers and advertisers, which could reduce our revenues and our cash flows from operating activities from those that otherwise would have been generated. If we cannot grow and generate sufficient cash flow from operating activities to service our debt payments, we may be required, among other things to:

- seek additional financing in the debt or equity markets;
- refinance or restructure all or a portion of our debt;
- sell selected assets; or
- reduce or delay planned capital expenditures.

These measures may not be sufficient to enable us to service our debt. In addition, any such financing, refinancing or sale of assets may not be available on commercially reasonable terms, or at all, especially given the recent volatility and disruption in the capital and credit markets and the deterioration of general economic conditions in the United States.

Restrictions on our business imposed by our debt agreements could limit our growth or activities.

Our credit agreements place operating and financial restrictions on us and our subsidiaries. These restrictions affect, and any restrictions created by future financings will affect, our and our subsidiaries' ability to, among other things:

- incur additional debt;
- create or incur liens on our assets;
- make certain investments;
- use the proceeds from the sale of assets;
- pay cash dividends on or redeem or repurchase our capital stock;
- utilize excess liquidity except for debt reduction;
- engage in potential mergers and acquisitions, sale/leaseback transactions or other fundamental changes in the nature of our business; and
- make capital expenditures.

In addition, our credit facilities require us to maintain specified financial ratios, such as debt to EBITDA (earnings before income, taxes, depreciation and amortization) and EBITDA to cash interest. These limitations may affect our ability to finance our future operations or to engage in other business activities that may be in our interest. If we violate any of these restrictions or any restrictions created by future financings, we could be in default under our agreements and be required to repay our debt immediately rather than at scheduled maturity.

Weakening economic conditions may have a negative impact on our results of operations and financial condition.

During 2009, the global financial markets were in turmoil, and the equity and credit markets experienced extreme volatility, which caused already weak economic conditions to worsen. A substantial portion of our revenue comes from residential customers whose spending patterns may be affected by prevailing economic conditions. To the extent these conditions continue, customers may reduce the advanced or premium services to which they subscribe, or may discontinue subscribing to one or more of our video, voice or data services. This risk may be worsened by the expanded availability of free or lower cost competitive services, such as video

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streaming over the Internet, or substitute services, such as wireless phones. If these economic conditions continue to deteriorate, the growth of our business and results of operations may be adversely affected.

The soundness of financial institutions could adversely affect us.

Our ability to borrow under our credit facilities and to engage in other routine funding transactions could be adversely affected by the actions and commercial soundness of financial services institutions. Financial services institutions are interrelated as a result of trading, clearing, counterparty or other relationships. We have exposure to different counterparties, and we execute transactions with counterparties in the financial services industry, including commercial banks, investment banks and other financial institutions. Defaults by, or even rumors or questions about one or more financial services institutions, or the financial services industry generally, have led to market-wide liquidity problems and could affect our liquidity or lead to losses or defaults by us.

Our exposure to the credit risks of our customers, vendors and third parties could adversely affect our cash flow, results of operations and financial condition.

We are exposed to risks associated with the potential financial instability of our customers, many of whom may be adversely affected by the general economic downturn. Dramatic declines in the housing market over the past year, including falling home prices and increasing foreclosures, together with significant increases in unemployment, have severely affected consumer confidence and may cause increased delinquencies or cancellations by our customers or lead to unfavorable changes in the mix of products purchased. The general economic downturn also may affect advertising sales, as companies seek to reduce expenditures and conserve cash. Any of these events may adversely affect our cash flow, results of operations and financial condition.

In addition, we are susceptible to risks associated with the potential financial instability of the vendors and third parties on which we rely to provide products and services or to which we delegate certain functions. The same economic conditions that may affect our customers, as well as volatility and disruption in the capital and credit markets, also could adversely affect vendors and third parties and lead to significant increases in prices, reduction in output or the bankruptcy of our vendors or third parties upon which we rely. Any interruption in the services provided by our vendors or by third parties could adversely affect our cash flow, results of operation and financial condition.

We may not be able to integrate acquired businesses successfully.

Our future growth and profitability will depend in part on the success of integrating acquired operations into our operations. Our ability to successfully integrate such operations will depend on a number of factors, including our ability to devote adequate personnel to the integration process while still managing our current operations effectively. We may experience difficulties in integrating the acquired businesses, which could increase our costs or adversely impact our ability to operate our business.

Future acquisitions and joint ventures could strain our business and resources.

If we acquire existing companies or networks or enter into joint ventures, we may:

- miscalculate the value of the acquired company or joint venture;
- divert resources and management time;
- experience difficulties in integrating the acquired business or joint venture with our operations;
- experience relationship issues, such as with customers, employees and suppliers as a result of changes in management;
- incur additional liabilities or obligations as a result of the acquisition or joint venture; and
- assume additional financial burdens or dilution in connection with the transaction.

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Additionally, ongoing consolidation in our industry may reduce the number of attractive acquisition targets.

The demand for our bundled broadband communications services may be lower than we expect.

The demand for video, voice and data services, either alone or as part of a bundle, cannot readily be determined. Our business could be adversely affected if demand for bundled broadband communications services is materially lower than we expect. Our ability to generate revenue will suffer if the markets for the services we offer, including voice and data services, fail to develop, grow more slowly than anticipated or become saturated with competitors.

Competition from other providers of video services could adversely affect our results of operations.

To be successful, we will need to retain our existing video customers and attract video customers away from our competitors. Some of our competitors have advantages over us, such as long-standing customer relationships, larger networks, and greater experience, resources, marketing capabilities and name recognition. In addition, a continuing trend toward business combinations and alliances in cable television and in the telecommunications industry as a whole, as well as changes in the regulatory environment facilitating entry for additional providers of video service, may result in the emergence of significant new competitors for us. In providing video service, we currently compete with Bright House, Charter, Comcast, Mediacom, Midco and Time Warner. We also compete with satellite television providers, including DirecTV and Echostar. Legislation now allows satellite television providers to offer local broadcast television stations. This may reduce our current advantage over satellite television providers and our ability to attract and maintain customers.

The providers of video services in our markets have, from time to time, adopted promotional discounts. We expect these promotional discounts in our markets to continue into the foreseeable future and additional promotional discounts may be adopted. We may need to offer additional promotional discounts to be competitive, which could have an adverse impact on our revenues. In addition, incumbent local phone companies may market video services in their service areas to provide a bundle of services. As telephone service providers offer video services in our markets, it could increase our competition for our video and voice services and for our bundled services.

Competition from other providers of voice services could adversely affect our results of operations.

In providing local and long-distance telephone services, we compete with the incumbent local phone company in each of our markets. AT&T, CenturyTel, Qwest and Verizon are the primary ILECs in our targeted region. They offer both local and long-distance services in our markets and are particularly strong competitors. To succeed, we must also attract customers away from other telephone companies, such as CLECs and VoIP service providers. In the future, we may face other competitors, such as cable television service operators offering telephone services with Internet-based telephony. Cable operators offering voice services in our markets increase competition for our bundled services.

Competition from other providers of data services could adversely affect our results of operations.

Providing data services is a rapidly growing business and competition is increasing in each of our markets. Some of our competitors have advantages over us, such as greater experience, resources, marketing capabilities and name recognition. In providing data services, we compete with:

- local telephone companies that provide dial-up and DSL services;
- providers of wireless or satellite-based Internet access services; and
- cable television companies.

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In addition, some providers of data services have reduced prices and engaged in aggressive promotional activities. We expect these price reductions and promotional activities to continue into the foreseeable future and additional price reductions may be adopted. We may need to lower our prices for data services to remain competitive and this could adversely affect our results of operations.

Our programming costs are increasing, which could reduce our gross profit.

Programming has been our largest single operating expense and we expect this to continue. In recent years, the cable industry has experienced rapid increases in the cost of programming, particularly sports programming. Further, local commercial television broadcast stations are beginning to charge retransmission fees, similar to fees charged by other program providers. Our relatively small base of subscribers limits our ability to negotiate lower programming costs. We expect these increases to continue, and we may not be able to pass our programming cost increases on to our customers. In addition, as we increase the channel capacity of our systems and add programming to our expanded basic and digital programming tiers, we may face additional market constraints on our ability to pass programming costs on to our customers. Any inability to pass programming cost increases on to our customers would have an adverse impact on our gross profit. See "Item 1. Business—Legislation and Regulation—Regulation of Cable Services" for more information.

Programming exclusivity in favor of our competitors could adversely affect the demand for our video services.

We obtain our programming by entering into contracts or arrangements with programming suppliers. A programming supplier could enter into an exclusive arrangement with one of our video competitors that could create a competitive advantage for that competitor by restricting our access to this programming. If our ability to offer popular programming on our cable television systems is restricted by exclusive arrangements between our competitors and programming suppliers, the demand for our video services may be adversely affected and our cost to obtain programming may increase. See "Item 1. Business—Legislation and Regulation—Regulation of Cable Services—Program access" for more information.

The rates we pay for pole attachments may increase significantly.

The rates we must pay utility companies for space on their utility poles is the subject of frequent disputes. If these rates were to increase significantly or unexpectedly, it would cause our network to be more expensive to operate. It could also place us at a competitive disadvantage with video and telecommunications service providers who do not require or who are less dependent upon pole attachments, such as satellite providers and wireless voice service providers. See "Item 1. Business—Legislation and Regulation—Regulation of Cable Services—Pole attachments" for more information.

Loss of interconnection arrangements could impair our telephone service.

We rely on other companies to connect our local telephone customers with customers of other local telephone providers. We presently have access to AT&T's telephone network under a nine-state interconnection agreement, which expires on December 16, 2010. We have access to Verizon's telephone network in Florida under an interconnection agreement covering Florida. The initial term of this agreement expired on November 19, 2008. However, the agreement has provisions allowing it to continue in effect after the initial term until a new agreement is executed. Knology notified Verizon of its intent to continue operating under the existing agreement in November 2008. If the AT&T and Verizon agreements are terminated or not renewed, we could be adversely affected and our interconnection arrangements could be on terms less favorable than those we receive currently.

It is generally expected that the 1996 Act will continue to undergo considerable interpretation and implementation, including potential forbearance from federal regulation enforcing these carriers' statutory

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obligations, which could have a negative impact on our interconnection agreements with AT&T and Verizon. It is also possible that further amendments to the Communications Act may be enacted which could have a negative impact on our interconnection agreements with AT&T and Verizon. The contractual arrangements for interconnection and access to unbundled network elements with incumbent carriers generally contain provisions for incorporation of changes in governing law. Thus, future FCC, state public service commission and/or court decisions may negatively impact the rates, terms and conditions of the interconnection services we have obtained and may seek to obtain under these agreements, which could adversely affect our business, financial condition or results of operations. Our ability to compete successfully in the provision of services will depend on the nature and timing of any such legislative changes, regulations and interpretations and whether they are favorable to us or to our competitors. See "Item 1. Business —Legislation and Regulation" for more information.

We could be negatively impacted by future interpretation or implementation of regulations or legislation.

The current communications and cable legislation and regulations are complex and in many areas set forth policy objectives to be implemented by regulation at the federal, state and local levels. It is generally expected that the Communications Act, the 1996 Act and implementing regulations and decisions, as well as applicable state laws and regulations, will continue to undergo considerable interpretation and implementation. From time to time federal legislation, FCC and PSC decisions, or courts decisions interpreting legislation, FCC or PSC decisions, are made that can affect our business. We cannot predict the timing and the future financial impact of these legislation or decisions. Our ability to compete successfully will depend on the nature and timing of any such legislative changes, regulations and interpretations, and whether they are favorable to us or to our competitors. See "Item 1. Business —Legislation and Regulation" for more information.

In particular, the United States District Court for the District of Columbia in *PAETEC Communications, Inc. v. CommPartners*, recently held that the termination of VoIP-originated calls is an information service not subject to access charges and that a tariff imposing such charges lacks legal force. There have been inconsistent court, PSC and FCC decisions on this issue that raise concerns about collecting revenue related to the termination of VoIP originated calls on our telephone networks.

We operate our network under franchises that are subject to non-renewal or termination.

Our network generally operates pursuant to franchises, permits or licenses typically granted by a municipality or other state or local government controlling the public rights-of-way. Often, franchises are terminable if the franchisee fails to comply with material terms of the franchise order or the local franchise authority's regulations. Although none of our existing franchise or license agreements have been terminated, and we have received no threat of such a termination, one or more local authorities may attempt to take such action. We may not prevail in any judicial or regulatory proceeding to resolve such a dispute.

Further, franchises generally have fixed terms and must be renewed periodically. Local franchising authorities may resist granting a renewal if they consider either past performance or the prospective operating proposal to be inadequate. In a number of jurisdictions, local authorities have attempted to impose rights-of-way fees on providers that have been challenged as violating federal law. A number of FCC and judicial decisions have addressed the issues posed by the imposition of rights-of-way fees on CLECs and on video distributors. To date, the state of the law is uncertain and may remain so for some time. We may become subject to future obligations to pay local rights-of-way fees that are excessive or discriminatory.

The local franchising authorities can grant franchises to competitors who may build networks in our market areas. Recent FCC decisions facilitate competitive video entry by limiting the actions that local franchising authorities may take when reviewing applications by new competitors and lessen some of the burdens that can be imposed upon incumbent cable operators with which we ourselves compete. Local franchise authorities have the ability to impose regulatory constraints or requirements on our business, including those that could materially increase our expenses. In the past, local franchise authorities have imposed regulatory constraints on the

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construction of our network either by local ordinance or as part of the process of granting or renewing a franchise. They have also imposed requirements on the level of customer service we provide, as well as other requirements. The local franchise authorities in our markets may also impose regulatory constraints or requirements that may be found to be consistent with applicable law but which could increase our expenses in operating our business. See “Item 1. Business—Legislation and Regulation” for more information.

We may not be able to obtain telephone numbers for new voice customers in a timely manner.

In providing voice services, we rely on access to numbering resources in order to provide our customers with telephone numbers. A shortage of or a delay in obtaining new numbers from numbering administrators, as has sometimes been the case for LECs in the recent past, could adversely affect our ability to expand into new markets or enlarge our market share in existing markets.

We may encounter difficulties in implementing and developing new technologies.

We have invested in advanced technology platforms that support advanced communications services and multiple emerging interactive services, such as video-on-demand, subscriber video-on-demand, digital video recording, interactive television, IP Centrex services and pure fiber network services. However, existing and future technological implementations and developments may allow new competitors to emerge, reduce our network’s competitiveness or require expensive and time-consuming upgrades or additional equipment, which may also require the write-down of existing equipment. In addition, we may be required to select in advance one technology over another and may not choose the technology that is the most economic, efficient or attractive to customers. We may also encounter difficulties in implementing new technologies, products and services and may encounter disruptions in service as a result.

We may encounter difficulties expanding into additional markets.

To expand into additional cities, we will have to obtain pole attachment agreements, construction permits, telephone numbers and other regulatory approvals. Delays in entering into pole attachment agreements, receiving the necessary construction permits and conducting the construction itself have adversely affected our schedule in the past and could do so again in the future. Difficulty in obtaining numbering resources may also adversely affect our ability to expand into new markets. We may face legal or similar resistance from competitors who are already in markets we wish to enter. These difficulties could significantly harm or delay the development of our business in new markets. See “Item 1. Business—Legislation and Regulation—Regulation of Cable Services—Program access” for more information.

We depend on the services of key personnel to implement our strategy. If we lose the services of our key personnel or are unable to attract and retain other qualified management personnel, we may be unable to implement our strategy.

Our business is currently managed by a small number of key management and operating personnel. We do not have any employment agreements with, nor do we maintain “key man” life insurance policies on, these or any other employees. The loss of members of our key management and certain other members of our operating personnel could adversely affect our business.

Our ability to manage our anticipated growth depends on our ability to identify, hire and retain additional qualified management personnel. While we are able to offer competitive compensation to prospective employees, we may still be unsuccessful in attracting and retaining personnel, which could affect our ability to grow effectively and adversely affect our business.

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Since our business is concentrated in specific geographic locations, our business could be adversely impacted by a depressed economy and natural disasters in these areas.

We provide our services to areas in Alabama, Florida, Georgia, Iowa, Minnesota, South Carolina, South Dakota and Tennessee, which are in the Southeastern and Midwestern regions of the United States. A stagnant or depressed economy in the United States, and the Southeastern or Midwestern United States in particular, could affect all of our markets and adversely affect our business and results of operations.

Our success depends on the efficient and uninterrupted operation of our communications services. Our network is attached to poles and other structures in many of our service areas, and our ability to provide service depends on the availability of electric power. A tornado, hurricane, flood, mudslide or other natural catastrophe in one of these areas could damage our network, interrupt our service and harm our business in the affected area. In addition, many of our markets are close together, and a single natural catastrophe could damage our network in more than one market.

Risks Related to Relationships with Stockholders, Affiliates and Related Parties

A small number of stockholders control a significant portion of our stock and could exercise significant influence over matters requiring stockholder approval, regardless of the wishes of other stockholders.

As of February 28, 2010, The Burton Partnerships, our largest stockholder, owned approximately 13.0% of our common stock. Donald W. Burton, a member of our board of directors, owned or controlled approximately 13.2% of our common stock, including shares owned by The Burton Partnerships, of which Donald W. Burton is a general partner. Rodger L. Johnson, the Company's CEO and Chairman of the Board, owned approximately 1.8% of our common stock. Campbell B. Lanier, III, another member of our board of directors, and members of Mr. Lanier's immediate family owned approximately 2.5% of our common stock. As a result, these stockholders have significant voting power with respect to the ability to:

- authorize additional shares of capital stock or otherwise amend our certificate of incorporation or bylaws;
- elect our directors; or
- effect a merger, sale of assets or other corporate transaction.

The extent of ownership by these stockholders may also discourage a potential acquirer from making an offer to acquire us. This could reduce the value of our stock.

Risks Related to Our Common Stock

If we issue more stock in future offerings, the percentage of our stock that our stockholders own will be diluted.

As of February 28, 2010, we had 36,781,623 shares of common stock outstanding. We also had outstanding on that date options to purchase 4,746,173 shares of common stock and warrants to purchase 1,000,000 shares of common stock. Our authorized capital stock includes 200,000,000 shares of common stock and 199,000,000 shares of preferred stock, which our board of directors has the authority to issue without further stockholder action. Future stock issuances also will reduce the percentage ownership of our current stockholders.

Our board of directors has the authority to issue, without stockholder approval, shares of preferred stock with rights and preferences senior to the rights and preferences of the common stock. As a result, our board of directors could issue shares of preferred stock with the right to receive dividends and the assets of the company upon liquidation prior to the holders of the common stock.

Table of Contents**Index to Financial Statements****The value of our stock could be hurt by substantial price fluctuations.**

The value of our common stock could be subject to sudden and material increases and decreases. The value of our stock could fluctuate in response to:

- our quarterly operating results;
- changes in our business;
- changes in the market's perception of our bundled services;
- changes in the businesses or market perceptions of our competitors; and
- changes in general market or economic conditions.

In addition, the stock market has experienced extreme price and volume fluctuations in recent years, including the decline in the stock market in 2008-2009, that have significantly affected the value of securities of many companies. These changes often appear to occur without regard to specific operating performance. The value of our common stock could increase or decrease based on change of this type, and the value of our common stock has declined significantly since the third quarter of 2008. These fluctuations could materially reduce the value of our stock. Fluctuations in the value of our stock will also affect the value of our outstanding warrants and options, which may adversely affect stockholders' equity, net income or both.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None

ITEM 2. PROPERTIES

We have assets in Alabama, Florida, Georgia, Iowa, Minnesota, South Carolina, South Dakota and Tennessee. Our primary assets consist of voice, video and data distribution plant and equipment, including voice switching equipment, data receiving equipment, data decoding equipment, data encoding equipment, headend reception facilities, distribution systems and customer premise equipment.

Our plant and related equipment are generally attached to utility poles under pole rental agreements with public electric utilities, electric cooperative utilities, municipal electric utilities and telephone companies. In certain locations our plant is buried underground. We own or lease real property for signal reception sites. Our headend locations are located on owned or leased parcels of land.

We own or lease the real property and buildings for our market administrative offices, customer call centers, data center and our corporate offices.

The physical components of our broadband systems require maintenance as well as periodic upgrades to support the new services and products we may introduce. We believe that our properties are generally in good operating condition and are suitable for our business operations.

ITEM 3. LEGAL PROCEEDINGS

We are subject to litigation in the normal course of our business. However, in our opinion, there is no legal proceeding pending against us which would have a material adverse effect on our financial position, results of operations or liquidity. We are also a party to regulatory proceedings affecting the segments of the communications industry generally in which we engage in business.

ITEM 4. [RESERVED]

Table of Contents**Index to Financial Statements****PART II****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES****Market Information**

Our common stock has traded on the NASDAQ Global Market under the ticker symbol "KNOL" since December 18, 2003. The following table sets forth the high and low sales prices as reported on the NASDAQ Global Market for the period from January 1, 2008 through December 31, 2009.

	<u>High</u>	<u>Low</u>
2009		
Fourth Quarter	\$12.00	\$ 9.49
Third Quarter	\$10.18	\$ 7.67
Second Quarter	\$ 8.96	\$ 7.42
First Quarter	\$ 5.69	\$ 3.95
2008		
Fourth Quarter	\$ 8.03	\$ 3.70
Third Quarter	\$12.10	\$ 8.00
Second Quarter	\$15.87	\$10.84
First Quarter	\$13.89	\$ 8.47

Holders

As of February 28, 2010, there were approximately 396 stockholders of record of our common stock (excluding beneficial owners of shares registered in nominee or street name).

Dividends

We have never declared or paid any cash dividends on our common stock and do not anticipate paying cash dividends on our common stock in the foreseeable future. It is the current policy of our board of directors to retain earnings to finance the upgrade and expansion of our operations. We are further prohibited from paying dividends or repurchasing our shares pursuant to the terms of our credit agreement, except that we may use up to \$10 million of excess cash flow for the payment of dividends and share repurchases subject to a maximum leverage test. Future declarations and payments of dividends, if any, will be determined based on the then-current conditions, including our earnings, operations, capital requirements, financial condition, any restrictions in our debt agreements and other factors our board of directors deems relevant.

