

CHARTER COMMUNICATIONS, INC. /MO/
Form 10-Q
October 26, 2018

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2018
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: 001-33664
Charter Communications, Inc.

(Exact name of registrant as specified in its charter)

Delaware 84-1496755
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification Number)

400 Atlantic Street (203) 905-7801
Stamford, Connecticut 06901
(Address of principal executive offices including zip code) (Registrant's telephone number, including area code)

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 registrants have submitted electronically and posted on their corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrants were required to submit and post such files). Yes No

Indicate by check mark 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.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Number of shares of Class A common stock outstanding as of September 30, 2018: 228,917,692

Number of shares of Class B common stock outstanding as of September 30, 2018: 1

CHARTER COMMUNICATIONS, INC.
 QUARTERLY REPORT ON FORM 10-Q FOR THE PERIOD ENDED SEPTEMBER 30, 2018

TABLE OF CONTENTS

	Page No.
<u>PART I FINANCIAL INFORMATION</u>	
<u>Item 1 Financial Statements Charter Communications, Inc. and Subsidiaries</u>	
<u>Consolidated Balance Sheets as of September 30, 2018 and December 31, 2017</u>	<u>1</u>
<u>Consolidated Statements of Operations</u>	
<u>for the three and nine months ended September 30, 2018 and 2017</u>	<u>2</u>
<u>Consolidated Statements of Comprehensive Income</u>	
<u>for the three and nine months ended September 30, 2018 and 2017</u>	<u>3</u>
<u>Consolidated Statements of Cash Flows</u>	
<u>for the nine months ended September 30, 2018 and 2017</u>	<u>4</u>
<u>Notes to Consolidated Financial Statements</u>	<u>5</u>
<u>Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>33</u>
<u>Item 3 Quantitative and Qualitative Disclosure About Market Risk</u>	<u>45</u>
<u>Item 4 Controls and Procedures</u>	<u>45</u>
<u>PART II OTHER INFORMATION</u>	
<u>Item 1 Legal Proceedings</u>	<u>46</u>
<u>Item 1A Risk Factors</u>	<u>46</u>
<u>Item 2 Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>47</u>
<u>Item 6 Exhibits</u>	<u>47</u>
<u>Signatures</u>	<u>S- 1</u>
<u>Exhibit Index</u>	<u>E- 1</u>

This quarterly report on Form 10-Q is for the three and nine months ended September 30, 2018. The United States Securities and Exchange Commission (“SEC”) allows us to “incorporate by reference” information that we file with the SEC, which means that we can disclose important information to you by referring you directly to those documents. In this quarterly report, “Charter,” “we,” “us” and “our” refer to Charter Communications, Inc. and its subsidiaries.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This quarterly report includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), regarding, among other things, our plans, strategies and prospects, both business and financial including, without limitation, the forward-looking statements set forth in the “Results of Operations” and “Liquidity and Capital Resources” sections under Part I, Item 2. “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in this quarterly report. Although we believe that our plans, intentions and expectations as reflected in or suggested by these forward-looking statements are reasonable, we cannot assure you that we will achieve or realize these plans, intentions or expectations. Forward-looking statements are inherently subject to risks, uncertainties and assumptions including, without limitation, the factors described under “Risk Factors” under Part I, Item 1A of our most recent Form 10-K filed with the SEC. Many of the forward-looking statements contained in this quarterly report may be identified by the use of forward-looking words such as “believe,” “expect,” “anticipate,” “should,” “planned,” “will,” “may,” “intend,” “estimated,” “aim,” “on track,” “target,” “opportunity,” “tentative,” “positioning,” “design,” “predict,” “project,” “initiatives,” “seek,” “would,” “could,” “continue,” “ongoing,” “upside,” “increases” and “potential,” among others. Important factors that could cause actual results to differ materially from the forward-looking statements we make in this quarterly report are set forth in this quarterly report on Form 10-Q, in our annual report on Form 10-K, and in other reports or documents that we file from time to time with the SEC, and include, but are not limited to:

- our ability to efficiently and effectively integrate acquired operations;
- our ability to sustain and grow revenues and cash flow from operations by offering video, Internet, voice, mobile, advertising and other services to residential and commercial customers, to adequately meet the customer experience demands in our markets and to maintain and grow our customer base, particularly in the face of increasingly aggressive competition, the need for innovation and the related capital expenditures;
- the impact of competition from other market participants, including but not limited to incumbent telephone companies, direct broadcast satellite operators, wireless broadband and telephone providers, digital subscriber line (“DSL”) providers, fiber to the home providers, video provided over the Internet by (i) market participants that have not historically competed in the multichannel video business, (ii) traditional multichannel video distributors, and (iii) content providers that have historically licensed cable networks to multichannel video distributors, and providers of advertising over the Internet;
- general business conditions, economic uncertainty or downturn, unemployment levels and the level of activity in the housing sector;
- our ability to obtain programming at reasonable prices or to raise prices to offset, in whole or in part, the effects of higher programming costs (including retransmission consents);
- our ability to develop and deploy new products and technologies including mobile products, our cloud-based user interface, Spectrum Guide®, and downloadable security for set-top boxes, and any other cloud-based consumer services and service platforms;
- the effects of governmental regulation on our business including costs, disruptions and possible limitations on operating flexibility related to, and our ability to comply with, regulatory conditions applicable to us as a result of the Time Warner Cable Inc. and Bright House Networks, LLC transactions;
- any events that disrupt our networks, information systems or properties and impair our operating activities or our reputation;
- the ability to retain and hire key personnel;
- the availability and access, in general, of funds to meet our debt obligations prior to or when they become due and to fund our operations and necessary capital expenditures, either through (i) cash on hand, (ii) free cash flow, or (iii) access to the capital or credit markets; and
- our ability to comply with all covenants in our indentures and credit facilities, any violation of which, if not cured in a timely manner, could trigger a default of our other obligations under cross-default provisions.

All forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by this cautionary statement. We are under no duty or obligation to update any of the forward-looking statements after the date of this quarterly report.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(dollars in millions, except share data)

	September 30, 2018	December 31, 2017
	(unaudited)	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 612	\$ 621
Accounts receivable, less allowance for doubtful accounts of \$125 and \$113, respectively	1,736	1,635
Prepaid expenses and other current assets	381	299
Total current assets	2,729	2,555
RESTRICTED CASH	48	—
INVESTMENT IN CABLE PROPERTIES:		
Property, plant and equipment, net of accumulated depreciation of \$21,513 and \$18,077, respectively	34,740	33,888
Customer relationships, net	10,136	11,951
Franchises	67,319	67,319
Goodwill	29,554	29,554
Total investment in cable properties, net	141,749	142,712
OTHER NONCURRENT ASSETS	1,559	1,356
Total assets	\$ 146,085	\$ 146,623
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	\$ 8,511	\$ 9,045
Current portion of long-term debt	3,339	2,045
Total current liabilities	11,850	11,090
LONG-TERM DEBT	69,135	68,186
DEFERRED INCOME TAXES	17,421	17,314
OTHER LONG-TERM LIABILITIES	2,451	2,502
SHAREHOLDERS' EQUITY:		
Class A common stock; \$.001 par value; 900 million shares authorized; 239,491,925 and 238,506,059 shares issued, respectively	—	—
Class B common stock; \$.001 par value; 1,000 shares authorized; 1 share issued and outstanding	—	—
Preferred stock; \$.001 par value; 250 million shares authorized; no shares issued and outstanding	—	—
Additional paid-in capital	35,493	35,253

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Retained earnings	4,828	3,832
Treasury stock at cost; 10,574,233 and no shares, respectively	(3,214) —
Accumulated other comprehensive loss	(2	) (1)
Total Charter shareholders' equity	37,105	39,084
Noncontrolling interests	8,123	8,447
Total shareholders' equity	45,228	47,531
Total liabilities and shareholders' equity	\$ 146,085	\$ 146,623

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

1

CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES
 CONSOLIDATED STATEMENTS OF OPERATIONS

(dollars in millions, except per share data)

Unaudited

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
REVENUES	\$ 10,892	\$ 10,458	\$ 32,403	\$ 30,979
COSTS AND EXPENSES:				
Operating costs and expenses (exclusive of items shown separately below)	7,012	6,703	20,721	19,857
Depreciation and amortization	2,482	2,701	7,784	7,846
Other operating expenses, net	18	145	116	374
	9,512	9,549	28,621	28,077
Income from operations	1,380	909	3,782	2,902
OTHER EXPENSES:				
Interest expense, net	(901	) (788	) (2,630	) (2,250
Loss on extinguishment of debt	—	—	—	(35
Gain (loss) on financial instruments, net	12	17	—	(15
Other pension benefits (costs)	207	(17	) 247	9
Other expense, net	(5	) (3	) (75	) (14
	(687	) (791	) (2,458	) (2,305
Income before income taxes	693	118	1,324	597
Income tax expense	(109	) (26	) (178	) (99
Consolidated net income	584	92	1,146	498
Less: Net income attributable to noncontrolling interests	(91	) (44	) (212	) (156
Net income attributable to Charter shareholders	\$ 493	\$ 48	\$ 934	\$ 342
EARNINGS PER COMMON SHARE ATTRIBUTABLE TO CHARTER SHAREHOLDERS:				
Basic	\$ 2.14	\$ 0.19	\$ 3.99	\$ 1.31
Diluted	\$ 2.11	\$ 0.19	\$ 3.93	\$ 1.29
Weighted average common shares outstanding, basic	230,554,632	253,923,805	234,159,836	262,074,603
Weighted average common shares outstanding, diluted	233,607,425	258,341,851	237,343,924	266,363,602