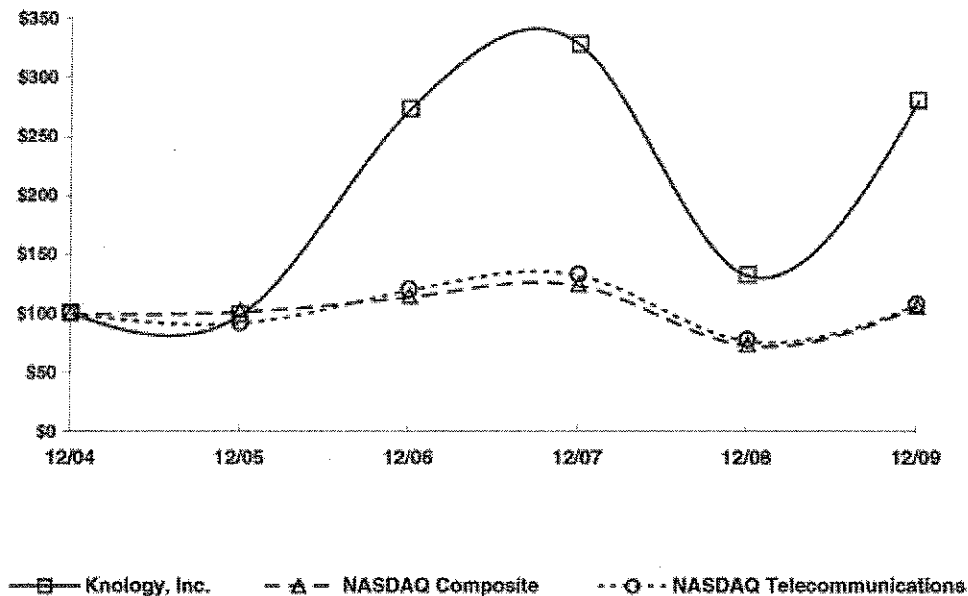
Table of ContentsIndex to Financial Statements**Comparison of Cumulative Total Stockholder Return**

The following graph and related information shall not be deemed "soliciting material" or to be "filed" with the SEC, nor shall such information be incorporated by reference into any future filings under the Securities Act of 1933 or the Securities Exchange Act of 1934, each as amended, except to the extent we specifically incorporate it by reference into such filing.

The following graph and table set forth our cumulative total stockholder return as compared to the NASDAQ Composite Index and the NASDAQ Telecommunications Index since the close of business on December 31, 2004. This graph assumes that \$100 was invested on December 31, 2004 and assumes reinvestment of all dividends.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*

Among Knology, Inc., The NASDAQ Composite Index
And The NASDAQ Telecommunications Index



*\$100 invested on 12/31/04 in stock or index, including reinvestment of dividends.
Fiscal year ending December 31.

As of December 31:

Knology, Inc.

NASDAQ Composite

NASDAQ Telecommunications

Cumulative Total Return					
2004	2005	2006	2007	2008	2009
\$100.00	\$ 98.46	\$272.82	\$327.69	\$132.31	\$280.00
100.00	101.33	114.01	123.71	73.11	105.61
100.00	91.66	119.67	132.55	77.09	107.17

There have been no recent sales of unregistered securities. Additionally, we did not repurchase any shares of our common stock during the fourth quarter ended December 31, 2009.

Table of ContentsIndex to Financial Statements**ITEM 6. SELECTED FINANCIAL DATA**

The selected financial data set forth below should be read in conjunction with "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations," our consolidated financial statements and the related notes, and other financial data included elsewhere in this annual report. The data include operating results from PrairieWave (acquired in April 2007), Graceba (acquired in January 2008) and Private Company Cable (acquired in November 2009).

	Year Ended December 31,				
	2005	2006	2007	2008	2009
	(in thousands, except per share)				
Statement of Operations Data:					
Operating revenues	\$230,857	\$258,991	\$ 347,652	\$ 410,230	\$425,565
Operating expenses:					
Direct costs	69,616	75,497	104,060	123,663	132,870
Selling, general and administrative (a)	113,529	116,191	138,509	151,724	148,728
Depreciation and amortization	74,490	68,189	85,776	95,375	90,702
Capital markets activity	62	1,623	219	0	0
Asset impairment and severance	334	0	0	0	0
Non-cash stock compensation	2,101	2,025	2,799	4,640	6,197
Litigation fees	46	0	0	0	0
Total operating expenses	260,178	263,525	331,363	375,402	378,497
Operating income (loss)	(29,321)	(4,534)	16,289	34,828	47,068
Interest expense, net	(33,645)	(33,722)	(40,622)	(46,586)	(40,976)
Loss on debt extinguishment	(544)	0	(27,375)	0	0
Gain (loss) on interest rate derivative instrument	267	(63)	(758)	0	12,096
Debt Modification Expense	0	0	0	0	(3,422)
Amortization of deferred loss on interest rate swaps	0	0	0	0	(18,299)
Gain (loss) on adjustments of warrants to market	37	(464)	(262)	0	0
Loss on investments	0	0	0	0	(353)
Other income (expense), net	(12)	25	(53)	(367)	479
Loss from continuing operations	(63,218)	(38,758)	(52,781)	(12,125)	(3,407)
Income from discontinued operations	8,404	0	8,863	0	0
Provision for income taxes	0	0	0	0	0
Net loss	(54,814)	(38,758)	(43,918)	(12,125)	(3,407)
Preferred stock dividends	(588)	(747)	0	0	0
Net loss attributable to common stockholders	<u>\$ (55,402)</u>	<u>\$ (39,505)</u>	<u>\$ (43,918)</u>	<u>\$ (12,125)</u>	<u>\$ (3,407)</u>
Basic and diluted net loss per share from continuing operations attributable to common stockholders	\$ (2.69)	\$ (1.41)	\$ (1.51)	\$ (0.34)	\$ (0.09)
Basic and diluted net loss per share attributable to common stockholders	\$ (2.33)	\$ (1.41)	\$ (1.25)	\$ (0.34)	\$ (0.09)
Other Financial Data:					
Capital expenditures	\$ 31,613	\$ 27,821	\$ 45,792	\$ 46,349	\$ 54,901
Cash provided by operating activities	18,818	30,543	57,507	79,977	104,157
Cash used in investing activities	(5,555)	(26,028)	(293,073)	(121,542)	(99,681)
Cash provided by (used in) financing activities	(7,162)	(5,121)	270,437	52,479	(17,822)

(a) excludes asset impairment and severance, non-cash stock compensation and litigation fees, each shown separately in this table.

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	2005	2006	December 31, 2007 (in thousands)	2008	2009
Balance Sheet Data:					
Net working capital	\$ (14,235)	\$ (9,670)	\$ 6,810	\$ 25,675	\$ 26,166
Property and equipment, net	285,638	243,831	403,476	379,710	357,880
Total assets	375,534	336,561	601,437	643,418	647,901
Noncurrent liabilities	271,167	271,301	562,938	632,690	591,514
Total liabilities	322,172	319,188	636,387	699,875	680,793
Accumulated deficit	(528,234)	(566,992)	(610,910)	(623,035)	(626,442)
Total stockholders' equity (deficit)	33,511	17,373	(34,950)	(56,457)	(33,892)

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

We are a fully integrated provider of video, voice, data and advanced communications services to residential and business customers in ten markets in the southeastern United States, as well as two markets in South Dakota. We provide a full suite of video, voice and data services in Huntsville, Montgomery and Dothan, Alabama; Panama City and portions of Pinellas County, Florida; Augusta, Columbus and West Point, Georgia; Charleston, South Carolina; Knoxville, Tennessee; and Rapid City and Sioux Falls, South Dakota, as well as portions of Minnesota and Iowa. Our primary business is the delivery of bundled communication services over our own network. In addition to our bundled package offerings, we sell these services on an unbundled basis.

We have built our business through:

- construction and expansion of our broadband network to offer integrated video, voice and data services;
- organic growth of connections through increased penetration of services to new marketable homes and our existing customer base, along with new service offerings;
- upgrades of acquired networks to introduce expanded broadband services, including bundled video, voice and data services; and
- acquisitions of other broadband systems;

The following discussion includes details, highlights and insight into our consolidated financial condition and results of operations, including recent business developments, critical accounting policies, estimates used in preparing the financial statements and other factors that are expected to affect our prospective financial condition. The following discussion and analysis should be read in conjunction with our "Selected Financial Data" and our consolidated financial statements and related notes, and other financial data elsewhere in this annual report.

To date, we have experienced operating losses as a result of the expansion of our service territories and the construction of our network. We expect to continue to focus on increasing our customer base and expanding our broadband operations. Our ability to generate profits will depend in large part on our ability to increase revenues to offset the costs of construction and operation of our business.

In January 2008, we completed the \$75 million acquisition of Graceba Total Communications Group, Inc., which has delivered significant increases in key operating and financial metrics as well as being free cash flow accretive. The transaction was funded by a \$59 million add-on financing to our existing credit facility and \$16 million from available cash.

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In November 2009, we completed the \$7.5 million acquisition of the assets of Private Cable Co., LLC ("PCL Cable"), which has delivered small increases in key operating and financial metrics as well as being free cash flow accretive. The transaction was funded using \$7.5 million from cash on hand.

Current Economic Conditions

We are exposed to risks associated with the potential financial instability of our customers, many of whom may be adversely affected by the general economic downturn. The housing market continues to suffer with depressed home prices, and along with continued high levels of unemployment, have severely affected consumer confidence and may cause increased delinquencies or cancellations by our customers or lead to unfavorable changes in the mix of products purchased. The general economic downturn also may affect advertising sales, as companies seek to reduce expenditures and conserve cash.

In addition, we are susceptible to risks associated with the potential financial instability of the vendors and third parties on which we rely to provide products and services or to which we delegate certain functions. The same economic conditions that may affect our customers, as well as volatility and disruption in the capital and credit markets, also could adversely affect vendors and third parties and lead to significant increases in prices, reduction in output or the bankruptcy of our vendors or third parties upon which we rely.

We believe the current economic conditions may impact the rate of organic growth in our business compared to previous years. However, we believe that our strategy of operating in secondary and tertiary markets provides better operating and financial stability compared to the more competitive environments in large metropolitan markets. We also believe that the highly bundled profile of our customer base (about 80% of our customers take two or three of our services) and our companywide focus on customer service create added customer loyalty. Further, we believe that services such as cable television and high-speed Internet become more valuable as consumers spend more time at home and reduce discretionary spending during the current economic downturn.

Critical Accounting Estimates

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States, which require us to make estimates and assumptions. We believe that, of our significant accounting estimates described in Note 2 of "Notes to Consolidated Financial Statements" included elsewhere in this annual report, the following may involve a higher degree of judgment and complexity.

Allowance for doubtful accounts. We use estimates to determine our allowance for bad debts. These estimates are based on historical collection experience, current trends, credit policy and a percentage of our delinquent customer accounts receivable.

Capitalization of labor and overhead costs. Our business is capital intensive, and a large portion of the capital we have raised to date has been spent on activities associated with building, extending, upgrading and enhancing our network. As of December 31, 2008 and 2009, the net carrying amount of our property, plant and equipment was approximately \$379.7 million, 59% of total assets, and \$357.9 million, 55% of total assets, respectively. Total capital expenditures for the years ended December 31, 2007, 2008 and 2009 were approximately \$45.8 million, \$46.3 million and \$54.9 million, respectively.

Costs associated with network construction, network enhancements and initial customer installation are capitalized. Costs capitalized as part of the initial customer installation include materials, direct labor, and certain indirect costs. These indirect costs are associated with the activities of personnel who assist in connecting and activating the new service and consist of compensation and overhead costs associated with these support functions. The costs of disconnecting service at a customer's premise or reconnecting service to a previously installed premise are charged to operating expense in the period incurred. Costs for repairs and maintenance are

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charged to operating expense as incurred, while equipment replacement and significant enhancements, including replacement of cable drops from the pole to the premise, are capitalized.

We make judgments regarding the installation and construction activities to be capitalized. We capitalize direct labor and certain indirect costs using operational data and estimations of capital activity. We calculate standards for items such as the labor rates, overhead rates and the actual amount of time required to perform a capitalizable activity. Overhead rates are established based on an estimation of the nature of costs incurred in support of capitalizable activities and a determination of the portion of costs that is directly attributable to capitalizable activities.

Judgment is required to determine the extent to which overhead is incurred as a result of specific capital activities, and therefore should be capitalized. The primary costs that are included in the determination of the overhead rate are (i) employee benefits and payroll taxes associated with capitalized direct labor, (ii) direct variable costs associated with capitalizable activities, consisting primarily of installation costs, (iii) the cost of support personnel that directly assist with capitalizable installation activities, and (iv) indirect costs directly attributable to capitalizable activities.

While we believe our existing capitalization policies are reasonable, a significant change in the nature or extent of our system activities could affect management's judgment about the extent to which we should capitalize direct labor or overhead in the future. We monitor the appropriateness of our capitalization policies, and perform updates to our internal studies on an ongoing basis to determine whether facts or circumstances warrant a change to our capitalization policies.

Valuation of long-lived and intangible assets and goodwill. We assess the impairment of identifiable long-lived assets and related goodwill whenever events or changes in circumstances indicate that the carrying value may not be recoverable in accordance with Accounting Standards Codification ("ASC") 350 and ASC 360. Factors we consider important and that could trigger an impairment review include the following:

- significant underperformance of our assets relative to historical or projected future operating results;
- significant changes in the manner in which we use our assets or significant changes in our overall business strategy; and
- significant negative industry economic trends.

In accordance with ASC 350, we identified each separate geographic operating unit for goodwill impairment testing purposes. These geographic operating units meet the requirements to be reporting units as they are businesses (and legal entities) in which separate internal financial statements are prepared, including a balance sheet, statement of operations and a statement of cash flows. These geographic operating units are our markets as set forth under "Item 1. Business—Markets". Also, management evaluates the business and measures operating performance on a geographic operating unit basis.

The geographic operating units shown in the table on the next page represent all the operating units with goodwill on their balance sheets. Goodwill is subject to periodic impairment assessment by applying a fair value test based upon a two-step method. The first step of the process compares the fair value of the reporting unit with the carrying value of the reporting unit, including any goodwill. We utilize a discounted cash flow valuation methodology to determine the fair value of the reporting unit. If the fair value of the reporting unit exceeds the carrying amount of the reporting unit, goodwill is deemed not to be impaired in which case the second step in the process is unnecessary. If the carrying amount exceeds fair value, we perform the second step to measure the amount of impairment loss. Any impairment loss is measured by comparing the implied fair value of goodwill, calculated per ASC 350, with the carrying amount of goodwill at the reporting unit, with the excess of the carrying amount over the fair value recognized as an impairment loss. We have adopted January 1 as the calculation date and have evaluated these assets as of January 1, 2010, and no impairment was identified. Based on the results of the test, we recorded no impairment loss to our goodwill as of January 1, 2008, 2009 and 2010.

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Our discounted cash flow calculation is based on a five year projection, with a terminal value applied to the cash flow of the fifth year. We believe the discounted cash flow methodology utilizing a terminal value is the most meaningful valuation method because businesses like ours in the cable industry sector are generally valued based on a multiple of cash flow. The discount rate of 12% is based on our weighted average cost of capital. Our cash flow projections include a growth factor of 5% year over year and a terminal multiple factor of 7.5 applied to the fifth year cash flow projection. Our cash flow growth factor is based on historical organic growth rates, discounted from our growth rates before the current economic downturn. It includes our expectation for continued annual pricing increases to our customers and continued growth in our residential and business video, voice and data connections. Our terminal multiple factor of 7.5 is based on the most recent merger and acquisition transactions in our sector (before capital markets effectively shut down) as well as historical valuation multiples of companies in the cable industry.

We could record impairment charges in the future if there are long-term changes in market conditions, expected future operating results or federal or state regulations that prevent us from recovering the carrying value of goodwill. For example, we believe a slowdown in the economy impacted our operating results during 2009. Assumptions made about the continuation of these market conditions on a longer-term basis could impact the valuations to be used in the January 1, 2011 annual impairment test and result in a reduction of fair values from those determined in the January 1, 2010 annual impairment test. Such assumptions and fair values will not be determined until the annual impairment test is performed. The following table shows the net carrying value of goodwill as of December 31, 2009 and illustrates the hypothetical impairment charge related to changes in our discounted cash flows (i.e., fair value) from any combination of adjustments to key assumptions at our last annual impairment test date.

(in millions)	Net Carrying Values	Percent Hypothetical Reduction in Fair Value and Related Impairment Charge			
		10%	15%	20%	25%
Columbus	\$ 2.8	\$ —	\$ —	\$ —	\$ —
Dothan	48.0	—	(4)	(7)	(12)
Montgomery	3.2	—	—	—	—
Panama City	2.1	—	—	—	—
Huntsville	2.4	—	—	—	—
Rapid City	25.9	—	—	—	—
Sioux Falls	31.9	—	—	—	—
West Point	32.7	—	—	—	—
		—	\$ (4)	\$ (7)	\$ (12)

Fair Value Measurements. Accounting Standards Codification (“ASC”) Topic 820 “Fair Value Measurements and Disclosures” defines fair value and establishes a framework for measuring fair value. ASC 820 replaced Financial Accounting Standards Statement 157 which we adopted with respect to fair value measurements of financial instruments on January 1, 2008.

We record interest rate swaps in our consolidated balance sheet at fair value on a recurring basis. ASC 820 provides a hierarchy that prioritizes 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. We currently have no Level 1 financial instrument assets or liabilities.
- 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. We use a discounted cash flow analysis of the implied yield curves to value our interest rate swaps. We also consider our credit risk and counterparty

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credit risk in estimating the fair value of our financial instruments. While these inputs are observable, they are not all quoted market prices, so the fair values of our financial instruments fall in Level 2. As of December 31, 2009, the carrying value of our financial instrument liabilities was \$16.5 million.

- Level 3 inputs are unobservable inputs for an asset or liability. We currently have no Level 3 financial instrument assets or liabilities.

Significant and subjective estimates. The following discussion and analysis of our results of operations and financial condition is based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and contingent liabilities. In many cases, the accounting treatment of a particular transaction is specifically dictated by accounting principles generally accepted in the United States, with no need for us to judge the application. On an ongoing basis, we evaluate our estimates, including those related to our ability to collect accounts receivable, valuation of investments, valuation of stock based compensation, recoverability of goodwill and intangible assets, income taxes and contingencies. We base our judgments on historical experience and on various other assumptions that we believe are reasonable under the circumstances, the results of which form the basis for making estimates about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. See our consolidated financial statements and related notes thereto included elsewhere in this annual report, which contain accounting policies and other disclosures required by accounting principles generally accepted in the United States.

Homes Passed and Connections

We report homes passed as the number of residential and business units, such as single residence homes, apartments and condominium units, passed by our broadband network and listed in our database. "Marketable homes passed" are homes passed other than those we believe are covered by exclusive arrangements with other providers of competing services. Because we deliver multiple services to our customers, we report the total number of connections for video, voice and data rather than the total number of customers. We count each video, voice or data purchase as a separate connection. For example, a single customer who purchases cable television, local telephone and Internet access services would count as three connections. We do not record the purchase of digital video services by an analog video customer as an additional connection.

As we continue to sell bundled services, we expect more of our video customers to purchase voice, data and other enhanced services in addition to basic video services. Further, business customers primarily take voice and data services, with relatively smaller amounts of video products. On the other hand, we believe some of our phone customers, especially customers who are only taking our voice product, are moving to alternative voice products (e.g., mobile phones). As a result of these various factors, we expect that our data connections will grow the fastest and that voice connections will benefit from our growing commercial business.

Revenues

Our operating revenues are primarily derived from monthly charges for video, voice and Internet data services and other services to residential and business customers. We provide these services over our network. Our products and services involve different types of charges and in some cases a different method of accounting for recording revenues. Below is a description of our significant sources of revenue:

- *Video revenues.* Our video revenues consist of fixed monthly fees for basic, expanded basic, premium and digital cable television services, as well as fees from pay-per-view movies, fees for video-on-demand and events such as boxing matches and concerts that involve a charge for each viewing. Video revenues accounted for approximately 42.1%, 41.8% and 43.2% of our consolidated revenues for the years ended December 31, 2007, 2008 and 2009, respectively.

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- *Voice revenues.* Our voice revenues consist primarily of fixed monthly fees for local service and enhanced services, such as call waiting, voice mail and measured and flat rate long-distance service. Voice revenues accounted for approximately 33.7%, 33.5% and 30.8% of our consolidated revenues for the years ended December 31, 2007, 2008 and 2009, respectively.
- *Data revenues.* Our data revenues consist primarily of fixed monthly fees for data service and rental of cable modems. Data revenues accounted for approximately 22.7%, 22.8% and 23.2% of our consolidated revenues for the years ended December 31, 2007, 2008 and 2009, respectively. Providing data services is a rapidly growing business and competition is increasing in each of our markets.
- *Other revenues.* Other revenues result principally from broadband carrier services. Other revenues accounted for approximately 1.4%, 1.9% and 2.8% of our consolidated revenues for the years ended December 31, 2007, 2008 and 2009, respectively.

Our ability to increase the number of our connections and, as a result, our revenues is directly affected by the level of competition we face in each of our markets with respect to each of our service offerings:

- In providing video services, we currently compete with AT&T, Bright House, CenturyTel, Charter, Comcast, Mediacom, MidCo, Qwest, Time Warner and Verizon. We also compete with satellite television providers such as DirecTV and Echostar. Our other competitors include broadcast television stations and other satellite television companies. We expect in the future to face additional competition from telephone companies providing video services within their service areas.
- In providing local and long-distance telephone services, we compete with the ILEC and various long-distance providers in each of our markets. AT&T, CenturyTel, Qwest and Verizon are the incumbent local phone companies in our markets. They offer both local and long-distance services in our markets and are particularly strong competitors. We also compete with providers of long-distance telephone services, such as AT&T, CenturyTel (which acquired Embarq Communications in 2009) and Verizon. We expect an increase in the deployment of VoIP services and expect to continue to compete with Vonage Holding Company, cable competitors as they roll out VoIP and other providers.
- In providing data services, we compete with ILECs that offer dial-up and DSL services, providers of satellite-based Internet access services, cable television companies, providers of wireless high-speed data services, and providers of dial-up Internet service. Data services and Internet access is a rapidly growing business and competition is increasing in each of our markets.
- Some of our competitors have competitive advantages such as greater experience, resources, marketing capabilities and stronger name recognition.

Costs and Expenses

Our operating expenses primarily include cost of services, selling, operating and administrative expenses, and depreciation and amortization.

Direct costs include:

- *Direct costs of video services.* Direct costs of video services consist primarily of monthly fees to the National Cable Television Cooperative and other programming providers. Programming costs are our largest single cost and we expect this trend to continue. Programming costs as a percentage of video revenue were approximately 52.0%, 52.7% and 52.0% for the years ended December 31, 2007, 2008 and 2009, respectively. We have entered into contracts with various entities to provide programming to be aired on our network. We pay a monthly fee for these programming services, generally based on the average number of subscribers to the program, although some fees are adjusted based on the total number of subscribers to the system and/or the system penetration percentage. Since programming cost is partially based on numbers of subscribers, it will increase as we add more subscribers. It will also increase as costs per channel increase over time, including retransmission costs we incurred with traditional networks beginning in 2009.

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- *Direct costs of voice services.* Direct costs of voice services consist primarily of transport cost and network access fees. The direct costs of voice services as a percentage of voice revenues were approximately 15.8%, 15.7% and 17.8% for the years ended December 31, 2007, 2008 and 2009, respectively.
- *Direct costs of data services.* Direct costs of data services consist primarily of transport costs and network access fees. The direct costs of data services as a percentage of data revenue were 4.5%, 5.9% and 7.2% for the years ended December 31, 2007, 2008 and 2009, respectively.
- *Direct costs of other services.* Direct costs of other services consist primarily of transport costs and network access fees. The direct costs of other services as a percentage of other revenue were 16.5%, 18.0% and 22.8% for the years ended December 31, 2007, 2008 and 2009, respectively.
- *Pole attachment and other network rental expenses* Pole attachment rents are paid to utility companies for space on their utility poles to deliver our various services. Other network rental expenses consist primarily of network hub rents. Pole attachment and other network rental expenses as a percentage of total revenue were approximately 1.4%, 1.2% and 1.0% of total revenues for the years ended December 31, 2007, 2008 and 2009, respectively.

We provide our services in competitive markets and we are not always able to pass along significant price increases and maintain margins, especially for our video services. However, we expect higher-margin voice, data and other revenue to become larger percentages of our overall revenue, and the favorable product mix may potentially offset pressures on gross profits within individual product lines.

Selling, general and administrative expenses include:

- *Sales and marketing expenses.* Sales and marketing expenses include the cost of sales and marketing personnel and advertising and promotional expenses.
- *Network operations and maintenance expenses.* Network operations and maintenance expenses include payroll and departmental costs incurred for network design, 24/7 maintenance monitoring and plant maintenance activity.
- *Service and installation expenses.* Service and installation expenses include payroll and departmental costs incurred for customer installation and service technicians.
- *Customer service expenses.* Customer service expenses include payroll and departmental costs incurred for customer service representatives and customer service management, primarily at our centralized call centers.
- *General and administrative expenses.* General and administrative expenses consist of corporate and subsidiary management and administrative costs.

Depreciation and amortization expenses include depreciation of our interactive broadband networks and equipment, buildings and amortization of other intangible assets primarily related to acquisitions.

As our sales and marketing efforts continue and our networks expand, we expect to add customer connections resulting in increased revenue. We also expect our cost of services and operating expenses to increase as we grow our business.

Table of Contents**Index to Financial Statements****Results of Operations**

The following table sets forth financial data as a percentage of operating revenues for the years ended December 31, 2007, 2008 and 2009.

	Year Ended December 31,		
	2007	2008	2009
Operating revenues:			
Video	42%	42%	43%
Voice	34	33	31
Data	23	23	23
Other	<u>1</u>	<u>2</u>	<u>3</u>
Total operating revenues	100	100	100
Operating expenses:			
Direct costs	30	30	31
Selling, general and administrative expenses	41	38	37
Depreciation and amortization	24	23	21
Capital markets activity	<u>0</u>	<u>0</u>	<u>0</u>
Total operating expenses	<u>95</u>	<u>91</u>	<u>89</u>
Operating income (loss)	<u>5</u>	<u>9</u>	<u>11</u>
Other income (expense):			
Interest income	0	0	0
Interest expense	(12)	(12)	(10)
Loss on early extinguishment of debt	(8)	0	0
(Loss) gain on interest rate cap agreement	0	0	(2)
Loss on investments	<u>0</u>	<u>0</u>	<u>0</u>
Other income (expense), net	<u>0</u>	<u>0</u>	<u>0</u>
Total other income (expense)	<u>(20)</u>	<u>(12)</u>	<u>(12)</u>
Loss before income taxes, discontinued operations and preferred stock dividends	<u>(15)</u>	<u>(3)</u>	<u>(1)</u>
Income tax benefit (provision)	0	0	0
Income from discontinued operations	2	0	0
Preferred stock dividend	<u>0</u>	<u>0</u>	<u>0</u>
Net loss attributable to common stockholders	<u>(13)%</u>	<u>(3)%</u>	<u>(1)%</u>

Table of Contents**Index to Financial Statements****Quarterly Comparison**

The following table presents certain unaudited consolidated statements of operations and other operating data for our eight most recent quarters. The information for each of these quarters is unaudited and has been prepared on the same basis as our audited consolidated financial statements appearing elsewhere in this annual report. In the opinion of our management, all necessary adjustments, consisting only of normal recurring adjustments, have been included to present fairly the unaudited quarterly results when read in conjunction with our consolidated financial statements and related notes included elsewhere in this annual report. We believe that results of operations for interim periods should not be relied upon as any indication of the results to be expected or achieved in any future periods or any year as a whole.

	Quarters ended							
	Mar. 31, 2008	June 30, 2008	Sept. 30, 2008	Dec. 31, 2008	Mar. 31, 2009	June 30, 2009	Sept. 30, 2009	Dec. 31, 2009
	(in thousands, except per share and operating data)							
Revenues	\$ 101,337	\$ 102,122	\$ 103,216	\$ 103,556	\$ 104,683	\$ 107,931	\$ 105,802	\$ 107,149
Direct costs	31,370	30,671	30,910	30,712	32,679	34,086	31,896	34,210
Income/(Loss) from continuing operations	(3,194)	(4,004)	(2,847)	(2,078)	(2,273)	1,334	(3,334)	1,044
Net income (loss)	(3,194)	(4,004)	(2,847)	(2,078)	(2,273)	1,334	(3,334)	1,044
Basic and diluted net income (loss) per share	\$ (.09)	\$ (.11)	\$ (.08)	\$ (.06)	\$ (.06)	\$.04	\$ (.09)	\$.03
Homes passed	1,121,984	1,124,725	1,127,358	1,133,706	1,152,841	1,145,882	1,148,763	1,152,035
Marketable homes passed	911,787	915,313	918,093	919,043	923,533	927,576	930,402	932,834
Video connections (1)	233,006	229,026	230,405	232,777	235,332	231,050	231,186	234,008
Video penetration (2)	25.6%	25.0%	25.1%	25.3%	25.5%	24.9%	24.8%	25.1%
Digital video connections	114,137	110,559	110,961	108,999	108,735	107,110	109,511	113,128
Digital penetration of video connections	49.0%	48.3%	48.2%	46.8%	46.2%	46.4%	47.4%	48.3%
Voice connections	248,694	246,381	246,143	247,182	250,795	247,711	247,457	251,047
Voice penetration (2)	27.3%	26.9%	26.8%	26.9%	27.2%	26.7%	26.6%	26.9%
Data connections	187,682	188,513	192,245	196,835	202,034	200,584	203,277	208,816
Data penetration (2)	20.6%	20.6%	20.9%	21.4%	21.9%	21.6%	21.8%	22.4%
Total connections	669,382	663,920	668,793	676,794	688,161	679,345	681,920	693,871
Average monthly revenue per connection	\$ 50.52	\$ 51.07	\$ 51.67	\$ 51.25	\$ 51.00	\$ 52.64	\$ 51.96	\$ 51.94

(1) Video connections include customers who receive analog or digital video services.

(2) Penetration is measured as a percentage of marketable homes passed.

Year Ended December 31, 2009 Compared to Year Ended December 31, 2008

Revenues. Operating revenues increased 3.7% from \$410.2 million for the year ended December 31, 2008, to \$425.6 million for the year ended December 31, 2009. Operating revenues from video services increased 7.4% from \$171.4 million for the year ended December 31, 2008, to \$184.0 million for the same period in 2009. Operating revenues from voice services decreased 4.6% from \$137.4 million for the year ended December 31, 2008, to \$131.1 million for the same period in 2009. Operating revenues from data services increased 5.5% from \$93.5 million for the year ended December 31, 2008, to \$98.6 million for the same period in 2009. Operating revenues from other services increased 49.3% from \$7.9 million for the year ended December 31, 2008, to \$11.8 million for the same period in 2009.

The increased revenues from video, data and other services are due primarily to an increase in the number of connections, from 676,794 as of December 31, 2008, to 693,871 as of December 31, 2009 and rate increases effective the first quarter of 2009. The additional connections resulted primarily from the Private Cable Company ("PCL") acquisition and:

- Continued growth in our bundled customers;
- Continued strong growth in business sales; and
- Continued penetration in our mature markets.

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We continued to add video connections in 2009 as the popularity of additional services and products such as DVR's and high-definition televisions continued to grow. However, the growth of new video connections has slowed over time relative to our other services as our video segment matures in our current markets. While the number of new video connections may grow at a declining rate, we believe that new products and new technology, such as additional high-definition channels and video on demand, will continue to fuel growth. New voice and data connections are expected to increase as we continue our sales and marketing efforts directed at selling customers our bundled service offerings. Further, business customers primarily take voice and data services, with relatively smaller amounts of video products. On the other hand, we believe some of our phone customers, especially customers who are only taking our voice product, are moving to alternative voice products (e.g., mobile phones). As a result of these various factors, we expect that data and voice will represent a higher percentage of our total connections in the future, and that our data connections will grow the fastest and voice connections will benefit from our growing commercial business.

Direct costs. Direct costs increased 7.4% from \$123.7 million for the year ended December 31, 2008, to \$132.9 million for the year ended December 31, 2009. Direct costs of services for video services increased 5.8% from \$90.3 million for the year ended December 31, 2008, to \$95.6 million for the same period in 2009. Direct costs of services for voice services increased 8.5% from \$21.5 million for the year ended December 31, 2008, to \$23.4 million for the same period in 2009. Direct costs of services for data services increased 29.5% from \$5.5 million for the year ended December 31, 2008, to \$7.1 million for the same period in 2009. Direct costs of services for other services increased 90.0% from \$1.4 million for the year ended December 31, 2008, to \$2.7 million for the same period in 2009. Pole attachment and other network rental expenses decreased 16.3% from \$4.8 million for the year ended December 31, 2008, to \$4.1 million for the same period in 2009. We expect our direct costs to increase as we add more connections. In addition, the increase in direct costs of video services is also due to higher programming costs, which have been increasing over the last several years on an aggregate basis due to an increase in subscribers and on a per subscriber basis due to an increase in costs per program channel. Further, local commercial television broadcast stations are charging retransmission fees beginning in 2009, similar to fees charged by other program providers. Our direct cost of video services increased about \$3.3 million for these additional costs in 2009, with annual percentage increases hereafter similar to our other cable programming costs. We expect this trend to continue and may not be able to pass these higher costs on to customers because of competitive factors, which could adversely affect our cash flow and gross profit. We expect increases in voice, data and other costs of services with the additions of leased facilities used to backhaul our traffic to our switching facilities as connections and data capacity requirements increase.

Selling, general and administrative. Our selling, general and administrative decreased 0.9% from \$156.4 million for the year ended December 31, 2008, to \$154.9 million for the year ended December 31, 2009. The decrease in our operating costs, included in selling, general and administrative included decreases in fuel expense, billing, installation costs, supplies, travel, and pole attachment rent, that were partially offset by increases in professional services, personnel cost, insurance expense, and bad debt expense. Our non-cash stock option compensation expense, included in selling, general and administrative, increased from \$4.6 million for the year ended December 31, 2008, to \$6.2 million for the year ended December 31, 2009.

Depreciation and amortization. Our depreciation and amortization decreased from \$95.4 million for the year ended December 31, 2008, to \$90.7 million for the year ended December 31, 2009, primarily due to the maturing of our asset base.

Debt modification fees. In 2009, we recorded \$3.4 million of expense related to the modification of the debt under the Credit Agreement in accordance with the terms of Amendment No. 2, which provides for the extension of the maturity date of an aggregate \$397 million of term loans by two years to 2014.

Interest income. Although the cash and certificate of deposit balances were higher in 2009 than in 2008, interest income was \$746,000 for the year ended December 31, 2008, compared to \$656,000 for the same period in 2009. The decrease in interest income primarily reflects a lower rate of earnings on the cash and cash equivalent balance during the year ended December 31, 2009.

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Interest expense. Interest expense decreased from \$47.3 million for the year ended December 31, 2008, to \$41.6 million for the year ended December 31, 2009. The decrease in interest expense is primarily a result of the decline in interest rates on our long term debt.

Loss on interest rate derivative instrument. Our loss on interest rate derivative instruments was \$6.2 million for the year ended December 31, 2009. As discussed in the Notes to the Financial Statements, the Company no longer qualifies to use hedge accounting for our interest rate swaps on our debt and we recorded \$18.3 million in amortization of deferred loss associated with these derivative instruments for the year ended December 31, 2009. A gain of \$12.1 million was recorded on the value of the interest rate swaps for the year ended December 31, 2009 as a result of the decrease in the market value of the liability representing the derivative instruments.

Loss on investments We recorded a loss of \$353,000 for the impairment of our investment in Grande Communications for the year ended December 31, 2009. This investment is now recorded on our books as Rio Holdings. During 2009, the ownership of Grande was reorganized to form a new operating LLC, called Grande Communications Networks, LLC. Upon reorganization, all existing shareholders in Grande, including Knology, were combined to form the new Rio Holdings, Inc. Rio Holdings owns 24.7% class A general partnership units in the newly formed Grande Investment, L.P., which through a holding company owns 100% of Grande Communications Networks, LLC.

Other income (expense), net. Other income (expense), net decreased from expense of \$367,000 for the year ended December 31, 2008, to income of \$479,000 for the year ended December 31, 2009, primarily due to the disposition of property, plant and equipment.

Income tax provision. We recorded no income tax provision for the years ended December 31, 2008 and 2009, respectively, as our net operating losses are fully offset by a valuation allowance.

Loss from continuing operations. We incurred a loss before discontinued operations of \$12.1 million for the year ended December 31, 2008, compared to a loss before discontinued operations of \$3.4 million for the year ended December 31, 2009.

Net loss attributable to common stockholders. We incurred a net loss attributable to common stockholders of \$12.1 million and \$3.4 million for the years ended December 31, 2008 and 2009, respectively. We expect to have net income as our business matures.

Year Ended December 31, 2008 Compared to Year Ended December 31, 2007

Revenues. Operating revenues increased 18.0% from \$347.7 million for the year ended December 31, 2007, to \$410.2 million for the year ended December 31, 2008. Operating revenues from video services increased 17.1% from \$146.5 million for the year ended December 31, 2007, to \$171.4 million for the same period in 2008. Operating revenues from voice services increased 17.1% from \$117.3 million for the year ended December 31, 2007, to \$137.4 million for the same period in 2008. Operating revenues from data services increased 18.3% from \$79.0 million for the year ended December 31, 2007, to \$93.5 million for the same period in 2008. Operating revenues from other services increased 61.9% from \$4.9 million for the year ended December 31, 2007, to \$7.9 million for the same period in 2008.

The increased revenues from video, voice, data and other services are due primarily to an increase in the number of connections, from 640,567 as of December 31, 2007, to 676,794 as of December 31, 2008 and rate increases effective the first quarter of 2008. The additional connections resulted primarily from the Graceba acquisition and:

- Continued growth in our bundled customers;
- Continued strong growth in business sales; and
- Continued penetration in our mature markets.

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We continued to add video connections in 2008 as the popularity of additional services and products such as DVR's and high-definition televisions continued to grow. However, the growth of new video connections has slowed over time relative to our other services as our video segment matures in our current markets. While the number of new video connections may grow at a declining rate, we believe that new products and new technology, such as additional high-definition channels and video on demand, will continue to fuel growth. New voice and data connections are expected to increase as we continue our sales and marketing efforts directed at selling customers our bundled service offerings. Further, business customers primarily take voice and data services, with relatively smaller amounts of video products. On the other hand, we believe some of our phone customers, especially customers who are only taking our voice product, are moving to alternative voice products (e.g., mobile phones). As a result of these various factors, we expect that data and voice will represent a higher percentage of our total connections in the future, and that our data connections will grow the fastest and voice connections will benefit from our growing commercial business.

Direct costs. Direct costs increased 18.8% from \$104.1 million for the year ended December 31, 2007, to \$123.7 million for the year ended December 31, 2008. Direct costs of services for video services increased 18.6% from \$76.2 million for the year ended December 31, 2007, to \$90.3 million for the same period in 2008. Direct costs of services for voice services increased 16.2% from \$18.5 million for the year ended December 31, 2007, to \$21.5 million for the same period in 2008. Direct costs of services for data services increased 55.5% from \$3.5 million for the year ended December 31, 2007, to \$5.5 million for the same period in 2008. Direct costs of services for other services increased 76.1% from \$808,000 for the year ended December 31, 2007, to \$1.4 million for the same period in 2008. Pole attachment and other network rental expenses decreased 3.0% from \$5.0 million for the year ended December 31, 2007, to \$4.8 million for the same period in 2008. The increase in direct costs was primarily from the acquisition of Graceba. We expect our direct costs to increase as we add more connections. In addition, the increase in direct costs of video services is also due to higher programming costs, which have been increasing over the last several years on an aggregate basis due to an increase in subscribers and on a per subscriber basis due to an increase in costs per program channel.

Selling, general and administrative. Our selling, general and administrative increased 10.7% from \$141.3 million for the year ended December 31, 2007, to \$156.4 million for the year ended December 31, 2008. The increase in our operating costs, included in selling, general and administrative, is consistent with our acquisition of Graceba and growth in connections and customers in 2008, and included increases in personnel cost, fuel and utility expense, sales and marketing, billing, taxes, repair and maintenance expense, and bad debt expenses, that were partially offset by reductions in insurance expense. We incurred one time charges of \$654,000 for the year ended December 31, 2007 related to travel and other PrairieWave integration costs. Our non-cash stock option compensation expense, included in selling, general and administrative, increased from \$2.8 million for the year ended December 31, 2007, to \$4.6 million for the year ended December 31, 2008.

Depreciation and amortization. Our depreciation and amortization increased from \$85.8 million for the year ended December 31, 2007, to \$95.4 million for the year ended December 31, 2008, primarily due to the Graceba acquisition.

Capital markets activity. Our capital markets activities were \$219,000 for the year ended December 31, 2007. The capital market activities in 2007 were primarily one time charges related to due diligence performed on potential acquisitions.

Loss on debt extinguishment. In 2007, we recorded a loss of \$27.4 million on the early extinguishment of debt related to the prepayment penalty payment and write-off of debt issuance costs for the existing credit facilities.

Interest income. Although the cash balances were higher in 2008 than in 2007, interest income was \$784,000 for the year ended December 31, 2007, compared to \$746,000 for the same period in 2008. The decrease in interest income primarily reflects a lower rate of earnings on the cash and cash equivalent balance during the year ended December 31, 2008.

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Interest expense. Interest expense increased from \$41.4 million for the year ended December 31, 2007, to \$47.3 million for the year ended December 31, 2008. The increase in interest expense is primarily a result of the additional borrowing on our term loan for the Graceba acquisition.

Loss on interest rate derivative instrument. Our loss on interest rate derivative instrument was \$758,000 for the year ended December 31, 2007. We paid \$1.3 million for a hedge instrument, which became effective July 29, 2005 and was scheduled to terminate July 29, 2008. We terminated this agreement on April 18, 2007 for cash proceeds of \$716,000 in connection with our entry into a new hedge agreement with a notional amount of \$555 million. See Note 2 (Summary of Significant Accounting Policies—Derivative Financial Instruments) to our consolidated financial statements included elsewhere in this annual report. There was no gain (loss) on interest rate derivative instrument during 2008.

Loss on adjustment of warrants to market. During 2007, we adjusted the carrying value of the outstanding warrants to purchase our common stock to market value based on the published market per share value of our common stock. The warrants to purchase shares of common stock for an exercise price of \$0.10 per share expired October 22, 2007. The published market per share value of our common stock on October 22, 2007 was \$16.73 resulting in a \$337,000 loss on the adjustment of warrants to market value, offset by a gain of \$75,000 on forfeited warrants, resulting in a loss of \$262,000 on the adjustment of warrants.

Other income (expense), net. Other income (expense), net decreased from expense of \$53,000 for the year ended December 31, 2007, to expense of \$367,000 for the year ended December 31, 2008, primarily due to the disposition of property, plant and equipment.

Income tax provision. We recorded no income tax provision for the years ended December 31, 2007 and 2008, respectively, as our net operating losses are fully offset by a valuation allowance.

Loss from continuing operations. We incurred a loss before discontinued operations of \$52.8 million for the year ended December 31, 2007, compared to a loss before discontinued operations of \$12.1 million for the year ended December 31, 2008.

Income from discontinued operations. On September 7, 2007, we sold our telephone directory business to Yellow Book USA for \$8.6 million. This business was included in the April 2007 acquisition of PrairieWave. After recording transactions costs of \$139,000 and writing off net assets of \$210,000, the company recorded a gain of \$8.3 million. The net income from the directory business for the year ended December 31, 2007 was \$612,000 and is also presented in income from discontinued operations.

Net loss attributable to common stockholders. We incurred a net loss attributable to common stockholders of \$43.9 million and \$12.1 million for the years ended December 31, 2007 and 2008, respectively. We expect to have net income as our business matures.

Liquidity and Capital Resources

Overview. As of December 31, 2009, we had approximately \$79.8 million of cash, cash equivalents, restricted cash, and certificates of deposit on our balance sheet. Our net working capital on December 31, 2009 was \$26.2 million, compared to net working capital of \$25.7 million as of December 31, 2008.

Our financial condition has been significantly influenced by positive cash flow from operations and changes in our debt capital structure. On March 14, 2007, the Company entered into the Credit Agreement, which provides for a \$580.0 million credit facility, consisting of a \$555.0 million term loan and a \$25.0 million revolving credit facility. On April 3, 2007, the Company received the proceeds of the term loan to fund the PrairieWave acquisition purchase price, refinance the Company's first and second lien credit agreements, and pay transaction costs associated with the transactions. Prior to Amendment No. 2 discussed below, the \$555.0

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million term loan bears interest at LIBOR plus 2.25% and amortizes at a rate of 1.0% per annum, payable quarterly, with a June 30, 2012 maturity date. As of December 31, 2009, \$160.6 million is outstanding under the term loan, and \$2.0 million is outstanding under the revolving credit facility as unused letter of credits. On May 3, 2007, the Company entered into a new interest rate swap contract to mitigate interest rate risk on a notional amount of \$555.0 million amortizing at a rate of 1.0% annually. The swap agreement, which became effective May 3, 2007 and ends July 3, 2010, fixes \$451.1 million of the floating rate debt at 4.977% as of December 31, 2009.

On January 4, 2008, the Company entered into a First Amendment to the Credit Agreement, which provides for a \$59.0 million incremental term loan. The proceeds of the incremental term loan were used to fund in part the \$75.0 million Graceba acquisition purchase price. Prior to Amendment No. 2 discussed below, the term loan bears interest at LIBOR plus 2.75% and amortizes at a rate of 1.0% per annum, payable quarterly, with a June 30, 2012 maturity date. As of December 31, 2009, \$32.8 million is outstanding under the incremental loan. In December 2007, the Company entered into a new interest rate swap contract to mitigate interest rate risk on a notional amount of \$59.0 million amortizing at a rate of 1.0% annually. The swap agreement, which became effective January 4, 2008, fixes \$57.8 million of the floating rate debt at 3.995% as of December 31, 2009.

On September 28, 2009, the Company entered into Amendment No. 2 which extends the maturity date of an aggregate \$397 million of term loans under the Credit Agreement by two years. The Extended Term Loan bears interest at LIBOR plus 3.50% and amortizes at a rate of 1% per annum, payable quarterly, with a June 30, 2014 maturity date. Amendment No. 2 also, among other modifications, increases the revolving credit facility to \$35.0 million from \$25.0 million and allows for an annual, cumulative restricted payment allowance of \$10 million for dividends and/or share repurchases utilizing excess cash flow and subject to a maximum leverage test.

The Credit Agreement is guaranteed by substantially all of the Company's subsidiaries and secured by a first-priority lien and security interest in substantially all of the Company's assets and the assets of its subsidiaries. The Credit Agreement contains customary representations, warranties, various affirmative and negative covenants and customary events of default. As of December 31, 2009, we are in compliance with all of our debt covenants.