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

CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES
 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(dollars in millions)

Unaudited

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Consolidated net income	\$584	\$92	\$1,146	\$498
Foreign currency translation adjustment	—	1	(1)	1
Net impact of interest rate derivative instruments	—	1	—	4
Consolidated comprehensive income	584	94	1,145	503
Less: Comprehensive income attributable to noncontrolling interests	(91)	(44)	(212)	(156)
Comprehensive income attributable to Charter shareholders	\$493	\$50	\$933	\$347

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

3

CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(dollars in millions)

Unaudited

	Nine Months Ended September 30,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Consolidated net income	\$1,146	\$498
Adjustments to reconcile consolidated net income to net cash flows from operating activities:		
Depreciation and amortization	7,784	7,846
Stock compensation expense	213	198
Accelerated vesting of equity awards	5	43
Noncash interest income, net	(242)	(283)
Other pension benefits	(247)	(9)
Loss on extinguishment of debt	—	35
Loss on financial instruments, net	—	15
Deferred income taxes	137	53
Other, net	81	93
Changes in operating assets and liabilities, net of effects from acquisitions:		
Accounts receivable	(101)	(101)
Prepaid expenses and other assets	(97)	37
Accounts payable, accrued liabilities and other	(80)	271
Net cash flows from operating activities	8,599	8,696
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(6,692)	(6,096)
Change in accrued expenses related to capital expenditures	(620)	276
Real estate investments through variable interest entities	(15)	—
Other, net	(103)	(63)
Net cash flows from investing activities	(7,430)	(5,883)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings of long-term debt	11,552	12,115
Repayments of long-term debt	(8,964)	(5,534)
Payments for debt issuance costs	(29)	(83)
Purchase of treasury stock	(3,214)	(7,748)
Proceeds from exercise of stock options	56	111
Purchase of noncontrolling interest	(473)	(922)
Distributions to noncontrolling interest	(114)	(115)
Borrowings for real estate investments through variable interest entities	170	—
Distributions to variable interest entities noncontrolling interest	(107)	—
Other, net	(7)	(8)
Net cash flows from financing activities	(1,130)	(2,184)
NET INCREASE IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH	39	629
CASH, CASH EQUIVALENTS AND RESTRICTED CASH, beginning of period	621	1,535

CASH, CASH EQUIVALENTS AND RESTRICTED CASH, end of period	\$ 660	\$ 2,164
CASH PAID FOR INTEREST	\$ 2,920	\$ 2,544
CASH PAID FOR TAXES	\$ 27	\$ 38

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

4

CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

(dollars in millions, except per share amounts and where indicated)

1. Organization and Basis of Presentation

Organization

Charter Communications, Inc. (together with its controlled subsidiaries, “Charter,” or the “Company”) is the second largest cable operator in the United States and a leading broadband communications company providing video, Internet and voice services to residential and business customers. The Company also recently launched its mobile service to residential customers. In addition, the Company sells video and online advertising inventory to local, regional and national advertising customers and fiber-delivered communications and managed information technology solutions to larger enterprise customers. The Company also owns and operates regional sports networks and local sports, news and lifestyle channels and sells security and home management services to the residential marketplace.

Charter is a holding company whose principal asset is a controlling equity interest in Charter Communications Holdings, LLC (“Charter Holdings”), an indirect owner of Charter Communications Operating, LLC (“Charter Operating”) under which substantially all of the operations reside. All significant intercompany accounts and transactions among consolidated entities have been eliminated.

The Company’s operations are managed and reported to its Chairman and Chief Executive Officer (“CEO”), the Company’s chief operating decision maker, on a consolidated basis. The CEO assesses performance and allocates resources based on the consolidated results of operations. Under this organizational and reporting structure, the Company has one reportable segment, cable services.

Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) and the rules and regulations of the Securities and Exchange Commission (the “SEC”). Accordingly, certain information and footnote disclosures typically included in Charter’s Annual Report on Form 10-K have been condensed or omitted for this quarterly report. The accompanying consolidated financial statements are unaudited and are subject to review by regulatory authorities. However, in the opinion of management, such financial statements include all adjustments, which consist of only normal recurring adjustments, necessary for a fair presentation of the results for the periods presented. Interim results are not necessarily indicative of results for a full year.

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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Areas involving significant judgments and estimates include capitalization of labor and overhead costs; depreciation and amortization costs; impairments of property, plant and equipment, intangibles and goodwill; pension benefits; income taxes; contingencies and programming expense. Actual results could differ from those estimates.

Certain prior period amounts have been reclassified to conform with the 2018 presentation.

CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (UNAUDITED)

(dollars in millions, except per share amounts and where indicated)

2. Franchises, Goodwill and Other Intangible Assets

Indefinite-lived and finite-lived intangible assets consist of the following as of September 30, 2018 and December 31, 2017:

	September 30, 2018			December 31, 2017		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Indefinite-lived intangible assets:						
Franchises	\$67,319	\$ —	\$ 67,319	\$67,319	\$ —	\$ 67,319
Goodwill	29,554	—	29,554	29,554	—	29,554
Trademarks	159	—	159	159	—	159
	\$97,032	\$ —	\$ 97,032	\$97,032	\$ —	\$ 97,032
Finite-lived intangible assets:						
Customer relationships	\$18,229	\$ (8,093)	\$ 10,136	\$18,229	\$ (6,278)	\$ 11,951
Other intangible assets	397	(82)	315	731	(201)	530
	\$18,626	\$ (8,175)	\$ 10,451	\$18,960	\$ (6,479)	\$ 12,481

Amortization expense related to customer relationships and other intangible assets for the three and nine months ended September 30, 2018 was \$583 million and \$1.8 billion, respectively, and \$664 million and \$2.1 billion for the three and nine months ended September 30, 2017, respectively. Effective January 1, 2018 with the adoption of Accounting Standards Update (“ASU”) 2014-09, up-front fees paid to market and serve customers who reside in residential multiple dwelling units (“MDUs”) are no longer recorded as intangibles and amortized to depreciation and amortization expense, but are now being recorded as noncurrent assets and are amortized to operating costs and expenses. See Note 18.

The Company expects amortization expense on its finite-lived intangible assets will be as follows:

Three months ended December 31, 2018	\$582
2019	2,153
2020	1,871
2021	1,596
2022	1,326
Thereafter	2,923
	\$10,451

Actual amortization expense in future periods will differ from these estimates as a result of new intangible asset acquisitions or divestitures, changes in useful lives, impairments and other relevant factors.

CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (UNAUDITED)

(dollars in millions, except per share amounts and where indicated)

3. Real Estate Investments through Variable Interest Entities

In July 2018, the Company's build-to-suit lease arrangement with a single-asset special purpose entity ("SPE") to build a new Charter headquarters in Stamford, Connecticut obtained all approvals and was made effective. The SPE obtained a first-lien mortgage note to finance the construction with fixed monthly payments through July 15, 2035 with a 5.612% coupon interest rate. All payments of the mortgage note are guaranteed by Charter. The initial term of the lease is 15 years commencing August 1, 2020, with no termination options. At the end of the lease term there is a mirrored put option for the SPE to sell the property and call option for Charter to purchase the property for a fixed purchase price. As the Company has determined the SPE is a variable interest entity ("VIE") of which it became the primary beneficiary upon the effectiveness of the arrangement, the Company has consolidated the assets and liabilities of the SPE in its consolidated balance sheet as of September 30, 2018 as follows.

	September 30, 2018	
Assets		
Current assets	\$	3
Restricted cash	\$	48
Property, plant and equipment	\$	122
Liabilities		
Other long-term liabilities	\$	173

Property, plant and equipment includes land, a parking garage and building construction costs, including the capitalization of qualifying interest. Other long-term liabilities include \$170 million in VIE's mortgage note liability and \$3 million in liability-classified noncontrolling interest representing the residual initial fair value upon consolidation (that remained after the distribution described below), along with accretion towards settlement of the put/call option in the lease.

The consolidated statement of cash flows for the nine months ended September 30, 2018 includes an increase to restricted cash of \$48 million as a result of activity in the VIE including borrowings of \$170 million by the VIE on the mortgage note liability offset by distributions by the VIE to the noncontrolling interest of \$107 million for the contributed land and parking garage and \$15 million incurred by the VIE for building construction costs. In December 2018, an additional \$172 million is contractually scheduled to be borrowed by the SPE under the mortgage note construction financing.

4. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consist of the following as of September 30, 2018 and December 31, 2017:

	September 30, December 31,	
	2018	2017
Accounts payable – trade	\$ 604	\$ 740
Deferred revenue	498	395
Accrued liabilities:		
Programming costs	2,055	1,907

Labor	1,012	1,109
Capital expenditures	1,318	1,935
Interest	1,011	1,054
Taxes and regulatory fees	575	556
Property and casualty	426	408
Other	1,012	941
	\$ 8,511	\$ 9,045

CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

(dollars in millions, except per share amounts and where indicated)

5. Long-Term Debt

Long-term debt consists of the following as of September 30, 2018 and December 31, 2017:

	September 30, 2018		December 31, 2017	
	Principal Amount	Accreted Value	Principal Amount	Accreted Value
CCO Holdings, LLC:				
5.250% senior notes due March 15, 2021	\$ 500	\$ 498	\$ 500	\$ 497
5.250% senior notes due September 30, 2022	1,250	1,237	1,250	1,235
5.125% senior notes due February 15, 2023	1,000	993	1,000	993
4.000% senior notes due March 1, 2023	500	496	500	495
5.125% senior notes due May 1, 2023	1,150	1,143	1,150	1,143
5.750% senior notes due September 1, 2023	500	497	500	496
5.750% senior notes due January 15, 2024	1,000	993	1,000	992
5.875% senior notes due April 1, 2024	1,700	1,688	1,700	1,687
5.375% senior notes due May 1, 2025	750	745	750	745
5.750% senior notes due February 15, 2026	2,500	2,466	2,500	2,464
5.500% senior notes due May 1, 2026	1,500	1,490	1,500	1,489
5.875% senior notes due May 1, 2027	800	795	800	794
5.125% senior notes due May 1, 2027	3,250	3,218	3,250	3,216
5.000% senior notes due February 1, 2028	2,500	2,465	2,500	2,462
Charter Communications Operating, LLC:				
3.579% senior notes due July 23, 2020	2,000	1,991	2,000	1,988
4.464% senior notes due July 23, 2022	3,000	2,981	3,000	2,977
Senior floating rate notes due February 1, 2024	900	903	—	—
4.500% senior notes due February 1, 2024	1,100	1,091	—	—
4.908% senior notes due July 23, 2025	4,500	4,465	4,500	4,462
3.750% senior notes due February 15, 2028	1,000	986	1,000	985
4.200% senior notes due March 15, 2028	1,250	1,239	1,250	1,238
6.384% senior notes due October 23, 2035	2,000	1,982	2,000	1,981
5.375% senior notes due April 1, 2038	800	785	—	—
6.484% senior notes due October 23, 2045	3,500	3,466	3,500	3,466
5.375% senior notes due May 1, 2047	2,500	2,506	2,500	2,506
5.750% senior notes due April 1, 2048	1,700	1,683	—	—
6.834% senior notes due October 23, 2055	500	495	500	495
Credit facilities	9,576	9,493	9,479	9,387
Time Warner Cable, LLC:				
6.750% senior notes due July 1, 2018	—	—	2,000	2,045
8.750% senior notes due February 14, 2019	1,250	1,279	1,250	1,337
8.250% senior notes due April 1, 2019	2,000	2,060	2,000	2,148
5.000% senior notes due February 1, 2020	1,500	1,551	1,500	1,579
4.125% senior notes due February 15, 2021	700	723	700	730

4.000% senior notes due September 1, 2021	1,000	1,036	1,000	1,045
5.750% sterling senior notes due June 2, 2031 ^(a)	815	876	845	912
6.550% senior debentures due May 1, 2037	1,500	1,682	1,500	1,686
7.300% senior debentures due July 1, 2038	1,500	1,782	1,500	1,788

CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

(dollars in millions, except per share amounts and where indicated)

6.750% senior debentures due June 15, 2039	1,500	1,720	1,500	1,724
5.875% senior debentures due November 15, 2040	1,200	1,257	1,200	1,258
5.500% senior debentures due September 1, 2041	1,250	1,258	1,250	1,258
5.250% sterling senior notes due July 15, 2042 ^(b)	847	817	879	847
4.500% senior debentures due September 15, 2042	1,250	1,139	1,250	1,137
Time Warner Cable Enterprises LLC:				
8.375% senior debentures due March 15, 2023	1,000	1,202	1,000	1,232
8.375% senior debentures due July 15, 2033	1,000	1,302	1,000	1,312
Total debt	71,538	72,474	69,003	70,231
Less current portion:				
6.750% senior notes due July 1, 2018	—	—	(2,000)	(2,045)
8.750% senior notes due February 14, 2019	(1,250)	(1,279)	—	—
8.250% senior notes due April 1, 2019	(2,000)	(2,060)	—	—
Long-term debt	\$68,288	\$69,135	\$67,003	\$68,186

(a) Principal amount includes £625 million remeasured at \$815 million and \$845 million as of September 30, 2018 and December 31, 2017, respectively, using the exchange rate at the respective dates.