We believe there is adequate liquidity from cash on hand, cash provided from operations and funds available under our \$35.0 million revolving credit facility to meet our capital spending requirements and to execute our current business plan.

Operating, investing and financing activities. As of December 31, 2009, we had a net working capital of \$26.2 million, compared to net working capital of \$25.7 million as of December 31, 2008. The increase in the working capital from December 31, 2008 to December 31, 2009 is primarily due to an increase in certificates of deposit resulting from improved operations and reduced acquisitions activity offset by the maturing interest rate swaps moving to current liabilities.

Net cash provided by operating activities from continuing operations totaled \$57.0 million, \$80.0 million and \$104.2 million for the years ended December 31, 2007, 2008 and 2009, respectively, and operating activities from discontinued operations provided net cash of \$0.5 million for the year ended December 31, 2007. The net cash flow activity related to operations consists primarily of changes in operating assets and liabilities and adjustments to net income for non-cash transactions including:

- depreciation and amortization;
- loss on debt extinguishment;
- non-cash stock option compensation;
- accretion of second term lien loan;

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- non-cash bank loan interest expense;
- non-cash (gain) loss on interest rate derivative instrument;
- non-cash amortization of deferred loss on interest rate derivative instruments;
- provision for bad debt;
- loss on disposition of assets; and
- (gain) loss on adjustment of warrants to market.

Net cash used in investing activities was \$293.1 million, \$121.5 million and \$99.7 million for the years ended December 31, 2007, 2008 and 2009, respectively. Our investing activities in 2007 primarily consisted of \$256.2 million purchase of PrairieWave, and \$45.8 million of capital expenditures, partially offset by \$8.6 million proceeds from sale of discontinued operations. The sale of discontinued operations was a result of the sale of our telephone directory business to Yellow Book USA for \$8.6 million, of which \$860,000 was placed in escrow and was paid out in September 2008. In 2008, our investing activities consisted primarily of \$75.1 million for the purchase of Graceba, and \$46.3 million of capital expenditures. Our 2009 investing activities included \$54.9 million of capital expenditures, \$35.1 million for the purchase of certificates of deposit, \$7.5 million for the purchase of assets from PCL Cable, and the investment of \$1.5 million in Tower Cloud, Inc.

Net cash provided by financing activities was \$270.4 million and \$52.5 million for the years ended December 31, 2007 and 2008, respectively. We used net cash from financing activities of \$17.8 million for the year ended December 31, 2009. In 2007, financing activities consisted primarily of \$555.0 million proceeds from a first lien term loan, \$1.7 million proceeds from stock options exercised and \$716,000 proceeds from unwinding an interest rate derivative instrument, partially offset by \$273.7 million in principal payments on debt and \$13.3 million of expenditures related to issuance of debt. In 2008, financing activities consisted primarily of \$59.0 million proceeds from long term debt and \$818,000 proceeds from stock options exercised, partially offset by \$7.1 million in principal payments on debt. During 2009, financing activities consisted primarily of \$17.5 million in principal payments on debt, \$1.8 million of debt modification expenses, partially offset by \$1.5 million of proceeds from stock options exercised.

Capital expenditures, operating expenses and debt service. We spent approximately \$54.9 million in capital expenditures during 2009, of which approximately \$27.2 million related to the purchase and installation of customer premise equipment, \$8.6 million related to plant extensions and enhancements and \$19.1 million related to network equipment, billing and information systems and other capital items.

We expect to spend approximately \$71 million in capital expenditures during 2010. We believe we will have sufficient cash on hand, certificates of deposit and cash from internally generated cash flow to cover our planned operating expenses, capital expenditures and service our debt during 2010. Although the covenants on our credit facility limit the amount of our capital expenditures on an annual basis, we believe we have sufficient capacity under those covenants to fund planned capital expenditures.

Although we are currently not engaged in any activity to expand into other markets or make further acquisitions, we will evaluate acquisition opportunities based on the capital markets and our ability to finance potential transactions on terms attractive to the Company.

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Contractual obligations. The following table sets forth, as of December 31, 2009, our long-term debt, capital leases, operating lease and other obligations for 2010 and thereafter. The long-term debt obligations are our principal payments on cash debt service obligations. Interest is comprised of interest payments on cash debt service and capital lease obligations. The capital lease obligations are our future lease payments for video on demand equipment, network fiber leasing and other agreements. Operating lease obligations are the future minimum rental payments required under the operating leases that have initial or remaining non-cancelable lease terms in excess of one year as of December 31, 2009.

Contractual obligations (in millions)	Total	Payment due by period			
		January 1, 2010 through December 31, 2010	January 1, 2011 through December 31, 2012	January 1, 2013 through December 31, 2014	After December 31, 2014
Long-term debt obligations	\$ 590.2	\$ 5.9	\$ 199.5	\$ 384.8	\$ 0
Interest	108.2	39.3	46.0	22.9	0
Capital lease obligations	12.5	4.5	7.6	0.4	0
Operating lease obligations	19.0	4.3	6.0	3.7	5.0
Programming contracts (1)	310.4	95.6	214.8	0	0
Pole attachment obligations (2)	13.6	4.5	9.1	0	0
Total	<u>\$1,053.9</u>	<u>\$ 154.1</u>	<u>\$ 483.0</u>	<u>\$ 411.8</u>	<u>\$ 5.0</u>

- (1) We have entered into contracts with various entities to provide programming to be aired by us. We pay a monthly fee for the programming services, generally based on the number of average video subscribers to the program, although some fees are adjusted based on the total number of video subscribers to the system and/or the system penetration percentage. The amounts presented are based on the estimated number of connections we will have in future periods through the completion of the current contracts.
- (2) Federal law requires utilities, defined to include 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. Utilities may charge telecommunications carriers a different rate for pole attachments than they charge cable operators providing solely cable service. The amounts presented are based on the estimated number of poles we will attach to in future periods through the completion of the current contracts.

As discussed above, we currently expect to spend about \$71 million in capital expenditures in 2010. We expect to fund our contractual obligations, programming costs, expected capital expenditures and service debt using a portion of the approximately \$79.8 million of cash and cash equivalents on hand, and certificates of deposit as of December 31, 2009, with the remainder funded by cash flow generated by operations. Beyond 2010, we may need to raise additional capital through equity offerings, asset sales or debt refinancing to grow the business through any potential merger and acquisition activity.

Recent Accounting Pronouncements

See Note 2 (Summary of Significant Accounting Policies) for details.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We use interest rate swap and interest rate cap contracts to manage the impact of interest rate changes on earnings and operating cash flows. Interest rate swaps involve the receipt of variable-rate amounts in exchange for fixed-rate payments over the life of the agreements without exchange of the underlying principal amount. Interest rate caps involve the receipt of variable-rate amounts beyond a specified strike price over the life of the agreements without exchange of the underlying principal amount. We believe that these agreements are with counterparties who are creditworthy financial institutions.

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In July 2005, we entered into an interest rate cap agreement with Credit Suisse First Boston International with a notional amount of \$280 million to cap its adjustable LIBOR rate at 5%, mitigating interest rate risk on the first and second lien term loans. We paid \$1.3 million for this cap agreement, which became effective July 29, 2005 and terminated July 29, 2008. We did not designate the cap agreement as an accounting hedge under the proper FASB guidance. Accordingly changes in fair value of the cap agreement were recorded through earnings as derivative gains/(losses). On April 18, 2007, we unwound our existing interest rate cap agreement for \$0.7 million cash proceeds. "Gain (loss) on interest rate derivative instrument" was \$(0.8) million, \$0 and \$12.1 million for the years ended December 31, 2007, 2008 and 2009, respectively.

On April 18, 2007, we entered into an interest rate swap contract to mitigate interest rate risk on an initial notional amount of \$555 million in connection with the first lien term loan associated with the acquisition of PrairieWave. The swap agreement, which became effective May 3, 2007 and ends July 3, 2010, fixes \$451.1 million at 4.977% as of December 31, 2009.

The hedge notional amount for the next annual period is summarized below:

<u>Start date</u>	<u>End date</u>	<u>Amount</u>
October 3, 2009	January 3, 2010	\$451.1 million
January 3, 2010	April 2, 2010	\$449.7 million
April 3, 2010	July 3, 2010	\$398.4 million

On December 19, 2007, the Company entered into a second interest rate swap contract to mitigate interest rate risk on an initial notional amount of \$59 million, amortizing 1% annually, in connection with the incremental term loan associated with the acquisition of Graceba. The swap agreement, which became effective January 4, 2008 and ends September 30, 2010, fixes \$57.8 million of the floating rate debt at 3.995% as of December 31, 2009.

The notional amount for the next annual period is summarized below:

<u>Start date</u>	<u>End date</u>	<u>Amount</u>
December 31, 2009	March 30, 2010	\$57.8 million
March 31, 2010	June 29, 2010	\$57.7 million
June 30, 2010	September 30, 2010	\$57.5 million

On November 25, 2009, the Company entered into a third interest rate swap contract to mitigate interest rate risk on an initial notional amount of \$400 million. The swap agreement, which does not become effective until July 3, 2010 and ends April 3, 2012, will fix the scheduled notional amount of the floating rate debt at 1.98%.

The notional amount for the next annual period is summarized below:

<u>Start date</u>	<u>End date</u>	<u>Amount</u>
July 3, 2010	October 2, 2010	\$400.0 million
October 3, 2010	January 2, 2011	\$398.8 million

Until the December 31, 2008 reset of the borrowing rate on the \$59 million term loan, changes in the fair value of the Company's swap agreements were recorded as "Accumulated other comprehensive loss" in the equity section of the balance sheet, and the swap in variable to fixed interest rate was recorded as "Interest expense" on the statement of operations when the interest was incurred. Starting with the reset of the borrowing rate on December 31, 2008, changes in the fair value of the interest rate swaps are recorded as "Gain (loss) on interest rate derivative instruments" in the "Other income (expense)" section of the statement of operations as they are incurred. The Company recorded a gain on the change in the fair value of the interest rate swaps in the amount of \$12.1 million for the year ended December 31, 2009. All of the remaining balance in "Accumulated

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other comprehensive loss" in the stockholders' equity section of the balance sheet is related to the interest rate swaps, and it is amortized as "Amortization of deferred loss on interest rate swaps" on the statement of operations over the remaining life of the derivative instruments. The Company recorded amortization expense related to the deferred loss on interest rate swaps in the amount of \$18.3 million for the year ended December 31, 2009. As of December 31, 2009, there is \$10.3 million remaining in accumulated other comprehensive loss to be amortized over the remaining life of the derivative instruments. If the Company chooses 3-month LIBOR on future loan reset dates to match the rate on the interest rate swaps, then the interest rate swaps may again be eligible for hedge accounting and will be assessed for eligibility at that time.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Item 8 is incorporated by reference to pages F-1 through F-30 of this annual report.

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures. Our management, with the participation of the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of December 31, 2009. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that, as of December 31, 2009, our disclosure controls and procedures are effective.

Evaluation of Internal Control over Financial Reporting. Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, we have included a report on management's assessment of the design and effectiveness of our internal control over financial reporting as part of this Annual Report on Form 10-K for the year ended December 31, 2009. Our independent registered public accounting firm also audited, and reported on the effectiveness of our internal control over financial reporting. Management's report is included below under the caption "Management's Report on Internal Control over Financial Reporting" and the independent registered public accounting firm's attestation report is included below under the caption "Report of Independent Registered Public Accounting Firm on Internal Control over Financial Reporting".

Changes in Internal Control over Financial Reporting. There have been no changes in our internal control over financial reporting that occurred during the quarter ended December 31, 2009 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents**Index to Financial Statements****MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2009 based on the framework in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on that evaluation, our management concluded that our internal control over financial reporting was effective as of December 31, 2009.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

The effectiveness of our internal control over financial reporting as of December 31, 2009 has been audited by BDO Seidman, LLP, an independent registered public accounting firm, as stated in their report which is included elsewhere herein.

Date: March 15, 2010

/s/ RODGER L. JOHNSON
Rodger L. Johnson
Chief Executive Officer

/s/ M. TODD HOLT
M. Todd Holt
Chief Financial Officer

ITEM 9B. OTHER INFORMATION

None.

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Board of Directors and Stockholders
Knology, Inc.
West Point, Georgia

We have audited Knology, Inc.'s internal control over financial reporting as of December 31, 2009, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Knology Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Item 9A, Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Knology, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the related consolidated balance sheets of Knology, Inc. as of December 31, 2009 and 2008, and the related consolidated statements of operations, stockholders' deficit, and cash flows for each of the three years in the period ended December 31, 2009 and our report dated March 15, 2010 expressed an unqualified opinion.

/s/ BDO Seidman, LLP

Atlanta, Georgia
March 15, 2010

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The following table sets forth information regarding our officers and directors. Our board of directors is divided among three classes, with members serving three-year terms expiring in the years indicated. Our officers serve at the discretion of the board of directors and until the earlier of their resignation, termination or until their successors are duly elected and qualified.

<u>Name</u>	<u>Age</u>	<u>Position</u>	<u>Current Term Expires</u>
Rodger L. Johnson	62	Chief Executive Officer and Chairman of the Board	2011
M. Todd Holt	42	President and Chief Financial Officer	
Bret T. McCants	50	Executive Vice President of Operations	
John Treece	40	Vice President of Engineering and Chief Technical Officer	
Chad S. Wachter	43	Vice President, General Counsel and Secretary	
Alan A. Burgess (1)	74	Director	2012
Donald W. Burton (2)	67	Director	2010
Eugene I. Davis (1)(3)	56	Director	2011
O. Gene Gabbard (1)(2)	69	Director	2012
Campbell B. Lanier, III	59	Lead Director	2011
William H. Scott, III (2)(3)	62	Director	2010

- (1) Member of the audit committee.
 (2) Member of the compensation and stock option committee.
 (3) Member of the nominating committee.

Provided below are biographies of each of the officers and directors listed in the table above.

Rodger L. Johnson was appointed Chairman of the Board in July 2008 and continues as Chief Executive Officer, a position he has held since June 1999. Mr. Johnson had served as President from April 1999 to July 2008 and has served as a director since April 1999. Prior to joining us, Mr. Johnson had served as President and Chief Executive Officer, as well as a director, of Communications Central, Inc., a publicly traded provider of pay telephone services. Prior to joining Communications Central, Mr. Johnson served as the President and Chief Executive Officer of JKC Holdings, Inc., a consulting company providing advice to the information processing industry. In that capacity, Mr. Johnson also served as the Chief Operating Officer of CareCentric, Inc., a publicly traded medical software manufacturer. Before founding JKC Holdings, Inc., Mr. Johnson served for approximately eight years as the President and Chief Operating Officer and as the President and Chief Executive Officer of Firstwave Technologies, Inc., a publicly traded sales and marketing software provider. Mr. Johnson spent his early career from June 1971 to November 1984 with AT&T where he worked in numerous departments, including sales, marketing, engineering, operations and human resources. In his final job at AT&T, he directed the development of consumer market sales strategies for AT&T's Northeastern Region.

Todd Holt has served as our President since July 2008. He has also served as Chief Financial Officer since April 2009, having previously served in that position from August 2005 to July 2008. Mr. Holt was Knology's Corporate Controller from January 1998 to July 2005. Mr. Holt is a member of the American Institute of Certified Public Accountants and previously practiced public accounting as an audit manager with Ernst & Young.

Bret T. McCants has served as our Executive Vice President of Operations since July 2008 and served as our Senior Vice President of Operations from December 2004 to July 2008. From April 1997 to December 2004, Mr. McCants served as our Vice President of Network Services. Prior to joining Knology, Mr. McCants served

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as Director of Operations and Energy Management for CSW Communications. Mr. McCants has extensive experience in two-way customer controlled load management equipment and their facilitating networks. He has over twelve years of experience in operations, sales and marketing and engineering with the electric utility industry.

John Treece has served as our Vice President of Engineering and Chief Technical Officer since joining Knology in August 2009. Mr. Treece oversees our technology strategy for IP infrastructure, managing the direction of network operations, engineering, and information technology. From 2007 to 2009, Mr. Treece held the position of Vice President of Network Engineering for Comcast's Southern Division. From 2005 to 2007, Mr. Treece held the position of Director of Business Development with Juniper Networks. From 1999 to 2005, Mr. Treece held various positions with Comcast Corporation. Prior to that time, Mr. Treece also worked for Viacom and InterMedia Partners.

Chad S. Wachter has served as our Vice President since October 1999 and as General Counsel and Secretary since August 1998. From April 1997 to August 1998, Mr. Wachter served as Assistant General Counsel of Powertel, Inc., which was a provider of wireless communications services. From May 1990 until April 1997, Mr. Wachter was an associate and then a partner with Capell, Howard, Knabe & Cobbs, P.A. in Montgomery, Alabama.

Alan A. Burgess has been one of our directors since January 1999. From 1967 until his retirement in 1997, Mr. Burgess was a partner with Accenture (formerly Andersen Consulting). Over his 30-year career he held a number of positions with Accenture, including Managing Partner of Regulated Industries from 1974 to 1989. In 1989, he assumed the role of Managing Partner of the Communications Industry Group. In addition, he served on Accenture's Global Management council and was a member of the Partner Income Committee.

Donald W. Burton has been one of our directors since January 1996. Since December 1983, he has served as Managing General Partner of South Atlantic Venture Funds. Mr. Burton also has been the General Partner of the Burton partnerships since October 1979. Since January 1981, he has served as President and Chairman of South Atlantic Capital Corporation. Mr. Burton is a director of Capital Southwest Corporation and serves as an independent director on the BlackRock Equity Bond Board.

Eugene I. Davis has been one of our directors since November 2002. Mr. Davis is Chairman and Chief Executive Officer of Pirinate Consulting Group, LLC, a privately held consulting firm, and of RBX Industries, Inc., a manufacturer and distributor of rubber and plastic products. From May 1999 to June 2001, he served as Chief Executive Officer of SmarTalk Teleservices Corp., an independent provider of prepaid calling cards. Mr. Davis was Chief Operating Officer of Total-Tel Communications, Inc., a long-distance telecommunications provider from October 1998 to March 1999. Mr. Davis currently serves as the chairman of the board of Atlas Air Worldwide Holdings, Inc. In addition, during the past five years, Mr. Davis has held directorship positions with the following public companies: American Commercial Lines Inc., Exide Technologies, iPCS, Inc., Oglebay Norton Industrial Sands, Inc., Tipperary Corporation, Viskase Companies, Inc., McLeod Communications, Granite Broadcasting Corporation, Footstar Corporation, PRG-Schultz International, Inc., Silicon Graphics International Corp., SeraCare Life Sciences, Inc., FXI-Foamex Innovations, Ion Media Networks, Inc., Delta Airlines, Inc., Atari, Inc., Solutia Inc., Media General, Inc., Rural/Metro Corporation, TerreStar Corporation, Spectrum Brands, Inc., Ambassadors International, Inc., and DEX One Corporation.

O. Gene Gabbard has been one of our directors since September 2003. Mr. Gabbard has worked independently as an entrepreneur and consultant since February 1993. From August 1990 to January 1993, Mr. Gabbard served as Executive Vice President and Chief Financial Officer of MCI Communications Corporation. Mr. Gabbard also served from June 1998 to June 2002 as Chairman of the Board of ClearSource, Inc., a provider of broadband communications services. In January 2005, Mr. Gabbard was appointed to the Board of Directors of COLT Telecom Group, SA, Luxembourg, a provider of telecommunications service to businesses throughout Europe. Since June 2006, he has also been a member of the board and audit committee of

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Hughes Communications, Inc., Germantown, Maryland, the leading provider of satellite based data communications systems and services. He is currently a Special Limited Partner in Ballast Point Ventures, a venture capital fund based in St. Petersburg, Florida.

Campbell B. Lanier, III has been one of our directors since November 1995 and served as Chairman of the Board from September 1998 until July 2008, when he was designated as our Lead Director. Since May 2003, Mr. Lanier has served as Chairman and Chief Executive Officer of Magnolia Holding Company, LLC and Chairman of ITC Holding Company, LLC. Magnolia is a major shareholder in a promotional goods business, and a minor shareholder in Interactive Communications, Inc. (InComm), a provider of stored value card services, prepaid telephony, and other prepaid products. Mr. Lanier serves on the Board of Directors of InComm. ITC provides early stage funding for businesses in technology, telecom, and financial services. Mr. Lanier served as Chairman of the Board and Chief Executive Officer of ITC Holding Company, Inc. from its inception in May 1989 until its sale to West Corporation in May 2003. During this period, Mr. Lanier was also an officer and director of several subsidiaries of ITC Holding, Inc. In conjunction with the sale of ITC Holding Company, Inc. to West Corporation, the ITC Holding Company name was transferred to an entity owned by Mr. Lanier, and continues to operate currently as ITC Holding Company, LLC (noted above). In addition, since January 2008 Mr. Lanier has served as Manager of the General Partner of ITC Partners Fund I, LP, a private investment fund targeting primarily early stage technology companies. Mr. Lanier has also served as a Managing Director of South Atlantic Private Equity Fund, IV, Limited Partnership since July 1997, and as a Senior Director of Kinetic Ventures, LLC since January 2009.

William H. Scott, III has been one of our directors since November 1995. He served as President of ITC Holding Company, Inc. from December 1991 and was a director of that company until its sale in May 2003. Mr. Scott is a private investor in and serves as a director of several private companies.

The remaining information required by this Item 10 will be contained in our definitive proxy statement for our 2009 Annual Meeting of Stockholders to be filed with the SEC (the Proxy Statement) in the sections entitled "Information About Our Executive Officers, Directors and Nominees," "Meetings and Committees of the Board", "Section 16(a) Beneficial Ownership Reporting Compliance" and possibly elsewhere therein, and such information is incorporated in this Annual Report on Form 10-K by this reference.

We have adopted a code of ethics that applies to our employees, officers and directors, including our chief executive officer, chief financial officer, principal accounting officer and controller. This code of ethics is posted on our website located at www.knology.com. The code of ethics may be found as follows: from our main web page, first click on "Corporate Information" and then on "About Us" at the top of the page and then on "Investors." Next, click on "Corporate Governance." Finally, click on "Standards of Conduct." We intend to satisfy the disclosure requirement under Item 5.05 of Form 8-K regarding an amendment to, or waiver from, a provision of this code of ethics by posting such information on our website, at the address and location specified above.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item 11 will be contained in the sections entitled "Executive Compensation", "Compensation Committee Interlocks and Insider Participation" and "Meetings and Committees of the Board" of our 2010 Proxy Statement and possibly elsewhere therein, and such information is incorporated in this Annual Report on Form 10-K by this reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this Item 12 will be contained in the section entitled "Principal Stockholders" of our 2010 Proxy Statement and possibly elsewhere therein, and such information is incorporated in this Annual Report on Form 10-K by this reference.

Table of Contents**Index to Financial Statements****ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

The information required by this Item 13 will be contained in the section entitled "Transactions with Related Persons" of our 2010 Proxy Statement and possibly elsewhere therein, and such information is incorporated in this Annual Report on Form 10-K by this reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this Item 14 will be contained in the section entitled "Fees Paid to Independent Registered Public Accounting Firms" of our 2010 Proxy Statement and possibly elsewhere therein, and such information is incorporated in this Annual Report on Form 10-K by this reference.