(b) Principal amount includes £650 million remeasured at \$847 million and \$879 million as of September 30, 2018 and December 31, 2017, respectively, using the exchange rate at the respective dates.

The accreted values presented in the table above represent the principal amount of the debt less the original issue discount at the time of sale, deferred financing costs, and, in regards to Time Warner Cable, LLC and Time Warner Cable Enterprises LLC debt assumed, fair value premium adjustments as a result of applying acquisition accounting plus the accretion of those amounts to the balance sheet date. However, the amount that is currently payable if the debt becomes immediately due is equal to the principal amount of the debt. In regards to the fixed-rate British pound sterling denominated notes (the “Sterling Notes”), the principal amount of the debt and any premium or discount is remeasured into U.S. dollars as of each balance sheet date. See Note 8. The Company has availability under the Charter Operating credit facilities of approximately \$3.4 billion as of September 30, 2018.

In April 2018, Charter Operating and Charter Communications Operating Capital Corp. jointly issued \$800 million aggregate principal amount of 5.375% senior notes due April 1, 2038 at a price of 98.846% of the aggregate principal amount and \$1.7 billion aggregate principal amount of 5.750% senior notes due April 1, 2048 at a price of 99.706% of the aggregate principal amount. The net proceeds, together with cash on hand, were used to repay certain existing indebtedness, including the redemption of all of the outstanding \$2.0 billion in aggregate principal amount of Time Warner Cable, LLC’s 6.750% notes due July 1, 2018, to pay related fees and expenses and for general corporate purposes, including funding buybacks of Charter Class A common stock and Charter Holdings common units.

In July 2018, Charter Operating and Charter Communications Operating Capital Corp. jointly issued \$400 million aggregate principal amount of senior floating rate notes due February 1, 2024 at par and \$1.1 billion aggregate principal amount of 4.500% senior notes due February 1, 2024 at a price of 99.893% of the aggregate principal amount. In August 2018, Charter Operating and Charter Communications Operating Capital Corp. jointly issued an additional \$500 million aggregate principal amount of senior floating rate notes due February 1, 2024 at a price of 101.479% of the aggregate principal amount. Interest on the floating rate notes accrues at LIBOR plus 1.650%. The net proceeds were used to pay related fees and expenses and for general corporate purposes, including funding

buybacks of Charter Class A common stock and Charter Holdings common units.

The Charter Operating notes are guaranteed by CCO Holdings, LLC (“CCO Holdings”) and substantially all of the operating subsidiaries of Charter Operating. In addition, the Charter Operating notes are secured by a perfected first priority security interest in substantially all of the assets of Charter Operating to the extent such liens can be perfected under the Uniform Commercial Code by the filing of a financing statement and the liens rank equally with the liens on the collateral securing obligations under the Charter Operating credit facilities. Charter Operating may redeem some or all of the Charter Operating notes at any time at a premium.

CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (UNAUDITED)

(dollars in millions, except per share amounts and where indicated)

The Charter Operating notes are subject to the terms and conditions of the indenture governing the Charter Operating notes. The Charter Operating notes contain customary representations and warranties and affirmative covenants with limited negative covenants. The Charter Operating indenture also contains customary events of default.

Loss on extinguishment of debt consisted of the following for the nine months ended September 30, 2017.

	Nine Months Ended September 30, 2017
CCO Holdings notes redemption	\$ (33)
Time Warner Cable, LLC notes redemption	(1)
Charter Operating credit facility refinancing	(1)
	\$ (35)

6. Common Stock

The following represents the Company's purchase of Charter Class A common stock and the effect on the consolidated statements of cash flows during the three and nine months ended September 30, 2018 and 2017.

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2018		2017		2018		2017	
	Shares	\$	Shares	\$	Shares	\$	Shares	\$
Share buybacks	3,046,346	\$929	9,521,958	\$3,513	10,349,639	\$3,142	21,940,797	\$7,611
Income tax withholding	12,703	4	32,283	12	209,394	72	424,148	137
Exercise cost	8,785		1,433		15,200		41,978	
	3,067,834	\$933	9,555,674	\$3,525	10,574,233	\$3,214	22,406,923	\$7,748

As of September 30, 2018, Charter had remaining board authority to purchase an additional \$788 million of Charter's Class A common stock and/or Charter Holdings common units. The Company also withholds shares of its Class A common stock in payment of income tax withholding owed by employees upon vesting of equity awards as well as exercise costs owed by employees upon exercise of stock options.