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(a)(1) The following Consolidated Financial Statements of the Company and independent auditors' reports are included in Item 8 of this Annual Report on Form 10-K.

Report of Independent Registered Public Accounting Firm on Internal Control over Financial Reporting.

Report of Independent Registered Public Accounting Firm.

Consolidated Balance Sheets as of December 31, 2008 and 2009.

Consolidated Statements of Operations for the Years Ended December 31, 2007, 2008 and 2009.

Consolidated Statements of Stockholders' Equity for the Years Ended December 31, 2007, 2008 and 2009.

Consolidated Statements of Cash Flows for the Years Ended December 31, 2007, 2008 and 2009.

Notes to Consolidated Financial Statements.

(a)(2) All schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission either have been included in the Consolidated Financial Statements of the Company or the notes thereto, are not required under the related instructions or are inapplicable, and therefore have been omitted.

(a)(3) The following exhibits are either provided with this Form 10-K or are incorporated herein by reference:

<u>Exhibit No.</u>	<u>Exhibit Description</u>
2.1	Agreement and Plan of Merger, dated January 8, 2007, among Knology, Inc., PrairieWave Holdings, Inc., Knology Acquisition Sub, Inc., ALTA Communications VIII, L.P. and certain equity holders of PrairieWave Holdings, Inc. (Incorporated herein by reference to Exhibit 2.1 to Knology, Inc.'s Quarterly Report on Form 10-Q for the period ended March 31, 2007 (File No. 000-32647)).
2.2	Share Purchase Agreement, dated November 2, 2007, by and among Graceba Total Communications, Inc., C. Christopher Dupree, Knology, Inc. and Knology of Alabama, Inc. (Incorporated herein by reference to Exhibit 2.2 to Knology, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2007 (File No. 000-32647)).
3.1	Amended and Restated Certificate of Incorporation of Knology, Inc. (Incorporated herein by reference to Exhibit 3.1 to Knology, Inc.'s Quarterly Report Form 10-Q for the period ended June 30, 2004 (File No. 000-32647)).
3.2	Certificate of Designations of Powers, Preferences, Rights, Qualifications, Limitations and Restrictions of Series X Junior Participating Preferred Stock of Knology, Inc. (Incorporated herein by reference to Exhibit 3.1 to Knology, Inc.'s Current Report on Form 8-K filed July 29, 2005 (File No. 000-32647)).
3.3	Bylaws of Knology, Inc. (Incorporated herein by reference to Exhibit 3.2 to Knology, Inc. Registration Statement on Form S-1 (File No. 333-89179)).
4.1	Stockholder Protection Rights Agreement, dated as of July 27, 2005, by and between Knology, Inc. and Wachovia Bank, N.A., acting as Rights Agent (which includes as Exhibit A thereto the Form of Rights Certificate) (Incorporated herein by reference to Exhibit 4.1 to Knology, Inc.'s Current Report on Form 8-K filed July 29, 2005 (File No. 000-32647)).

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<u>Exhibit No.</u>	<u>Exhibit Description</u>
10.1.1	Stockholders Agreement dated February 7, 2000 among Knology, Inc., certain holders of the Series A preferred stock, the holders of Series B Preferred stock, certain management holders and certain additional stockholders (Incorporated herein by reference to Exhibit 10.84 to Knology, Inc.'s Post-Effective Amendment No. 2 to Form S-1 (File No. 333-89179)).
10.1.2	Amendment No. 1 to Stockholders Agreement, dated as of February 7, 2000, by and among Knology, Inc. and the other signatories thereto, dated as of January 12, 2001, by and among Knology, Inc. and the other signatories thereto (Incorporated herein by reference to Exhibit 10.2 to Knology, Inc.'s Current Report on Form 8-K filed January 26, 2001 (File No. 000-32647)).
10.1.3	Amendment No. 2 to Stockholders Agreement, dated as of February 7, 2000, by and among Knology, Inc. and the other signatories thereto, as amended as of January 12, 2001, dated as of October 18, 2002, by and among Knology, Inc. and the other signatories thereto (Incorporated herein by reference to Exhibit 10.1.3 to Knology, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2002 (File No. 000-32647)).
10.2	Lease, dated June 1, 2003 by and between D. L. Jordan, L.L.P. Family Partnership and Knology, Inc. (Incorporated herein by reference to Exhibit 10.62 to Knology, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2003 (File No. 000-32647)).
10.3	Pole Attachment Agreement dated January 1, 1998 by and between Gulf Power Company and Beach Cable, Inc. (Incorporated herein by reference to Exhibit 10.7 to Knology Broadband, Inc.'s Registration Statement on Form S-4 (File No. 333-43339)).
10.4	Telecommunications Facility Lease and Capacity Agreement, dated September 10, 1996, by and between Troup EMC Communications, Inc. and Cybernet Holding, Inc. (Incorporated herein by reference to Exhibit 10.16 to Knology Broadband, Inc.'s Registration Statement on Form S-4 (File No. 333-43339)).
10.5	Master Pole Attachment agreement dated January 12, 1998 by and between South Carolina Electric and Gas and Knology Holdings, Inc. d/b/a/ Knology of Charleston (Incorporated herein by reference to Exhibit 10.17 to Knology Broadband, Inc.'s Registration Statement on Form S-4 (File No. 333-43339)).
10.6	Lease Agreement, dated December 5, 1997 by and between The Hilton Company and Knology of Panama City, Inc. (Incorporated herein by reference to Exhibit 10.25 to Knology Broadband, Inc.'s Registration Statement on Form S-4 (File No. 333-43339)).
10.7	Certificate of Membership with National Cable Television Cooperative, dated January 29, 1996, of Cybernet Holding, Inc. (Incorporated herein by reference to Exhibit 10.34 to Knology Broadband, Inc.'s Registration Statement on Form S-4 (File No. 333-43339)).
10.8	Ordinance No. 99-16 effective March 16, 1999 between Columbus consolidated Government and Knology of Columbus Inc. (Incorporated herein by reference to Exhibit 10.18 to Knology Broadband, Inc.'s Annual Report on Form 10-K for the year ended December 31, 1998 (File No. 333-43339)).
10.9	Ordinance No. 16-90 (Montgomery, Alabama) dated March 6, 1990 (Incorporated herein by reference to Exhibit 10.44 to Knology Broadband, Inc.'s Registration Statement on Form S-4 (File No. 333-43339)).
10.10	Ordinance No. 50-76 (Montgomery, Alabama) (Incorporated herein by reference to Exhibit 10.45 to Knology Broadband, Inc.'s Registration Statement on Form S-4 (File No. 333-43339)).
10.11	Ordinance No. 9-90 (Montgomery, Alabama) dated January 16, 1990 (Incorporated herein by reference to Exhibit 10.45.1 to Knology Broadband, Inc.'s Registration Statement on Form S-4 (File No. 333-43339)).

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<u>Exhibit No.</u>	<u>Exhibit Description</u>
10.12	Resolution No. 58-95 (Montgomery, Alabama) dated April 6, 1995 (Incorporated herein by reference to Exhibit 10.46 to Knology Broadband, Inc.'s Registration Statement on Form S-4 (File No. 333-43339)).
10.13	Ordinance No. 78-2007 (Montgomery, Alabama), dated November 5, 2007 (Incorporated herein by reference to Exhibit 10.13 to Knology, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2007 (File No. 000-32647)).
10.14	Resolution No. 97-22 (Panama City Beach, Florida) dated December 3, 1997 (Incorporated herein by reference to Exhibit 10.49 to Knology Broadband, Inc.'s Registration Statement on Form S-4 (File No. 333-43339)).
10.15	Ordinance No. 5999 (Augusta, Georgia) dated January 20, 1998 (Incorporated herein by reference to Exhibit 10.53 to Knology Broadband, Inc.'s Annual Report on Form 10-K for the year ended December 31, 1997 (File No. 333-43339)).
10.16	Ordinance No. 1723 (Panama City, Florida) dated March 10, 1998 (Incorporated herein by reference to Exhibit 10.54 to Knology Broadband, Inc.'s Annual Report on Form 10-K for the year ended December 31, 1997 (File No. 333-43339)).
10.17	Franchise Agreement (Charleston County, South Carolina) dated December 15, 1998 (Incorporated herein by reference to Exhibit 10.31 to Knology Broadband, Inc.'s Annual Report on Form 10-K for the year ended December 31, 1998 (File No. 333-43339)).
10.18	Ordinance No. 1998-47 (North Charleston, South Carolina) dated May 28, 1998 (Incorporated herein by reference to Exhibit 10.32 to Knology Broadband, Inc.'s Annual Report on Form 10-K for the year ended December 31, 1998 (File No. 333-43339)).
10.19	Ordinance No. 1998-77 (Charleston, South Carolina) dated April 28, 1998 (Incorporated herein by reference to Exhibit 10.33 to Knology Broadband, Inc.'s Annual Report on Form 10-K for the year ended December 31, 1998 (File No. 333-43339)).
10.20	Ordinance No. 98-5 (Columbia County, Georgia) dated August 18, 1998 (Incorporated herein by reference to Exhibit 10.34 to Knology Broadband Inc.'s Annual Report on Form 10-K for the year ended December 31, 1998 (File No. 333-43339)).
10.21	Network Access Agreement dated July 1, 1998 between SCANA Communications, Inc., f/k/a MPX Systems, Inc. and Knology Holdings, Inc. (Incorporated herein by reference to Exhibit 10.36 to Knology Broadband, Inc.'s Annual Report on Form 10-K for the year ended December 31, 1998 (File No. 333-43339)).
10.22 †	Collocation Agreement for Multiple Sites dated on or about June 1998 between Interstate FiberNet, Inc. and Knology Holdings, Inc. (Incorporated herein by reference to Exhibit 10.38 to Knology Broadband, Inc.'s Annual Report on Form 10-K for the year ended December 31, 1998 (File No. 333-43339)).
10.23 †	Lease Agreement dated October 12, 1998 between Southern Company Services, Inc. and Knology Holdings, Inc. (Incorporated herein by reference to Exhibit 10.39 to Knology Broadband, Inc.'s Annual Report on Form 10-K for the year ended December 31, 1998 (File No. 333-43339)).
10.24	Facilities Transfer Agreement dated February 11, 1998 between South Carolina Electric and Gas Company and Knology Holdings, Inc., d/b/a Knology of Charleston (Incorporated herein by reference to Exhibit 10.40 to Knology Broadband, Inc.'s Annual Report on Form 10-K for the year ended December 31, 1998 (File No. 333-43339)).
10.25	License Agreement dated March 3, 1998 between BellSouth Telecommunications, Inc. and Knology Holdings, Inc. (Incorporated herein by reference to Exhibit 10.41 to Knology Broadband, Inc.'s Annual Report on Form 10-K for the year ended December 31, 1998 (File No. 333-43339)).

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<u>Exhibit No.</u>	<u>Exhibit Description</u>
10.26	Pole Attachment Agreement dated February 18, 1998 between Knology Holdings, Inc. and Georgia Power Company (Incorporated herein by reference to Exhibit 10.44 to Knology Broadband, Inc.'s Annual Report on Form 10-K for the year ended December 31, 1998 (File No. 333-43339)).
10.27	Assignment Agreement dated March 4, 1998 between Gulf Power Company and Knology of Panama City, Inc. (Incorporated herein by reference to Exhibit 10.46 to Knology Broadband, Inc.'s Annual Report on Form 10-K for the year ended December 31, 1998 (File No. 333-43339)).
10.28	Pole Attachment Agreement, dated April 12, 2007, between PrairieWave Black Hills, LLC and Black Hills Power, Inc. (Incorporated herein by reference to Exhibit 10.29 to Knology, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2007 (File No. 000-32647)).
10.29	Right of First Refusal and Option Agreement, Dated November 19, 1999 by and between Knology of Columbus, Inc. and ITC Service Company, Inc. (Incorporated herein by reference to Exhibit 10.60 to Knology, Inc.'s Registration Statement on Form S-1 (File No. 333-89179)).
10.304	Services Agreement dated November 2, 1999 between Knology, Inc. and ITC Service Company, Inc. (Incorporated herein by reference to Exhibit 10.61 to Knology, Inc.'s Registration Statement on Form S-1 (File No. 333-89179)).
10.31	Support Agreement, dated November 2, 1999 between Interstate Telephone Company, Inc. and ITC Service Company, Inc. (Incorporated herein by reference to Exhibit 10.62 to Knology, Inc.'s Registration Statement on Form S-1 (File No. 333-89179)).
10.32 **	Knology, Inc. Amended and Restated 2002 Long Term Incentive Plan (Incorporated by reference to Exhibit B to Knology, Inc.'s Proxy Statement for the 2004 Annual Meeting of Shareholders (File No. 000-32647)).
10.33	Joint Ownership Agreement dated as of December 8, 1998, among ITC Service Company, Powertel, Inc., ITC/DeltaCom Communications, Inc. and Knology Holdings, Inc. (Incorporated herein by reference to Exhibit 10.48 to Knology, Inc.'s Annual Report on Form 10-K for the year ended December 31, 1999 (File No. 000-32647)).
10.34 †	Dedicated Capacity Agreement between DeltaCom and Knology Holdings, Inc. dated August 22, 1997. (Incorporated herein by reference to Exhibit 10.50 to Knology, Inc.'s Annual Report on Form 10-K for the year ended December 31, 1999 (File No. 000-32647)).
10.35 †	Agreement for Telecommunications Services dated April 28, 1999 between ITC/DeltaCom Communications, Inc. and Knology Holdings, Inc. (Incorporated herein by reference to Exhibit 10.51 to Knology, Inc.'s Annual Report on Form 10-K for the year ended December 31, 1999 (File No. 000-32647)).
10.36 †	Amendment to Master Capacity Lease dated November 1, 1999 between Interstate Fibernet, Inc. and Knology Holdings, Inc. (Incorporated herein by reference to Exhibit 10.52 to Knology, Inc.'s Annual Report on Form 10-K for the year ended December 31, 1999 (File No. 000-32647)).
10.37	Duct Sharing Agreement dated July 27, 1999 between Knology Holdings, Inc. and Interstate Fiber Network. (Incorporated herein by reference to Exhibit 10.53 to Knology, Inc.'s Annual Report on Form 10-K for the year ended December 31, 1999 (File No. 000-32647)).
10.38	Assumption of Lease Agreement dated November 9, 1999 between Knology Holdings, Inc., ITC Holding Company, Inc. and J. Smith Lanier II. (Incorporated herein by reference to Exhibit 10.54 to Knology, Inc.'s Annual Report on Form 10-K for the year ended December 31, 1999 (File No. 000-32647)).

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<u>Exhibit No.</u>	<u>Exhibit Description</u>
10.39	Assumption of Lease Agreement dated November 9, 1999 among Knology Holdings, Inc., ITC Holding Company, Inc. and Midtown Realty, Inc. (Incorporated herein by reference to Exhibit 10.55 to Knology, Inc.'s Annual Report on Form 10-K for the year ended December 31, 1999 (File No. 000-32647)).
10.40 †	Contract for Centrex Switching Services dated January 4, 1999 between Interstate Telephone Company and InterCall, Inc. (Incorporated herein by reference to Exhibit 10.56 to Knology, Inc.'s Annual Report on Form 10-K for the year ended December 31, 1999 (File No. 000-32647)).
10.41	Sublease Agreement, dated as of December 30, 2003, by and between Verizon Media Ventures, Inc. and Knology Broadband of Florida, Inc. (Incorporated herein by reference to Exhibit 10.53 to Knology, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2003 (File No. 000-32647)).
10.42	State of Florida Department of State Certificate of Franchise Authority issued to Knology, Inc. on January 9, 2008, as amended June 10, 2008. (Incorporated herein by reference to Exhibit 10.42 to Knology, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 000-32647)).
10.43	Tennessee Regulatory Authority Certificate of Franchise Authority issued to Knology, Inc. on December 15, 2008. (Incorporated herein by reference to Exhibit 10.43 to Knology, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 000-32647)).
10.44 †	Lease, dated December 15, 2008 by and between D. L. Jordan Company and Knology, Inc. (Incorporated herein by reference to Exhibit 10.44 to Knology, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 000-32647)).
10.45	MCI Internet Dedicated OC12 Burstable Agreement, dated June 11, 2003, by and between Knology, Inc. and MCI WORLDCOM Communications, Inc. (Incorporated herein by reference to Exhibit 10.59 to Knology, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2003 (File No. 000-32647)).
10.46	Consent to Assignment and Assumption, dated December 17, 2003, among Verizon Media Ventures Inc., Progress Energy Florida, Inc. and Knology Broadband of Florida, Inc. (Incorporated herein by reference to Exhibit 10.60 to Knology, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2003 (File No. 000-32647)).
10.47	Lease, dated March 5, 2004, by and between Ted Alford and Knology, Inc. (Incorporated herein by reference to Exhibit 10.61 to Knology, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2003 (File No. 000-32647)).
10.48 **	Form of Stock Option Agreement (Incorporated herein by reference to Exhibit 10.62 to Knology, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2004 (File No. 000-32647)).
10.49 **	Description of Named Executive Officer and Director Compensation Arrangements (Incorporated herein by reference to Exhibit 10.57 to Knology, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2005 (File No. 000-32647)).
10.50	Amended and Restated Credit Agreement, dated as of March 14, 2007, among Knology, Inc., as Borrower and the Lenders and Issuers Party thereto and Credit Suisse, as Administrative Agent and Collateral Agent and Jefferies & Company, Inc., as Syndication Agent, Royal Bank of Canada and CIT Lending Services Corporation, as Co-Documentation Agents, and Credit Suisse Securities (USA) LLC, as Sole Bookrunner and Sole Lead Arranger (Incorporated herein by reference to Exhibit 10.1 to Knology, Inc.'s Quarterly Report on Form 10-Q for the period ended March 31, 2007 (File No. 000-32647)).

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<u>Exhibit No.</u>	<u>Exhibit Description</u>
10.51	Amended and Restated Pledge and Security Agreement, dated as of April 3, 2007, by and among Knology, Inc. as a Grantor and Each Other Grantor From Time to Time Party Thereto and Credit Suisse, Cayman Islands Branch, as Collateral Agent (Incorporated herein by reference to Exhibit 10.4 to Knology, Inc.'s Quarterly Report on Form 10-Q for the period ended June 30, 2007 (File No. 000-32647)).
10.52	Amended and Restated Trademark Security Agreement, dated as of April 3, 2007, by and among Knology, Inc., Knology Broadband, Inc., Valley Telephone Co., LLC, Black Hills FiberCom, LLC and PrairieWave Communications, Inc., each as a Grantor and Each Other Grantor From Time to Time Party Thereto and Credit Suisse, Cayman Islands Branch, as Collateral Agent (Incorporated herein by reference to Exhibit 10.5 to Knology, Inc.'s Quarterly Report on Form 10-Q for the period ended June 30, 2007 (File No. 000-32647)).
10.53	Amended and Restated Guaranty, dated as of April 3, 2007, executed by each Guarantor From Time to Time Party Thereto in Favor of the Administrative Agent, the Collateral Agent, each Lender, each Issuer and Each Other Holder of an Obligation (Incorporated herein by reference to Exhibit 10.6 to Knology, Inc.'s Quarterly Report on Form 10-Q for the period ended June 30, 2005 (File No. 000-32647)).
10.54	Revolving Note, dated as of April 3, 2007, in favor of Royal Bank of Canada (Incorporated herein by reference to Exhibit 10.2 to Knology, Inc.'s Quarterly Report on Form 10-Q for the period ended June 30, 2005 (File No. 000-32647)).
10.55	Revolving Note, dated as of April 3, 2007, in favor of CoBank, ACB (Incorporated herein by reference to Exhibit 10.3 to Knology, Inc.'s Quarterly Report on Form 10-Q for the period ended June 30, 2005 (File No. 000-32647)).
10.56 **	Knology, Inc. 2006 Incentive Plan (Incorporated herein by reference to Exhibit 99.1 to Knology Inc.'s Current Report on Form 8-K filed on May 9, 2006 (File No. 000-32647)).
10.57	First Amendment to Amended and Restated Credit Agreement dated as of March 14, 2007 by and among Knology, Inc., each Guarantor party thereto, each of the Incremental Term loan lenders party thereto and Credit Suisse, acting through one or more of its branches as Administrative Agent, such Second Amendment dated as of January 4, 2008 (Incorporated by reference to Exhibit 10.66 to Knology, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2007 (File No. 000-32647)).
10.58 **	Knology, Inc. 2008 Incentive Plan (Incorporated herein by reference to Exhibit 10.1 to Knology Inc.'s Amended Quarterly Report on Form 10-Q/A (Amendment No. 1) for the period ended June 30, 2008 (File No. 000-32647)).
10.59	Amendment No. 2, dated as of September 28, 2009, to the Amended and Restated Credit Agreement dated as of March 14, 2007 as amended on January 4, 2008, by and among Knology, Inc., as borrower, certain subsidiaries of Knology party thereto, as guarantors, the lenders named therein, the syndication and documentation co-agents named therein and Credit Suisse, acting through one or more of its branches, as administrative agent (Incorporated herein by reference to Exhibit 10.1 to Knology, Inc.'s Quarterly Report on Form 10-Q for the period ended September 30, 2009 (File No. 000-32647)).
21.1 ***	Subsidiaries of Knology, Inc.
23.1 ***	Consent of BDO Seidman, LLP.
31.1 ***	Certification of the Chief Executive Officer of Knology, Inc. pursuant to Securities Exchange Act Rule 13a-14.

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<u>Exhibit No.</u>	<u>Exhibit Description</u>
31.2 ***	Certification of the Chief Financial Officer of Knology, Inc. pursuant to Securities Exchange Act Rule 13a-14.
32.1 ***	Statement of the Chief Executive Officer of Knology, Inc. pursuant to §18 U.S.C. S. 1350.
32.2 ***	Statement of the Chief Financial Officer of Knology, Inc. pursuant to §18 U.S.C. S. 1350.

† Confidential treatment has been requested pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended. The copy on file as an exhibit omits the information subject to the confidentiality request. Such omitted information has been filed separately with the Commission.

** Compensatory plan or arrangement.

*** Filed herewith.

Table of ContentsIndex to Financial Statements**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

KNOLOGY, INC.

By: /s/ RODGER L. JOHNSON

Rodger L. Johnson
Chairman of the Board and
Chief Executive Officer

March 15, 2010
(Date)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated and on the dates indicated.

<u>SIGNATURE</u>	<u>TITLE</u>	<u>DATE</u>
<u>/s/ RODGER L. JOHNSON</u> Rodger L. Johnson	Chairman of the Board and Chief Executive Officer (Principal executive officer)	March 15, 2010
<u>/s/ M. TODD HOLT</u> M. Todd Holt	President and Chief Financial Officer (Principal financial officer and principal accounting officer)	March 15, 2010
<u>/s/ ALAN A. BURGESS</u> Alan A. Burgess	Director	March 15, 2010
<u>/s/ DONALD W. BURTON</u> Donald W. Burton	Director	March 15, 2010
<u>/s/ EUGENE I. DAVIS</u> Eugene I. Davis	Director	March 15, 2010
<u>/s/ O. GENE GABBARD</u> O. Gene Gabbard	Director	March 15, 2010
<u>/s/ CAMPBELL B. LANIER, III</u> Campbell B. Lanier, III	Director	March 15, 2010
<u>/s/ WILLIAM H. SCOTT III</u> William H. Scott III	Director	March 15, 2010

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Table of Contents**Index to Financial Statements****REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

Board of Directors and Stockholders
Knology, Inc.
West Point, Georgia

We have audited the accompanying consolidated balance sheets of Knology, Inc. as of December 31, 2009 and 2008 and the related consolidated statements of operations, stockholders' deficit, and cash flows for each of the three years in the period ended December 31, 2009. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Knology, Inc. at December 31, 2009 and 2008, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2009, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Knology, Inc.'s internal control over financial reporting as of December 31, 2009, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 15, 2010 expressed an unqualified opinion thereon.

/s/ BDO Seidman, LLP

Atlanta, Georgia
March 15, 2010

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KNOLOGY, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

		DECEMBER 31,	
		2008	2009
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents		\$ 57,362	\$ 44,016
Restricted cash		680	725
Certificates of deposit		0	35,050
Accounts receivable, net of allowance for doubtful accounts of \$1,014 and \$1,218 as of December 31, 2008 and 2009, respectively		32,641	32,668
Prepaid expenses and other		2,177	2,986
Total current assets		92,860	115,445
PROPERTY, PLANT AND EQUIPMENT, NET:			
System and installation equipment		835,160	886,018
Test and office equipment		64,692	68,426
Automobiles and trucks		8,932	7,549
Production equipment		781	781
Land		6,224	6,267
Buildings		37,576	37,740
Construction and premise inventory		10,069	9,454
Leasehold improvements		2,453	2,457
		965,887	1,018,692
Less accumulated depreciation and amortization		(586,177)	(660,812)
Property, plant, and equipment, net		379,710	357,880
OTHER LONG-TERM ASSETS:			
Goodwill		146,618	149,741
Customer base, net		10,684	8,661
Deferred debt issuance and debt modification costs, net		8,461	7,544
Investments		2,536	3,683
Other intangibles and other assets, net		2,549	3,947
Total assets		<u>\$ 643,418</u>	<u>\$ 646,901</u>
LIABILITIES AND STOCKHOLDERS' DEFICIT			
CURRENT LIABILITIES:			
Current portion of long term debt		\$ 7,615	\$ 9,841
Accounts payable		24,876	25,768
Accrued liabilities		20,405	22,349
Unearned revenue		14,289	14,795
Interest rate swaps		0	16,526
Total current liabilities		67,185	89,279
NONCURRENT LIABILITIES:			
Long term debt, net of current portion		604,068	591,514
Interest rate swaps		28,622	0
Total noncurrent liabilities		632,690	591,514
Total liabilities		699,875	680,793
COMMITMENTS AND CONTINGENCIES (NOTE 6)			
STOCKHOLDERS' EQUITY:			
Preferred stock, \$.01 par value per share; 199,000,000 shares authorized, 0 shares issued and outstanding at December 31, 2008 and 2009, respectively		0	0
Non-voting common stock, \$.01 par value per share; 25,000,000 shares authorized, none outstanding		0	0
Common stock, \$.01 par value per share; 200,000,000 shares authorized, 35,663,297 and 36,561,405 shares issued and outstanding at December 31, 2008 and 2009, respectively		357	366
Additional paid-in capital		594,843	602,508
Accumulated other comprehensive loss		(28,622)	(10,324)
Accumulated deficit		(623,035)	(626,442)
Total stockholders' deficit		(56,457)	(33,892)
Total liabilities and stockholders' deficit		<u>\$ 643,418</u>	<u>\$ 646,901</u>

See notes to consolidated financial statements.

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KNOLOGY, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

	YEAR ENDED DECEMBER 31,		
	2007	2008	2009
OPERATING REVENUES:			
Video	\$ 146,457	\$ 171,439	\$ 184,040
Voice	117,316	137,411	131,127
Data	78,986	93,459	98,571
Other	4,893	7,921	11,827
Total operating revenues	347,652	410,230	425,565
OPERATING EXPENSES:			
Direct costs (excluding depreciation and amortization)	104,060	123,663	132,870
Selling, general and administrative	141,308	156,364	154,925
Depreciation and amortization	85,776	95,375	90,702
Capital markets activity	219	0	0
Total operating expenses	331,363	375,402	378,497
OPERATING INCOME	16,289	34,828	47,068
OTHER INCOME (EXPENSE):			
Interest income	784	746	656
Interest expense	(41,406)	(47,332)	(41,632)
Debt modification expense	0	0	(3,422)
Loss on debt extinguishment	(27,375)	0	0
Gain (loss) on interest rate derivative instruments	(758)	0	12,096
Amortization of deferred loss on interest rate swaps	0	0	(18,298)
Loss on adjustment of warrants to market	(262)	0	0
Other than temporary impairment of investments	0	0	(353)
Other income (expense), net	(53)	(367)	478
Total other expense	(69,070)	(46,953)	(50,475)
LOSS FROM CONTINUING OPERATIONS	(52,781)	(12,125)	(3,407)
INCOME FROM DISCONTINUED OPERATIONS			
(includes gain on disposal of \$8,251 in 2007) (Note 10)	8,863	0	0
NET LOSS	\$ (43,918)	\$ (12,125)	\$ (3,407)
LOSS FROM CONTINUING OPERATIONS PER SHARE	\$ (1.51)	\$ (0.34)	\$ (0.09)
INCOME FROM DISCONTINUED OPERATIONS PER SHARE	0.25	0.00	0.00
BASIC AND DILUTED NET LOSS PER SHARE	\$ (1.25)	\$ (0.34)	\$ (0.09)
BASIC AND DILUTED WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	35,064,110	35,520,016	35,990,536

See notes to consolidated financial statements.

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KNOLOGY, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(DOLLARS IN THOUSANDS)

	<u>COMMON STOCK</u>		<u>ADDITIONAL PAID-IN CAPITAL</u>	<u>ACCUMULATED OTHER COMPREHENSIVE LOSS</u>	<u>ACCUMULATED DEFICIT</u>	<u>TOTAL STOCKHOLDERS' EQUITY (DEFICIT)</u>
	<u>SHARES</u>	<u>AMOUNT</u>				
BALANCE, December 31, 2006	34,780,896	\$ 348	\$ 584,017	\$ 0	\$ (566,992)	\$ 17,373
Net loss					(43,918)	(43,918)
Change in fair value of interest rate swap				(13,782)		(13,782)
Exercise of stock options and stock awards	478,178	4	1,720			1,724
Non-cash stock option compensation			2,799			2,799
Exercise of warrants	50,938	1	853			854
BALANCE, December 31, 2007	35,310,012	\$ 353	\$ 589,389	\$ (13,782)	\$ (610,910)	\$ (34,950)
Net loss					(12,125)	(12,125)
Change in fair value of interest rate swap				(14,840)		(14,840)
Exercise of stock options and stock awards	353,285	4	814			818
Non-cash stock option compensation			4,640			4,640
BALANCE, December 31, 2008	35,663,297	\$ 357	\$ 594,843	\$ (28,622)	\$ (623,035)	\$ (56,457)
Net loss					(3,407)	(3,407)
Amortization of deferred loss on interest rate swaps				18,298		18,298
Exercise of stock options and stock awards	898,108	9	1,467			1,476
Non-cash stock option compensation			6,198			6,198
BALANCE, December 31, 2009	36,561,405	\$ 366	\$ 602,508	\$ (10,324)	\$ (626,442)	\$ (33,892)

See notes to consolidated financial statements.

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KNOLOGY, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(DOLLARS IN THOUSANDS)

	YEAR ENDED DECEMBER 31,		
	2007	2008	2009
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	\$ (43,918)	\$ (12,125)	\$ (3,407)
Income and gain on discontinued operations	8,863	0	0
	(52,781)	(12,125)	(3,407)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation and amortization	85,776	95,375	90,702
Loss on debt extinguishment	9,251	0	0
Non-cash stock compensation	2,799	4,640	6,198
Accretion of second lien term loan	169	0	0
Non-cash bank loan interest expense	3,077	2,836	2,748
Non-cash loss (gain) on interest rate swaps	758	0	(12,096)
Non-cash amortization of deferred loss on interest rate swaps	0	0	18,298
Non-cash loss on investments	0	0	353
Provision for bad debt	5,004	5,326	5,774
Loss (gain) on disposition of assets	67	392	(160)
Loss on adjustment of warrants to market	262	0	0
Changes in operating assets and liabilities:			
Accounts receivable	(6,592)	(7,170)	(5,754)
Prepaid expenses and other assets	1,427	(261)	(1,662)
Accounts payable	344	(2,541)	712
Accrued liabilities	7,316	(6,196)	1,944
Unearned revenue	133	(299)	506
Total adjustments	109,791	92,102	107,563
Net cash provided by operating activities from continuing operations	57,010	79,977	104,156
Net cash provided by operating activities from discontinued operations	497	0	0
Net cash provided by operating activities	57,507	79,977	104,156
CASH FLOWS FROM INVESTING ACTIVITIES:			
Capital expenditures	(45,792)	(46,349)	(54,901)
Acquisition of businesses, net of cash acquired	(256,162)	(75,145)	(7,500)
Investment in certificates of deposit	0	0	(35,050)
Investment in Tower Cloud, Inc.	0	0	(1,500)
MDU signing bonuses and other intangible expenditures	(377)	(1,104)	(950)
Proceeds from sale of property	498	277	266
Change in restricted cash	161	779	(45)
Net cash used in investing activities from continuing operations	(301,672)	(121,542)	(99,680)
Net cash provided by investing activities from discontinued operations	8,599	0	0
Net cash used in investing activities	(293,073)	(121,542)	(99,680)

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KNOLOGY, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS—(Continued)
(DOLLARS IN THOUSANDS)

	YEAR ENDED DECEMBER 31,		
	2007	2008	2009
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from long term debt	555,000	59,000	0
Principal payments on debt and short-term borrowings	(273,688)	(7,134)	(17,467)
Expenditures related to issuance and modification of long term debt	(13,316)	(205)	(1,831)
Stock options exercised	1,724	818	1,476
Proceeds from unwind of interest rate hedge instrument	716	0	0
Proceeds from exercised warrants	1	0	0
Net cash provided by (used in) financing activities	270,437	52,479	(17,822)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	34,871	10,914	(13,346)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	11,577	46,448	57,362
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 46,448</u>	<u>\$57,362</u>	<u>\$ 44,016</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Cash paid during the year for interest	\$ 32,679	\$44,655	\$ 39,532
Non-cash financing activities: Debt acquired (adjusted) in capital lease transactions	\$ 682	\$ 4,499	\$ 7,140
Detail of acquisition:			
Accounts receivables, net	6,287	644	48
Prepaid expenses	1,322	75	4
Property, plant and equipment	197,726	18,631	4,399
Goodwill	57,804	47,980	3,123
Customer base	4,402	9,135	106
Intangible and other assets	1,234	0	0
Investments	1,293	0	0
Accounts payable	(7,414)	(583)	(180)
Accrued liabilities	(3,022)	(737)	0
Unearned revenue	(3,470)	0	0
Cash paid for acquisition, net of cash acquired of \$2,680 in 2007, \$459 in 2008 and \$0 for 2009	<u>\$ 256,162</u>	<u>\$75,145</u>	<u>\$ 7,500</u>

See notes to consolidated financial statements

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Knology, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
(dollars in thousands, except per share)

1. Organization, Nature of Business, and Basis of Presentation**Organization and Nature of Business**

Knology, Inc. and its subsidiaries ("Knology" or the "Company") is a publicly traded company incorporated under the laws of the State of Delaware in September 1998.

Knology owns and operates an advanced interactive broadband network and provides residential and business customers broadband communications services, including analog and digital cable television, local and long-distance telephone, high-speed Internet access, and broadband carrier services to various markets in the Southeastern and Midwestern United States. Certain subsidiaries are subject to regulation by state public service commissions of applicable states for intrastate telecommunications services. For applicable interstate matters related to telephone service, certain subsidiaries are subject to regulation by the Federal Communications Commission.

Basis of presentation

The consolidated financial statements of Knology have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The statements include the accounts of the Company's wholly owned subsidiaries. All intercompany transactions and balances have been eliminated. Investments in which the Company does not exercise significant influence are accounted for using the cost method of accounting.

The Company operates as one operating segment.

Certain prior year amounts have been reclassified to conform to current year presentation. Corresponding changes have been made to the Company's Consolidated Balance Sheets, Statements of Operations and Statements of Cash Flows as appropriate.

On April 3, 2007, the Company completed its acquisition of PrairieWave Holdings, Inc. ("PrairieWave"), a voice, video and high-speed Internet broadband services provider in the Rapid City and Sioux Falls, South Dakota regions, as well as portions of Minnesota and Iowa. The financial position and results of operations for PrairieWave are included in the Company's consolidated financial statements since the date of acquisition.

On January 4, 2008, the Company completed its acquisition of Graceba Total Communications Group, Inc. ("Graceba"), a voice, video and high-speed Internet broadband services provider in Dothan, Alabama. The financial position and results of operations for Graceba are included in the Company's consolidated financial statements since the date of acquisition.

On November 17, 2009, the Company completed its acquisition of the assets of Private Cable Co., LLC ("PCL Cable"), a voice, video and high-speed Internet broadband services provider in Athens and Decatur, Alabama. The financial position and results of operations for PCL Cable are included in the Company's consolidated financial statements since the date of acquisition.

Table of Contents**Index to Financial Statements****2. Summary of Significant Accounting Policies****Accounting estimates**

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, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. On an on-going basis, the Company evaluates its estimates, including those related to collectibility of accounts receivable, valuation of investments, valuation of stock based compensation, useful lives of property, plant and equipment, recoverability of goodwill and intangible assets, income taxes and contingencies. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. These changes in estimates are recognized in the period they are realized.

Cash and cash equivalents

Cash and cash equivalents are highly liquid investments with an original maturity of three months or less at the date of purchase and consist of time deposits and investment in money market funds with commercial banks and financial institutions. At times throughout the year and at year-end, cash balances held at financial institutions were in excess of federally insured limits.

Restricted cash

Restricted cash is presented as a current asset since the associated maturity dates expire within one year of the balance sheet date.

As of December 31, 2008 and 2009, the Company had \$680 and \$725, respectively, of cash that was restricted in use, all of which was pledged as collateral related to certain insurance, franchise and surety bond agreements.

Allowance for doubtful accounts

The allowance for doubtful accounts represents the Company's best estimate of probable losses in the accounts receivable balance. The allowance is based on known troubled accounts, historical experience and other currently available evidence. The Company writes off and sends to collections any accounts receivable 115 days past due. Activity in the allowance for doubtful accounts is as follows:

<u>Year ended December 31</u>	<u>Balance at beginning of period</u>	<u>Charged to operating expenses</u>	<u>Write-offs</u>	<u>Recoveries</u>	<u>Balance at end of period</u>
2007	\$ 687	\$ 5,004	\$ 6,442	\$ 1,726	\$ 975
2008	\$ 975	\$ 5,326	\$ 7,002	\$ 1,715	\$ 1,014
2009	\$ 1,014	\$ 5,774	\$ 6,701	\$ 1,131	\$ 1,218

Property, plant, and equipment

Property, plant, and equipment are stated at cost. Depreciation and amortization are calculated using the straight-line method over the estimated useful lives of the assets, commencing when the asset is installed or placed in service. Maintenance, repairs, and renewals are charged to expense as incurred. The cost and accumulated depreciation of property and equipment disposed of are removed from the related accounts, and any gain or loss is included in or deducted from income. Depreciation and amortization (excluding telephone plant

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which is depreciated by composite rates regulated by the Public Service Commission) are provided over the estimated useful lives as follows:

	<u>Years</u>
Buildings	25
System and installation equipment	3-10
Production equipment	9
Test and office equipment	3-7
Automobiles and trucks	5
Leasehold improvements	5-25

Depreciation expense for the years ended December 31, 2007, 2008 and 2009 was \$83,989, \$92,575 and \$88,164, respectively. Inventories are valued at the lower of cost (determined on a weighted average basis) or market and include customer premise equipment and certain plant construction materials. These items are transferred to system and installation equipment when installed.

Goodwill and intangible assets

Summarized below are the carrying values and accumulated amortization of intangible assets that will continue to be amortized under the Financial Accounting Standards Board ("FASB")'s accounting guidance, as well as the carrying value of goodwill as of December 31, 2008 and 2009.

	<u>2008</u>	<u>2009</u>	<u>Weighted average amortization period (years)</u>
Customer base	\$ 13,997	\$ 14,103	6.9
Other	3,622	4,571	7.5
Gross carrying value of intangible assets subject to amortization	17,619	18,674	
Less: Accumulated amortization			
Accumulated amortization, customer base	3,313	5,442	
Accumulated amortization, other	2,015	2,423	
Total accumulated amortization	5,328	7,865	
Net carrying value	12,291	10,809	
Goodwill	146,618	149,741	
Total goodwill and intangibles	<u>\$158,909</u>	<u>\$160,550</u>	

Goodwill represents the excess of the cost of businesses acquired over fair value or net identifiable assets at the date of acquisition. Goodwill is subject to a periodic impairment assessment by applying a fair value test based upon a two-step method. The first step of the process compares the fair value of the reporting unit with the carrying value of the reporting unit, including any goodwill. The Company utilizes a discounted cash flow valuation methodology to determine the fair value of the reporting unit. If the fair value of the reporting unit exceeds the carrying amount of the reporting unit, goodwill is deemed not to be impaired and the second step in the process is unnecessary. If the carrying amount exceeds fair value, the Company would perform the second step to measure the amount of impairment loss. Any impairment loss is measured by comparing the implied fair value of goodwill, calculated in accordance with the appropriate FASB guidance, to the carrying amount of goodwill at the reporting unit. The excess of the carrying amount over the fair value would be recognized as an impairment loss. The Company has adopted January 1 as the calculation date and evaluated these assets as of January 1, 2008, 2009 and 2010, and no impairment was identified.

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A summary of changes in the Company's goodwill and other intangibles related to continuing operations during the years ended December 31, 2009 and 2008 is as follows:

	December 31, 2008	Acquisitions	Amortization and other activity	December 31, 2009
Goodwill	\$ 147,912	\$ 3,123		\$ 151,035
Accumulated Impairment	(1,294)	0	0	(1,294)
Customer Base	10,684	106	\$ (2,129)	8,661
Other	1,607		541	2,148
Total goodwill and intangibles	<u>\$ 158,909</u>			<u>\$ 160,550</u>

	December 31, 2007	Acquisitions	Amortization and other activity	December 31, 2008
Goodwill	\$ 99,932	\$ 47,980		\$ 147,912
Accumulated Impairment	(1,294)	0	0	(1,294)
Customer Base	3,673	9,135	\$ (2,124)	10,684
Other	1,178		429	1,607
Total goodwill and intangibles	<u>\$ 103,489</u>			<u>\$ 158,909</u>

Amortization expense related to intangible assets was \$1,787, \$2,800 and \$2,538 for the years ended December 31, 2007, 2008 and 2009, respectively. If incurred, the company capitalizes the costs incurred to renew or extend the costs of a recognized intangible asset.

Scheduled amortization of intangible assets for the next five years as of December 31, 2009 is as follows:

2010	\$ 2,453
2011	2,209
2012	1,475
2013	1,473
2014	1,449
Thereafter	1,750
	<u>\$10,809</u>

Deferred debt issuance and debt modification costs

Deferred debt issuance and debt modification costs include costs associated with the issuance, refinancing and modification of debt and credit facilities (see Note 4). Deferred debt issuance and debt modification costs are amortized to interest expense over the contractual term of the debt using the effective interest method. Deferred debt issuance and debt modification costs and the related useful lives and accumulated amortization as of December 31, 2008 and 2009 are as follows:

	2008	2009	Amortization Period (Years)
Previous deferred debt issuance costs	\$11,092	\$ 8,461	4-6
Expenditures related to bank loans	205	1,831	4-6
Costs amortized to interest expense	(2,836)	(2,748)	
Deferred debt issuance costs, net	<u>\$ 8,461</u>	<u>\$ 7,544</u>	4-6

Table of Contents**Index to Financial Statements****Derivative Financial Instruments**

The Company uses interest rate swap contracts to manage the impact of interest rate changes on earnings and operating cash flows. Interest rate swaps involve the receipt of variable-rate amounts in exchange for fixed-rate payments over the life of the agreements without exchange of the underlying principal amount. The Company believes these agreements are with counter-parties who are creditworthy financial institutions.

In July 2005, the Company entered into an interest rate cap agreement with Credit Suisse First Boston International with a notional amount of \$280,000 to cap its adjustable LIBOR rate at 5%, mitigating interest rate risk on the first and second lien term loans. The Company paid \$1,270 for this cap agreement, which became effective July 29, 2005 and terminated July 29, 2008. The Company did not designate the cap agreement as an accounting hedge under the FASB accounting guidance. Accordingly, changes in fair value of the cap agreement were recorded through earnings as derivative gains/(losses). "Gain (loss) on interest rate derivative instrument" in relation to this interest rate cap agreement was \$(758) for the year ended December 31, 2007. On April 18, 2007, the Company unwound its existing interest rate cap agreement for \$716 cash proceeds.

On April 18, 2007, the Company entered into an interest rate swap contract to mitigate interest rate risk on an initial notional amount of \$555,000 in connection with the term loan associated with the acquisition of PrairieWave. The swap agreement, which became effective May 3, 2007 and ends July 3, 2010, fixes \$451,125 of the floating rate debt at 4.977% as of December 31, 2009.

The notional amount for the next annual period is summarized below:

<u>Start date</u>	<u>End date</u>	<u>Amount</u>
October 3, 2009	January 2, 2010	\$451,125
January 3, 2010	April 2, 2010	\$449,738
April 3, 2010	July 3, 2010	\$398,350

On December 19, 2007, the Company entered into a second interest rate swap contract to mitigate interest rate risk on an initial notional amount of \$59,000, amortizing 1% annually, in connection with the incremental term loan associated with the acquisition of Graceba. The swap agreement, which became effective January 4, 2008 and ends September 30, 2010, fixes \$57,820 of the floating rate debt at 3.995% as of December 31, 2009.

The notional amount for the next annual period is summarized below:

<u>Start date</u>	<u>End date</u>	<u>Amount</u>
December 31, 2009	March 30, 2010	\$57,820
March 31, 2010	June 29, 2010	\$57,673
June 30, 2010	September 30, 2010	\$57,525

On November 25, 2009, the Company entered into a third interest rate swap contract to mitigate interest rate risk on an initial notional amount of \$400,000. The swap agreement, which does not become effective until July 3, 2010 and ends April 3, 2012, will fix the scheduled notional amount of the floating rate debt at 1.98%. The interest rate swap is recorded at fair value on December 31, 2009, and the income statement reflects any changes in fair value for the period then ended.