In 2017, Charter's board of directors approved the retirement of the then currently held treasury stock and those shares were retired as of December 31, 2017. The Company accounts for treasury stock using the cost method and includes treasury stock as a component of total shareholders' equity.

7. Noncontrolling Interests

Noncontrolling interests represents consolidated subsidiaries of which the Company owns less than 100%. The Company is a holding company whose principal asset is a controlling equity interest in Charter Holdings, the indirect

owner of the Company's cable systems. Noncontrolling interests on the Company's balance sheet consist primarily of Advance/Newhouse Partnership's ("A/N") equity interests in Charter Holdings, which is comprised of a common ownership interest and a convertible preferred ownership interest.

Net income of Charter Holdings attributable to A/N's common noncontrolling interest for financial reporting purposes is based on the effective common ownership interest of approximately 8% during 2018 and 9% during 2017, and was \$54 million and \$99 million for the three and nine months ended September 30, 2018, respectively, and \$6 million and \$42 million for the three and nine months ended September 30, 2017, respectively. Net income of Charter Holdings attributable to A/N's preferred noncontrolling interest for financial reporting purposes is based on the preferred dividend which was \$37 million and \$112 million for each of the three and nine months ended September 30, 2018 and 2017, respectively.

CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (UNAUDITED)

(dollars in millions, except per share amounts and where indicated)

The following table represents Charter Holdings' purchase of Charter Holdings common units from A/N pursuant to the Letter Agreement (see Note 14) and the effect on total shareholders' equity during the three and nine months ended September 30, 2018 and 2017.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Number of units purchased	495,447	1,385,404	1,546,475	2,700,849
Average price per unit	\$292.81	\$355.83	\$306.11	\$341.49
Amount of units purchased	\$145	\$493	\$473	\$922
Decrease in noncontrolling interest based on carrying value	\$(122)	\$(292)	\$(376)	\$(582)
Decrease in additional paid-in-capital, net of tax	\$(17)	\$(123)	\$(73)	\$(209)

Total shareholders' equity was also adjusted during the three and nine months ended September 30, 2018 and 2017 due to the changes in Charter Holdings' ownership as follows.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Decrease in noncontrolling interest	\$(10)	\$(170)	\$(53)	\$(336)
Increase in additional paid-in-capital, net of tax	\$7	\$106	\$39	\$208

8. Accounting for Derivative Instruments and Hedging Activities

The Company uses derivative instruments to manage foreign exchange risk on the Sterling Notes, and does not hold or issue derivative instruments for speculative trading purposes.

Cross-currency derivative instruments are used to effectively convert £1.275 billion aggregate principal amount of fixed-rate British pound sterling denominated debt, including annual interest payments and the payment of principal at maturity, to fixed-rate U.S. dollar denominated debt. The cross-currency swaps have maturities of June 2031 and July 2042. The Company is required to post collateral on the cross-currency derivative instruments when the derivative contracts are in a liability position. In May 2016, the Company entered into a collateral holiday agreement for 80% of both the 2031 and 2042 cross-currency swaps, which eliminates the requirement to post collateral for three years. The fair value of the Company's cross-currency derivatives on its consolidated balance sheets was \$88 million and \$25 million included in other long-term liabilities as of September 30, 2018 and December 31, 2017, respectively.

The Company's derivative instruments are not designated as hedges and are marked to fair value each period, with the impact recorded as a gain or loss on financial instruments, net in the consolidated statements of operations. While these derivative instruments are not designated as hedges for accounting purposes, management continues to believe such instruments are closely correlated with the respective debt, thus managing associated risk.

CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (UNAUDITED)

(dollars in millions, except per share amounts and where indicated)

The effect of financial instruments on the consolidated statements of operations is presented in the table below.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Gain (Loss) on Financial Instruments, Net:				
Change in fair value of cross-currency derivative instruments	(10)	68	\$(63)	\$126
Foreign currency remeasurement of Sterling Notes to U.S. dollars	22	(50)	63	(141)
Other, net	—	(1)	—	—
	\$12	\$17	\$—	\$(15)

9. Fair Value Measurements

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

Level 1 – inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 – inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 – inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Financial Assets and Liabilities

The Company has estimated the fair value of its financial instruments as of September 30, 2018 and December 31, 2017 using available market information or other appropriate valuation methodologies. Considerable judgment, however, is required in interpreting market data to develop the estimates of fair value. Accordingly, the estimates presented in the accompanying consolidated financial statements are not necessarily indicative of the amounts the Company would realize in a current market exchange.