The notional amount for the next annual period is summarized below:

<u>Start date</u>	<u>End date</u>	<u>Amount</u>
July 3, 2010	October 2, 2010	\$400,000
October 3, 2010	January 2, 2011	\$398,800

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Knology has borrowings under term loans that bear interest at variable rates (see Note 4—Long-Term Debt). For the two term loans in existence as of December 31, 2008, the Company is able to choose interest rates on its debt at a base rate of 1-month, 2-month, 3-month or 6-month LIBOR. Interest costs are calculated and paid for the corresponding period, followed by another rate reset period.

Until December 31, 2008, the Company matched 3-month LIBOR rates on the term loans and the interest rate swaps, creating effective hedges under the FASB's guidance on accounting for derivative instruments and hedging activities. Due to a significant difference between the 1-month and 3-month LIBOR rates, the Company decided to reset the borrowing rate on the debt using 1-month LIBOR.

- On December 31, 2008, the Company reset the borrowing rate on the \$59,000 term loan to 1-month LIBOR (although this became an ineffective hedge under the FASB's accounting guidance, there was no material effect on the Company's financial results for the one day in 2008).
- On January 2, 2009, the Company reset the borrowing rate on the \$555,000 term loan to 1-month LIBOR.
- The Company has continued to use 1-month LIBOR for the subsequent reset periods on the related term loans in January through December 2009. The Company will determine LIBOR rates on future reset dates based on prevailing conditions at the time.

As a result of the LIBOR rates on the term loans (1-month LIBOR) not matching the LIBOR rate on the interest rate swaps (3-month LIBOR), the Company is no longer eligible for hedge accounting related to the interest rate swaps associated with both of these loans.

Until the December 31, 2008 reset of the borrowing rate on the \$59,000 term loan, changes in the fair value of the Company's swap agreements were recorded as "Accumulated other comprehensive loss" in the equity section of the balance sheet, and the swap in variable to fixed interest rate was recorded as "Interest expense" on the statement of operations when the interest was incurred. Starting with the reset of the borrowing rate on December 31, 2008, changes in the fair value of the interest rate swaps are recorded as "Gain (loss) on interest rate derivative instruments" in the "Other income (expense)" section of the statement of operations as they are incurred. The Company recorded a gain on the change in the fair value for the interest rate swaps in the amount of \$12,096 for the year ended December 31, 2009. All of the remaining balance in "Accumulated other comprehensive loss" in the stockholders' equity section of the balance sheet is related to the interest rate swaps, and it is amortized as "Amortization of deferred loss on interest rate swaps" on the statement of operations over the remaining life of the derivative instruments. The Company recorded amortization expense related to the deferred loss on interest rate swaps in the amount of \$18,299 for the year ended December 31, 2009. As of December 31, 2009, there is \$10,324 remaining in accumulated other comprehensive loss to be amortized over the remaining life of the derivative instruments. If the Company chooses 3-month LIBOR on future loan reset dates to match the rate on the interest rate swaps, then the interest rate swaps may again be eligible for hedge accounting and will be assessed for eligibility at that time.

Valuation of long-lived assets

In accordance with FASB accounting guidance, the Company reviews long-lived assets for impairment when circumstances indicate the carrying amount of an asset may not be recoverable based on the undiscounted future cash flows of the asset. If the carrying amount of the asset is determined not to be recoverable, a write-down to fair value is recorded. The Company evaluated these assets as of December 31, 2009, and no impairment was identified.

Direct Costs

Cost of services related to video consists primarily of monthly fees to the National Cable Television Cooperative and other programming providers and is generally based on the average number of subscribers to each program. Cost of services related to voice, data and other services consists primarily of transport cost and

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network access fees specifically associated with each of these revenue streams. Pole attachment rents are paid to utility companies for space on their utility poles to deliver the Company's various services. Other network rental expenses consist primarily of network hub rents.

Stock-based compensation

The Company utilizes the recognition provisions of the related FASB accounting guidance for stock-based employee compensation. As a result, the Company recorded \$2,799, \$4,640 and \$6,198 of non-cash stock compensation expense, which was included in selling, general and administrative expenses on the statement of operations for the years ended December 31, 2007, 2008 and 2009, respectively. See Note 8—Equity Interests for further discussion of the assumptions used in calculating non-cash stock compensation expense.

Investments

Investments and equity ownership in associated companies consisted of the following as of December 31, 2008 and 2009:

	2008	2009
Grande Communications ("Grande")	\$1,243	\$ 0
Rio Holdings, Inc. ("Rio Holdings")	0	890
PrairieWave Condominium Association ("PWCA")	1,293	1,293
Tower Cloud, Inc. ("Tower Cloud")	0	1,500
Total investments	<u>\$2,536</u>	<u>\$3,683</u>

As of December 31, 2008, the Company, through its wholly owned subsidiaries, owned approximately 10,946,556 shares, or 1.5%, of the common stock of Grande. The Company's investment in Grande was accounted for under the cost method of accounting adjusted for impairment write downs. During 2009, the ownership of Grande was reorganized to form a new operating LLC, called Grande Communications Networks, LLC. Upon reorganization, all existing shareholders in Grande, including Knology, were combined to form the new Rio Holdings, Inc. Rio Holdings owns 24.7% class A general partnership units in the newly formed Grande Investment, L.P., which through a holding company owns 100% of Grande Communications Networks, LLC. The Company's investment in Rio Holdings is accounted for under the cost method of accounting adjusted for impairment write downs.

As part of the PrairieWave acquisition, the Company acquired an investment in PWCA. In 2003, PrairieWave formed PWCA to which it contributed land with a book value of \$1,207 and other assets of \$86. On June 10, 2003, PrairieWave and a real estate developer entered into a Condominium Unit Purchase Agreement, whereby the developer committed to construct a building connected to PrairieWave's headquarters building. The real estate developer paid PrairieWave one dollar and granted PrairieWave the option to acquire its condominium interest in PWCA and the building to be constructed for approximately \$5,200. The option is exercisable from June 1, 2012 to May 31, 2013. PrairieWave appoints two members and the real estate developer appoints one member to PWCA's three-member board. The Company's investment in PWCA is accounted for under the equity method of accounting.

As of December 31, 2009, the Company, through its wholly owned subsidiaries, owned approximately 4,687,500 shares, or 7.6%, of the series A preferred stock of Tower Cloud. The Company's investment in Tower Cloud is accounted for under the cost method of accounting adjusted for impairment write downs. The Company did not estimate the fair value of the investment in Tower Cloud since there are no identified events or changes in circumstances that may have a significant adverse effect on the fair value of the investment.

Table of Contents**Index to Financial Statements****Accrued liabilities**

Accrued liabilities as of December 31, 2008 and 2009 consisted of the following:

	2008	2009
Accrued trade expenses	\$ 5,249	\$ 5,328
Accrued property and other taxes	2,659	2,518
Accrued compensation	2,693	5,347
Accrued interest	9,804	9,156
Total accrued liabilities	<u>\$20,405</u>	<u>\$22,349</u>

Fair Value of Financial Instruments

The Company adopted the required provisions of the FASB's accounting guidance pertaining to the valuation of financial instruments on January 1, 2008. The guidance defines fair value, expands related disclosure requirements and specifies a hierarchy of valuation techniques based on the nature of the inputs used to develop the fair value measures. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The FASB accounting guidance establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

- Level 1—Observable inputs such as quoted prices in active markets for identical assets or liabilities;
- Level 2—Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; and
- Level 3—Unobservable inputs that are supported by little or no market activity, which require management judgment or estimation.

Assets and liabilities measured at fair value on a recurring basis are summarized below:

December 31, 2008			
	Level 1	Level 2	Level 3
	Total Assets/Liabilities, at Fair Value		
Liabilities			
Interest rate swaps	\$ 0	\$28,622	\$ 0
Total liabilities	<u>\$ 0</u>	<u>\$28,622</u>	<u>\$ 0</u>
December 31, 2009			
	Level 1	Level 2	Level 3
	Total Assets/Liabilities, at Fair Value		
Assets			
Certificates of deposit	\$ 0	\$35,050	\$ 0
Total assets	<u>\$ 0</u>	<u>\$35,050</u>	<u>\$ 0</u>
Liabilities			
Interest rate swaps	\$ 0	\$16,526	\$ 0
Total liabilities	<u>\$ 0</u>	<u>\$16,526</u>	<u>\$ 0</u>

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The Company used a discounted cash flow analysis applied to the LIBOR forward yield curves to value the interest rate swaps on its balance sheet at December 31, 2009.

The carrying values of cash and cash equivalents, certificates of deposit, accounts receivable, accounts payable and accrued liabilities are reasonable estimates of their fair values due to the short maturity of these financial instruments.

The estimated fair value of the Company's variable-rate debt is subject to the effects of interest rate risk. On December 31, 2009, the estimated fair value of that debt, based on a dealer quote considering current market rates, was approximately \$571,529, compared to a carrying value of \$590,203.

Revenue recognition

Knology accounts for the revenue, costs and expense related to residential cable services (including video, voice, data and other services) in accordance with the proper FASB accounting guidance relating to financial reporting by cable television companies. Installation revenue for residential cable services is recognized to the extent of direct selling costs incurred. Direct selling costs, or commissions, have exceeded installation revenue in all reported periods and are expensed as period costs in accordance with the FASB guidance. Credit risk is managed by disconnecting services to customers who are delinquent.

All other revenue is accounted for in accordance with the FASB's revenue recognition guidance. In accordance with this guidance, revenue from advertising sales is recognized as the advertising is transmitted over the Company's broadband network. Revenue derived from other sources, including commercial data and other services, is recognized as services are provided, as persuasive evidence of an arrangement exists, the price to the customer is fixed and determinable and collectibility is reasonably assured.

The Company generates recurring revenues for its broadband offerings of video, voice and data and other services. Revenues generated from these services primarily consists of a fixed monthly fee for access to cable programming, local phone services and enhanced services and access to the Internet. Additional fees are charged for services including pay-per-view movies, events such as boxing matches and concerts, long distance service and cable modem rental. Revenues are recognized as services are provided, but advance billings or cash payments received in advance of services performed are recorded as unearned revenue.

Advertising costs

The Company expenses all advertising costs as incurred. Approximately \$6,803, \$7,643 and \$7,832 of advertising expenses are recorded in the Company's consolidated statements of operations for the years ended December 31, 2007, 2008, and 2009, respectively.

Sources of supplies

The Company purchases customer premise equipment and plant materials from outside vendors. Although numerous suppliers market and sell customer premise equipment and plant materials, the Company currently purchases digital set top boxes from the two original equipment manufacturers supplying their proprietary systems. The Company has several suppliers for other customer premise equipment and plant materials. If the suppliers are unable to meet the Company's needs as it continues to operate its business, it could adversely affect operating results.

Credit risk

The Company's accounts receivable subject the Company to credit risk, as customer deposits are generally not required. The Company's risk of loss is limited due to advance billings to customers for services and the ability to terminate access on delinquent accounts. The potential for material credit loss is mitigated by the large

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number of customers with relatively small receivable balances. The carrying amounts of the Company's receivables approximate their fair values.

Income taxes

The Company utilizes the liability method of accounting for income taxes, as set forth in the appropriate FASB accounting guidance. Under the liability method, deferred taxes are determined based on the difference between the financial and tax bases of assets and liabilities using enacted tax rates in effect in the years in which the differences are expected to reverse. Deferred tax benefit represents the change in the deferred tax asset and liability balances (see Note 7).

On January 1, 2007, the Company adopted the provisions of the appropriate FASB accounting guidance in accounting for uncertainty in income taxes. The guidance addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Also, the Company may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position should be measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement. The accounting literature also provides guidance on derecognition, classification, interest and penalties on income taxes, accounting in interim periods and requires increased disclosures. Since the date of adoption, the Company has not recorded a liability for unrecognized tax benefits at any time.

Net loss per share

With regards to earnings per share, the Company follows the appropriate FASB accounting guidance, which requires the disclosure of basic net loss per share and diluted net loss per share. Basic net loss per share is computed by dividing net loss attributable to common stockholders by the weighted average number of common shares outstanding during the period. Diluted net loss per share gives effect to all potentially dilutive securities. The effect of the Company's warrants (1,000,000 in 2007, 2008 and 2009), stock options (3,080,892, 3,652,921 and 3,135,552 shares in 2007, 2008 and 2009, respectively, using the treasury stock method) and preferred stock (zero shares in 2007, 2008 and 2009) were not included in the computation of diluted EPS as their effect was antidilutive. The warrants expire in December 2013, and each warrant is a right to buy one share of common stock at an exercise price of \$9.00 per share.

Recently adopted accounting pronouncements

In June 2009, the FASB issued new accounting guidance that establishes the FASB Accounting Standards Codification as the source of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements. The new guidance is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The adoption of this guidance did not have a material impact on the Company's results of operations or financial position.

In May 2009, the FASB issued new accounting guidance that establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The new guidance is effective for interim and annual financial periods ending after June 15, 2009. The adoption of this guidance did not have a material impact on the Company's results of operations or financial position.

In April 2009, the FASB issued new accounting guidance related to disclosures about the fair values of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. The new guidance also amends previous accounting literature to require those disclosures in summarized financial information at interim reporting periods. This guidance is effective for interim reporting

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periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The adoption of this guidance did not have a material impact on the Company's results of operations or financial position.

In April 2009, the FASB issued new accounting guidance related to estimating fair value in accordance with previous accounting literature when the volume and level of activity for the asset or liability have significantly decreased. The new guidance also relates to identifying circumstances that indicate if a transaction is not orderly (i.e., a forced liquidation or distressed sale). The adoption of this guidance did not have a material impact on the Company's results of operations or financial position.

In April 2008, the FASB issued new accounting guidance that amends the factors that should be considered in developing renewal or extension assumptions in determining the useful life of a recognized intangible asset under previous accounting literature. The new guidance is effective for financial statements issued for fiscal years beginning after December 15, 2008. The adoption of this guidance did not have a material impact on the Company's results of operations or financial position.

In March 2008, the FASB issued new accounting guidance that requires enhanced disclosures about an entity's derivative and hedging activities and thereby improves the transparency of financial reporting on those activities. The new guidance is effective for financial statements issued for fiscal years beginning after November 15, 2008. The adoption of this guidance did not have a material impact on the Company's results of operations or financial position.

In December 2007, the FASB issued new accounting guidance that establishes principles and requirements for how an acquirer in a business combination recognizes and measures the assets acquired, liabilities assumed, and any noncontrolling interest (previously referred to as minority interest) in the acquiree. The new guidance is effective for financial statements issued for fiscal years beginning after December 15, 2008. The adoption of this guidance changed the manner in which we accounted for the PCL acquisition, although it did not have a material impact on the Company's results of operations or financial position.

In September 2006, the FASB issued new accounting guidance that establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements providing a single definition of fair value, which should result in increased consistency and comparability in fair value measurements. The new guidance is effective for financial assets and liabilities for financial statements issued for fiscal years beginning after November 15, 2007 and non-financial assets and liabilities for fiscal years beginning after November 15, 2008. The adoption of this guidance did not have a material impact on the Company's results of operations or financial position.

Recent Accounting Standards Not Yet Adopted

In August 2009, the FASB issued new accounting guidance that provides clarification for measuring liabilities at fair value when a quoted price in an active market for the identical liability is not available. The new guidance is effective for financial statements issued for interim and annual periods beginning after issuance. The Company does not expect that the adoption of this guidance will have a material impact on the Company's results of operations or financial position.

In June 2009, the FASB issued new accounting guidance that improves financial reporting by enterprises involved with variable interest entities. The new guidance is effective for financial statements issued for fiscal years beginning after November 15, 2009. The Company does not expect that the adoption of this guidance will have a material impact on the Company's results of operations or financial position.

In June 2009, the FASB issued new accounting guidance that improves and defines the information that a reporting entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on

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its financial position, financial performance, and cash flows; and a transferor's continuing involvement, if any, in transferred financial assets. The new guidance is effective for financial statements issued for fiscal years beginning after November 15, 2009. The Company does not expect that the adoption of this guidance will have a material impact on the Company's results of operations or financial position.

In February 2010, the FASB issued new accounting guidance that amended and establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The new guidance is effective for interim and annual financial periods ending after February 24, 2010. The Company does not expect that the adoption of this guidance will have a material impact on the Company's results of operations or financial position.

3. Employee Benefit Plan

The Company has a 401(k) Profit Sharing Plan (the "Plan") for the benefit of eligible employees and their beneficiaries. All employees are eligible to participate in the Plan on the first day of employment. The Plan provides for a matching contribution at the discretion of the board up to 8% of eligible contributions. The Company contributions for the years ended December 31, 2007, 2008, and 2009 were \$1,450, \$1,570 and \$1,074, respectively.

4. Long-Term Debt

On March 14, 2007, the Company entered into an Amended and Restated Credit Agreement (the "Credit Agreement") that provides for a \$580,000 credit facility, consisting of a \$555,000 term loan (the "Initial Term Loan") and a \$25,000 revolving credit facility. On April 3, 2007, the Company received proceeds of \$555,000 to fund the \$255,000 PrairieWave acquisition purchase price, refinance the Company's existing first and second term loans, and pay transaction costs associated with the transactions. This term loan bears interest at LIBOR plus 2.25% and amortizes at a rate of 1% per annum, payable quarterly, with a June 30, 2012 maturity date.

On January 4, 2008, the Company entered into a First Amendment to the Credit Agreement which provides for a \$59,000 incremental term loan (the "First Amendment Incremental Term Loan") used to fund the \$75,000 Graceba acquisition purchase price. This term loan bears interest at LIBOR plus 2.75% and amortizes at a rate of 1% per annum, payable quarterly, with a June 30, 2012 maturity date.

On September 28, 2009, the Company entered into Amendment No. 2 to the Credit Agreement ("Amendment No. 2") which extends the maturity date of an aggregate \$399,000 of existing term loans under the Credit Agreement by two years (the "Extended Term Loan"). The Extended Term Loan bears interest at LIBOR plus 3.50% and amortizes at a rate of 1% per annum, payable quarterly, with a June 30, 2014 maturity date. Amendment No. 2 also, among other modifications, increases the revolving credit facility to \$35,000 from \$25,000 and allows for an annual, cumulative restricted payment allowance of \$10,000 for dividends and/or share repurchases utilizing excess cash flow and subject to a maximum leverage test. The Company recorded an expense of \$3,422 related to the modification of the debt under the Credit Agreement in accordance with the FASB debt modification guidance. The Company also recorded \$1,831 in deferred debt modification costs that will be amortized as non-cash bank loan interest expense over the life of the Extended Term Loan.

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Long-term debt at December 31, 2008 and 2009 consisted of the following:

	<u>2008</u>	<u>2009</u>
Initial Term Loan, at a rate of LIBOR plus 2.25% (2.48% at December 31, 2009), with \$1,614 annual principal amortization, principal payable quarterly with final principal and any unpaid interest due June 30, 2012	\$546,675	\$160,586
First Amendment Incremental Term Loan, at a rate of LIBOR plus 2.75% (2.98% at December 31, 2009), with \$330 annual principal amortization, principal payable quarterly with final principal and any unpaid interest due June 30, 2012	58,410	32,833
Extended Term Loan, at a rate of LIBOR plus 3.50% (3.78% at December 31, 2009), with \$3,988 annual principal amortization, principal payable quarterly with final principal and any unpaid interest due June 30, 2014	0	396,783
Capitalized lease obligations, at rates between 3.9% and 12.3%, with monthly principal and interest payments through December 2013	<u>6,598</u>	<u>11,153</u>
	611,683	601,355
Less current portion of long-term debt	<u>7,615</u>	<u>9,841</u>
Total long-term debt, net of current portion	<u>\$604,068</u>	<u>\$591,514</u>

Following are maturities of long-term debt for each of the next five years as of December 31, 2008

2010	\$ 9,841
2011	10,111
2012	196,162
2013	4,409
2014	380,832
Thereafter	0
Total	<u>\$601,355</u>

The first lien and incremental term loans are guaranteed by all of the Company's subsidiaries. The term loans are also guaranteed by first liens on all of the Company's assets and the assets of its guarantor subsidiaries.

The Amended Credit Agreement contains defined events of default. The Amended Credit Agreement also contains defined representations and warranties and various affirmative and negative covenants, including:

- limitations on the incurrence of additional debt;
- limitations on the incurrence of liens;
- restrictions on investments;
- restrictions on the sale of assets;
- restrictions on the payment of cash dividends on and the redemption or repurchase of capital stock;
- mandatory prepayment of amounts outstanding, as applicable, with excess cash flow, proceeds from asset sales, use of proceeds from the issuance of debt obligations, proceeds from any equity offerings, and proceeds from casualty losses;
- restrictions on mergers and acquisitions, sale/leaseback transactions and fundamental changes in the nature of our business;
- limitations on capital expenditures; and
- maintenance of minimum ratios of debt to Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA") (as defined in the credit agreements) and EBITDA to cash interest.

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As of December 31, 2009, the Company was in compliance with its debt covenants.

5. Operating and Capital Leases

The Company leases office space, utility poles, and other assets for varying periods, some of which have renewal or purchase options and escalation clauses. Leases that expire are generally expected to be renewed or replaced by other leases. Total rental expense for all operating leases was approximately \$4,435, \$5,153 and \$5,427 for the years ended December 31, 2007, 2008, and 2009, respectively. Future minimum rental payments required under the operating and capital leases that have initial or remaining non-cancelable lease terms, in excess of one year as of December 31, 2009 are as follows:

	<u>Capitalized Leases</u>	<u>Operating Leases</u>
2010	\$ 4,422	4,906
2011	4,858	4,194
2012	2,739	3,503
2013	435	2,507
2014	0	1,163
Thereafter	0	4,024
Total minimum lease payments	<u>\$ 12,454</u>	<u>\$20,297</u>
Less imputed interest	1,301	
Present value of minimum capitalized lease payments	11,153	
Less current portion	3,909	
Long-term capitalized lease obligations	<u>\$ 7,244</u>	

The Company recorded \$4,233, \$8,732 and \$15,872 for the years ended December 31, 2007, 2008 and 2009, respectively, as property, plant and equipment due to capital lease transactions for Video on Demand equipment, the buildout of various multiple dwelling units, and other properties. The Company had \$8,625 and \$15,408 of gross capitalized leases recorded as property plant and equipment at December 31, 2008 and 2009, respectively. The accumulated amortization associated with these capitalized leases was \$2,460 and \$4,323 at December 31, 2008 and 2009, respectively. The amortization of the capital leases is recorded in "Depreciation and amortization" on the statement of operations along with other property, plant and equipment. The base rentals recorded to the multiple dwelling unit capital leases are contingent upon the Company acquiring subscribers. The Company has agreed to pay various amounts per subscriber to the lessors as the base monthly rentals. The lease terms are generally seven years. In accordance with the proper FASB guidance relating to accounting for leases, the Company has projected the number of subscribers to record the capital asset and liability and will update the projections to actual subscribers on an annual basis.

6. Commitments and Contingencies**Purchase commitments**

The Company has entered into contracts with various entities to provide programming to be aired by the Company. The Company pays a monthly fee for the programming services, generally based on the number of video subscribers to the program, although some fees are adjusted based on the total number of video subscribers to the system and/or the system penetration percentage. These contracts generally last for three or more years with annual price adjustments. Total programming fees were approximately \$71,412, \$84,014 and \$88,736 for the years ended December 31, 2007, 2008, and 2009, respectively. The Company estimates that it will pay approximately \$95,616, \$103,552 and \$111,259 in programming fees under these contracts in 2010, 2011 and 2012, respectively.

Table of Contents**Index to Financial Statements****Legal proceedings**

The Company is subject to litigation in the normal course of its business. However, in the Company's opinion, there is no legal proceeding pending against it that would have a material adverse effect on its financial position, results of operations or liquidity. The Company is also a party to regulatory proceedings affecting the segments of the communications industry generally in which it engages in business.

Unused Letters of Credit

The Company's unused letters of credit for vendors and suppliers was \$2,012 as of December 31, 2009, which reduces the funds available under the \$35,000 five year senior secured revolving loan and letter of credit facility.

7. Income Taxes

The benefit/(provision) for income taxes from continuing operations consisted of the following for the years ended December 31, 2007, 2008, and 2009:

	<u>2007</u>	<u>2008</u>	<u>2009</u>
Current	\$ 0	\$ 0	\$ 0
Deferred	26,988	13,208	(10,422)
(Increase) decrease in valuation allowance	(26,988)	(13,208)	10,422
Income tax benefit (provision)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

In 2008, the Company had a net increase in deferred tax liabilities of \$6,872 as a result of the 2008 Graceba acquisition, with a corresponding decrease in the valuation allowance. In 2007, the Company had a net increase in deferred tax liabilities, and a corresponding decrease in the valuation allowance, of \$5,997 for the 2007 PrairieWave acquisition.

Deferred income taxes reflect the net tax effect of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The significant components of deferred tax assets and liabilities as of December 31, 2008 and 2009 are as follows:

	<u>2008</u>	<u>2009</u>
Current deferred tax assets:		
Inventory reserve	\$ 5	\$ 29
Allowance for doubtful accounts	365	444
Other	558	782
Valuation allowance	(928)	(1,255)
Total current deferred taxes	<u>0</u>	<u>0</u>
Non-current deferred tax assets:		
Net operating loss & other attributes carryforwards	91,565	84,897
Deferred revenues	174	218
Depreciation and amortization	(36,913)	(43,273)
Investment marked to market	4,626	4,760
Compensation and benefits	1,634	1,308
Change in value of interest rate hedge	0	2,385
Other	438	479
Valuation allowance	(61,524)	(50,774)
Total non-current deferred tax assets	<u>0</u>	<u>0</u>
Net deferred income taxes	<u>\$ 0</u>	<u>\$ 0</u>

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On December 31, 2008, the Company became no longer eligible for hedge accounting related to its two interest rate swaps. As of December 31, 2008, changes in the fair value of the interest rate swaps are recorded as a gain or loss in the "Other income (expense)" section of the statement of operations as they are incurred. Pursuant to current income tax laws and regulations, the Company does not record the fair value of the derivative or recognize any charges to income. Therefore, the \$12,096 gain on change in fair value and \$18,299 amortization of deferred loss recorded for financial purposes result in a net \$2,385 deferred tax asset.

At December 31, 2009, the Company had available federal net operating loss carryforwards of approximately \$225,000 that expire from 2010 to 2029. Of this \$ 225,000 carryforward, \$42,000 is related to the PrairieWave acquisition and expire from 2022 to 2027. Approximately \$ 70,000 of this carryforward is subject to annual limitations due to a change in ownership of the Company, as defined in the Internal Revenue Code. In addition, the Company had approximately \$3,200 in federal net operating losses from share-based payment awards for which it has not recorded a financial statement benefit as per the appropriate FASB guidance. The Company also had various state net operating loss carryforwards totaling approximately \$620,000. Unless utilized, the state net operating loss carryforwards expire from 2010 to 2026. For 2009, management has recorded a total valuation allowance of \$52,029 against its deferred tax assets including the operating loss carryforwards.

At December 31, 2008, the Company had available federal net operating loss carryforwards of approximately \$236,000 that expire from 2009 to 2028. Of this \$236,000 carryforward, \$42,000 is related to the PrairieWave acquisition and expire from 2022 to 2027. Approximately \$72,000 of this carryforward is subject to annual limitations due to a change in ownership of the Company, as defined in the Internal Revenue Code. In addition, the Company had approximately \$4,100 in federal net operating losses from share-based payment awards for which it has not recorded a financial statement benefit as per the appropriate FASB guidance. The Company also had various state net operating loss carryforwards totaling approximately \$614,000. Unless utilized, the state net operating loss carryforwards expire from 2009 to 2026. For 2008, management has recorded a total valuation allowance of \$62,452 against its deferred tax assets including the operating loss carryforwards.

A reconciliation of the income tax provision computed at statutory tax rates to the income tax provision for the years ended December 31, 2007, 2008, and 2009 is as follows:

	<u>2007</u>	<u>2008</u>	<u>2009</u>
Income tax benefit at statutory rate	34%	34%	34%
State income taxes, net of federal benefit	5%	7%	16%
Interest—high yield debt	(1)%	0%	0%
Disqualifying Dispositions of ISO's	3%	0%	(11)%
Other	0%	(1)%	(3)%
	<u>41%</u>	<u>40%</u>	<u>36%</u>
(Increase) decrease in valuation allowance	<u>(41)%</u>	<u>(40)%</u>	<u>(36)%</u>
Income tax benefit (provision)	<u>0%</u>	<u>0%</u>	<u>0%</u>

On January 1, 2007, the Company adopted the provisions of the FASB related to accounting for uncertainty in income taxes. At the date of adoption, and as of December 31, 2009, the Company did not have a liability for uncertain tax benefits. The Company recognizes interest and penalties related to uncertain tax positions in income tax expense. As of December 31, 2009, the Company made no provisions for interest or penalties related to uncertain tax positions.

The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction, and various state jurisdictions. For federal tax purposes, the Company's 2006 through 2009 tax years remain open for examination by the tax authorities under the normal three year statute of limitations. Generally, for state tax purposes, the Company's 2006 through 2009 tax years remain open for examination by the tax authorities under a three year

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statute of limitations. Should the Company utilize any of its U.S. or state loss carryforwards, its carryforward losses, which date back to 1995, would be subject to examination.

8. Equity Interests**Knology, Inc. stock award plans**

In 2006, the board of directors and stockholders approved the Knology, Inc. 2006 Incentive Plan (the "2006 Plan"). The 2006 Plan authorizes the issuance of up to 2,000,000 shares of common stock pursuant to stock option and other stock-based awards. The maximum number of shares of common stock that may be granted under the 2006 Plan to any one person during any one calendar year is 300,000. The aggregate dollar value of any share-based award that may be paid to any one participant during any one calendar year under the 2006 Plan is \$1,000. The 2006 Plan is administered by the compensation and stock option committee of the board of directors. Options granted under the plans are intended to qualify as "incentive stock options" under Section 422 of the Internal Revenue Code of 1986, as amended. The exercise price shall be determined by the board of directors, provided that the exercise price shall not be less than the fair value of the common stock at the date of grant. The options have a vesting period of 4 years and expire 10 years from the date of grant.

In 2008, the board of directors and stockholders approved the Knology, Inc. 2008 Incentive Plan (the "2008 Plan"). The 2008 Plan authorizes the issuance of up to 3,750,000 shares of common stock pursuant to stock option and other stock-based awards. The maximum number of shares of common stock that may be granted under the 2008 Plan to any one person during any one calendar year is 300,000. The aggregate dollar value of any share-based award that may be paid to any one participant during any one calendar year under the 2008 Plan is \$3,000. The 2008 Plan is administered by the compensation and stock option committee of the board of directors. Options granted under the plans are intended to qualify as "incentive stock options" under Section 422 of the Internal Revenue Code of 1986, as amended. The exercise price shall be determined by the board of directors, provided that the exercise price shall not be less than the fair value of the common stock at the date of grant. The options have a vesting period of 4 years and expire 10 years from the date of grant.

Stock-based compensation expense

The Company utilizes the recognition provisions of the related FASB accounting guidance for stock-based employee compensation. The following represent the expected stock option compensation expense of all stock-based compensation plans for the next five years assuming no additional grants.

2010	\$4,706
2011	2,214
2012	526
2013	58
2014	0
	<u>\$7,504</u>

Stock options

The fair value of stock options was estimated at the date of grant using a Black-Scholes option pricing model and the following weighted average assumptions in 2007, 2008, and 2009:

<u>Common</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Risk-free interest rate	3.49-5.03%	1.55-3.49%	1.82-2.71%
Expected dividend yield	0%	0%	0%
Expected lives	Four years	Four years	Four years
Expected forfeiture rate	12%	9%	8%
Expected volatility	46%	57%	159%

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A summary of the status of the Company's stock options as of December 31, 2009 is presented in the following table:

	Common shares	Weighted average exercise price per share	Weighted average fair value price per share	Weighted average remaining contractual life	Intrinsic Value
Outstanding as of December 31, 2006	3,145,617	\$ 5.19		7.77	\$19,061
Granted	508,820	14.98	\$ 5.83		
Forfeited	(97,902)	7.25			
Expired	(50,215)	6.69			
Exercised	(425,428)	4.27			\$ 5,069
Outstanding as of December 31, 2007	3,080,892	\$ 6.84		7.29	\$21,001
Granted	945,494	12.07	\$ 5.39		
Forfeited	(77,623)	10.28			
Expired	(67,345)	14.02			
Exercised	(228,497)	3.58			\$ 1,949
Outstanding as of December 31, 2008	3,652,921	\$ 8.20		7.14	\$ 3,899
Granted	399,711	5.72	\$ 3.36		
Forfeited	(99,384)	10.61			
Expired	(199,319)	18.19			
Exercised	(618,377)	2.39			\$ 4,475
Outstanding as of December 31, 2009	3,135,552	\$ 8.32		6.91	\$11,054
Exercisable shares as of December 31, 2009	1,707,775	\$ 6.90		5.89	\$ 7,954

Cash received from option exercises under all share-based payment arrangements was \$1,724, \$818 and \$1,476 for the years ended December 31, 2007, 2008 and 2009, respectively. There were no actual tax benefits realized for the tax deductions from option exercises of the share-based payment arrangements for the years ended December 31, 2007, 2008 and 2009.

The following table sets forth the exercise price range, number of shares, weighted average exercise price, and remaining contractual lives by groups of similar price and grant date:

Common shares

Range of exercise prices	Outstanding as of 12/31/2009	Weighted average remaining contractual life	Weighted average exercise price	Exercisable as of 12/31/2009	Weighted average exercise price
\$1.70-\$3.70	705,120	5.62	\$ 2.36	641,492	\$ 2.23
\$3.75-\$6.87	675,501	6.89	\$ 5.69	284,847	\$ 6.21
\$7.24-\$10.93	811,304	6.89	\$ 9.09	452,531	\$ 8.63
\$10.94-\$13.51	755,600	8.03	\$ 13.34	235,744	\$ 13.27
\$13.61-\$18.30	188,027	7.41	\$ 16.58	93,161	\$ 16.60
	3,135,552			1,707,775	

As of December 31, 2009, 1,707,775 options for the Company's common shares with a weighted average price of \$6.90 per share were exercisable by employees of the Company. As of December 31, 2008, 1,903,523

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options for the Company's common shares with a weighted average of \$5.82 per share were exercisable by employees of the Company. As of December 31, 2007, 1,649,904 options for the Company's common shares with a weighted average of \$5.50 per share were exercisable by employees of the Company.

Restricted Stock

On January 30, 2007, the Company granted 244,800 shares of performance-based restricted shares with a market value of \$3,192 to certain officers. The shares vest equally on each of the three anniversaries following the grant date.

On February 12, 2008, the Company granted 124,681 shares of performance-based restricted shares with a market value of \$1,363 to certain officers. The shares vest equally on each of the three anniversaries following the grant date.

On May 8, 2008, the Company granted 486,000 shares of performance-based restricted shares with a market value of \$6,566 to certain officers. The shares vest equally on each of the three anniversaries following the grant date.

On February 12, 2009, the Company granted 138,000 shares of performance-based restricted shares with a market value of \$748 to certain officers. The shares vest equally on each of the three anniversaries following the grant date.

On August 19, 2009, the Company granted 15,000 shares of performance-based restricted shares with a market value of \$118 to a certain officer. The shares vest equally on each of the three anniversaries following the grant date.

A summary of the status of the Company's restricted stock as of December 31, 2009 is presented in the following table:

	Common shares	Weighted average grant date fair value
Nonvested as of December 31, 2006	105,490	\$ 3.70
Activity during 2007:		
Granted	244,800	13.04
Forfeited	(32,775)	8.35
Vested	(44,518)	3.70
Nonvested as of December 31, 2007	272,997	\$ 11.52
Activity during 2008:		
Granted	610,681	12.98
Forfeited	0	
Vested	(120,677)	9.59
Nonvested as of December 31, 2008	763,001	\$ 12.99
Activity during 2009:		
Granted	153,000	5.66
Forfeited	0	
Vested	(279,720)	13.00
Nonvested as of December 31, 2009	636,281	\$ 11.23

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Total non-cash stock compensation expense related to these restricted stock grants was approximately \$1,171, \$2,805 and \$3,878 for the years ended December 31, 2007, 2008, and 2009, respectively. The total non-cash stock compensation expense for all stock based compensation was approximately \$2,799, \$4,641 and \$6,197 for the years ended December 31, 2007, 2008, and 2009, respectively.

Warrants

The Company had outstanding warrants issued in connection with the 1997 high-yield debt offering with a fair value of \$0 at December 31, 2007, 2008 and 2009. The warrants to purchase shares of common stock for an exercise price of \$.10 per share expired in October 2007. The Company received \$1 for the exercise of 50,938 warrants for the year ended December 31, 2007, and \$0 for the exercise of 0 warrants for the years ended December 31, 2008 and 2009. The Company adjusted the carrying value of the warrants based on the closing price of the Company's common stock at the end of each reporting period. For the years ended December 31, 2007, 2008 and 2009 the company recorded loss of \$(262), \$0 and \$0, respectively.

9. Related Party Transactions

Relatives of a member of the Company's board of directors are stockholders and employees of one of the Company's insurance providers. The commission costs charged to the Company for insurance services were approximately \$275, \$292 and \$291 for the years ended December 31, 2007, 2008, and 2009, respectively.

Knology participates in an agreement with ITC Holding Co., LLC, Enon Plantation, Inc., J. Smith Lanier & Co. and Kenzie Lane Ventures, LLC regarding the joint ownership of an aircraft. ITC Holding Co., LLC and Enon Plantation, Inc. are primarily owned by a member of Knology's board of directors. The travel costs incurred by Knology for use of the aircraft were approximately \$270, \$266 and \$89 for the years ended December 31, 2007, 2008, and 2009, respectively.

10. Discontinued Operations

On September 7, 2007, the Company sold its telephone directory business to Yellow Book USA for \$8,600. The directory serves communities in Rapid City and the Northern Black Hills, South Dakota; and in Northeastern Wyoming. This business was included in the PrairieWave acquisition in April 2007, but was a non-core business outside of the Company's strategic video, voice and data products and services. The Company has received cash proceeds of \$8,600 as of December 31, 2009. After recording transaction costs of \$139 and disposing of net assets of \$210, the company recorded a gain of \$8,251, which is included in income from discontinued operations. Net income of \$612 associated with the directory business since the April 3, 2007 acquisition is also included as income from discontinued operations in the statement of operations.

11. Acquisitions**PrairieWave Holdings, Inc.**

On April 3, 2007, the Company completed its acquisition of PrairieWave, a voice, video and high-speed Internet broadband services provider in the Rapid City and Sioux Falls, South Dakota regions, as well as portions of Minnesota and Iowa. The Company's purchase of PrairieWave is a strategic acquisition that combines companies with similar business models and philosophies such as operating in secondary and tertiary markets, servicing bundled customers, providing solid financial margins, and delivering industry-leading customer service.

The Company used the proceeds of the Amended Credit Agreement to fund the \$255,000 purchase price and related transaction costs of the PrairieWave acquisition, as well as refinance all amounts outstanding under the Company's existing first and second lien credit facilities, dated June 29, 2005. The financial position and results

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of operations for PrairieWave are included in the Company's presented consolidated financial statements since the date of acquisition. The total purchase price for the assets acquired, net of liabilities assumed and including direct acquisition costs, was \$256,165. Goodwill represents the excess of the cost of the business acquired over fair value or net identifiable assets at the date of acquisition. Since the Company purchased 100% of the outstanding stock of PrairieWave, none of the goodwill is deductible for tax purposes.

The following table summarizes the allocation of purchase price to the fair values of the assets acquired, net of liabilities and direct acquisition costs, as of April 3, 2007. The allocation adjustments have been finalized as of December 31, 2009.

	April 3, 2007
Assets acquired:	
Accounts receivable	\$ 6,287
Prepaid expenses	1,322
Property, plant and equipment	197,726
Investments	1,293
Goodwill	57,807
Customer base	4,402
Intangible and other assets	1,234
Total assets acquired	270,071
Liabilities assumed:	
Accounts payable	7,414
Accrued liabilities	3,022
Unearned revenue	3,470
Total liabilities assumed	13,906
Purchase price, net of cash acquired of \$2,680	<u>\$256,165</u>

Graceba Total Communications Group, Inc.

On January 4, 2008, the Company completed its stock acquisition of Graceba, a voice, video, and high-speed Internet broadband services provider in Dothan, Alabama. The Company's purchase of Graceba is a strategic acquisition that fits well in its concentrated Southeastern footprint and combines companies with similar business models and philosophies such as operating in secondary and tertiary markets, servicing bundled customers, providing solid financial margins, and delivering industry-leading customer service.

The Company used the \$59,000 in proceeds of the First Amendment to the Amended Credit Agreement and cash on hand to fund the \$75,000 purchase price. The financial position and results of operations for Graceba are included in the Company's presented consolidated financial statements since the date of acquisition. Supplemental pro forma results of operations were not required to be presented here as the acquisition of Graceba was determined not to be a material transaction. The total purchase price for the assets acquired, net of liabilities assumed and including direct acquisition costs, was \$75,141. Goodwill represents the excess of the cost of the business acquired over fair value or net identifiable assets at the date of acquisition. Since the Company purchased 100% of the outstanding stock of Graceba, none of the goodwill is deductible for tax purposes.

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The following table summarizes the allocation of purchase price to the fair values of the assets acquired, net of liabilities and direct acquisition costs, as of January 4, 2008. The allocation adjustments have been finalized as of December 31, 2009.

	<u>January 4, 2008</u>
Assets acquired:	
Accounts receivable	\$ 644
Prepaid expenses	75
Property, plant and equipment	18,631
Goodwill	47,976
Customer base	9,135
Total assets acquired	<u>76,461</u>
Liabilities assumed:	
Accounts payable	583
Accrued liabilities	737
Total liabilities assumed	<u>1,320</u>
Purchase price, net of cash acquired of \$459	<u>\$75,141</u>

Private Cable Co., LLC

On November 17, 2009, the Company completed its acquisition of the assets of PCL Cable, a voice, video, and high-speed Internet broadband services provider in Athens and Decatur, Alabama. The Company's purchase of PCL Cable is a strategic acquisition that fits well in its existing operation in Huntsville, Alabama.

The Company used the cash on hand to fund the \$7,500 purchase price. The financial position and results of operations for PCL are included in the Company's presented consolidated financial statements since the date of acquisition. Supplemental pro forma results of operations were not required to be presented here as the acquisition of PCL Cable was determined not to be a material transaction. The total purchase price for the assets acquired, net of liabilities assumed and including direct acquisition costs, was \$7,500. Goodwill represents the excess of the cost of the business acquired over fair value or net identifiable assets at the date of acquisition. Since the Company purchased the assets of PCL Cable, the goodwill is deductible for tax purposes.

The following table summarizes the allocation of purchase price to the fair values of the assets acquired, net of liabilities and direct acquisition costs, as of November 17, 2009. The allocation adjustments have been finalized as of December 31, 2009.

	<u>November 17, 2009</u>
Assets acquired:	
Accounts receivable	\$ 48
Prepaid expenses	4
Property, plant and equipment	4,399
Goodwill	3,123
Customer base	106
Total assets acquired	<u>7,680</u>
Liabilities assumed:	
Accounts payable	180
Total liabilities assumed	<u>180</u>
Purchase price, net of cash acquired of \$0	<u>\$ 7,500</u>

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For the year ended December 31, 2009, it is impracticable for the Company to provide the financial results of PCL's operations since the acquisition was absorbed by the operations of the Huntsville division. We do not record the revenues or expenses for the PCL acquisition separately from the division and no separate financial statements are produced.

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Exhibit 6
Technical Qualifications

Knology's predecessor, Interstate and Valley Telephone Company, entered the telephone business more than 100 years ago. Today, Knology operates systems delivering cable, telephone, and broadband Internet access in eight states, passing over 900,000 homes in over 100 communities, and providing nearly 700,000 cable, telephone, and broadband connections.

For a detailed description of Knology's operations, see Exhibit 5, Knology, Inc. SEC Form 10-K, pp. 4 -11. For information about Knology's senior management team and Board of Directors, see Exhibit 5, pp. 52 - 54.

ORDINANCE NO. _____

AN ORDINANCE APPROVING THE TRANSFER OF THE CABLE TELEVISION FRANCHISE GRANTED BY THE CITY OF LAWRENCE, KANSAS IN ORDINANCE NO. 7055, AS AMENDED.

FINDINGS

- A. The City of Lawrence, Kansas ("City"), has received a request from The World Company, d/b/a Sunflower Broadband ("Sunflower"), to assign to Knology of Kansas, Inc. ("Knology") the cable television franchise granted Sunflower under City Ordinance No. 7055, as amended ("Franchise").
- B. The Franchise requires that Sunflower obtain the City's prior consent for the assignment of the Franchise by Sunflower to Knology.
- C. Sunflower and Knology have properly requested the City's consent to the assignment and transfer of the Franchise and related assets to Knology.
- D. To the City's knowledge, Sunflower has fulfilled its obligations under the Franchise.
- E. Knology has the financial, technical, and legal ability to fulfill the obligations of the Franchise, and the assignment of the Franchise to Knology will serve the public interest.

ORDINANCE

Based on the above findings, the City Commission ordains as follows:

- 1. Sunflower is in material compliance with its obligations under the Franchise, and the City has no knowledge of any breach or default by Sunflower under the Franchise.
- 2. The City consents to the transfer of the Franchise to Knology and all of Sunflower's rights, title, powers, and privileges in and under the Franchise and related assets.
- 3. Upon the closing of the sale of Sunflower's cable system to Knology ("Closing"), Knology shall become bound by the Franchise and shall perform and discharge all obligations and duties under the Franchise that arise on and after the Closing.
- 4. Upon Closing, the City releases Sunflower from all obligations and liabilities under the Franchise that relate to periods from and after the Closing.
- 5. The City consents to the granting by Knology of a security interest in the Franchise for the purposes of securing financing.

Passed and adopted the _____ day of _____, 2010

Mike Amyx
Mayor

ATTEST:

Jonathan Douglass
City Clerk