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

A portion of the Company's cash and cash equivalents as of September 30, 2018 and December 31, 2017 were invested in money market funds. The money market funds are valued at the closing price reported by the fund sponsor from an actively traded exchange which approximates fair value. The money market funds potentially subject the Company to concentration of credit risk. The amount invested within any one financial instrument did not exceed \$300 million as of September 30, 2018 and December 31, 2017. As of September 30, 2018 and December 31, 2017, there were no significant concentrations of financial instruments in a single investee, industry or geographic location.

Financial instruments accounted for at fair value on a recurring basis are presented in the table below.

	September 30, 2018		December 31, 2017	
	Level 1	Level 2	Level 1	Level 2
Assets				
Money market funds	\$ 15	\$ —	\$ 291	\$ —
Liabilities				
Cross-currency derivative instruments	\$ —	\$ 88	\$ —	\$ 25

CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (UNAUDITED)

(dollars in millions, except per share amounts and where indicated)

A summary of the carrying value and fair value of debt as of September 30, 2018 and December 31, 2017 is as follows:

	September 30, 2018		December 31, 2017	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Senior notes and debentures	\$62,981	\$62,966	\$60,844	\$63,443
Credit facilities	\$9,493	\$9,577	\$9,387	\$9,440

The estimated fair value of the Company's senior notes and debentures as of September 30, 2018 and December 31, 2017 is based on quoted market prices in active markets and is classified within Level 1 of the valuation hierarchy, while the estimated fair value of the Company's credit facilities is based on quoted market prices in inactive markets and is classified within Level 2. The carrying amount of the consolidated variable interest entity's mortgage note liability approximates fair value.

Nonfinancial Assets and Liabilities

The Company's nonfinancial assets such as equity-method investments, franchises, property, plant, and equipment, and other intangible assets are not measured at fair value on a recurring basis; however, they are subject to fair value adjustments in certain circumstances, such as when there is evidence that an impairment may exist. No material impairments were recorded during the three and nine months ended September 30, 2018 and 2017.

10. Operating Costs and Expenses

Operating costs and expenses, exclusive of items shown separately in the consolidated statements of operations, consist of the following for the periods presented:

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2017	
Programming	\$2,778	\$2,699	\$8,333	\$7,952
Regulatory, connectivity and produced content	546	523	1,639	1,553
Costs to service customers	1,854	1,823	5,492	5,385
Marketing	790	761	2,310	2,286
Mobile	94	—	135	—
Other	950	897	2,812	2,681
	\$7,012	\$6,703	\$20,721	\$19,857

Programming costs consist primarily of costs paid to programmers for basic, premium, digital, video on demand and pay-per-view programming. Regulatory, connectivity and produced content costs represent payments to franchise and regulatory authorities, costs directly related to providing video, Internet and voice services as well as payments for

sports, local and news content produced by the Company. Included in regulatory, connectivity and produced content costs is content acquisition costs for the Los Angeles Lakers' basketball games and Los Angeles Dodgers' baseball games, which are recorded as games are exhibited over the applicable season. Costs to service customers include costs related to field operations, network operations and customer care for the Company's residential and small and medium business customers, including internal and third-party labor for the non-capitalizable portion of installations, service and repairs, maintenance, bad debt expense, billing and collection, occupancy and vehicle costs. Marketing costs represent the costs of marketing to current and potential commercial and residential customers including labor costs. Mobile costs represent costs associated with the Company's mobile service such as device and service costs, marketing, sales and commissions, retail stores, personnel costs and taxes, among others. Other includes corporate overhead, advertising sales expenses, indirect costs associated with the Company's enterprise business customers and regional sports and news networks, property tax and insurance expense and stock compensation expense, among others.

CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (UNAUDITED)

(dollars in millions, except per share amounts and where indicated)

11. Other Operating Expenses, Net

Other operating expenses, net consist of the following for the periods presented:

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2017	
Merger and restructuring costs	\$14	\$67	\$90	\$293
Special charges, net	—	80	35	86
(Gain) loss on sale of assets, net	4	(2)	(9)	(5)
	\$18	\$145	\$116	\$374

Merger and restructuring costs

Merger and restructuring costs represent costs incurred in connection with merger and acquisition transactions and related restructuring, such as advisory, legal and accounting fees, employee retention costs, employee termination costs related to the acquisition in 2016 of Time Warner Cable Inc. ("TWC") and Bright House Networks, LLC ("Bright House") and other exit costs. Changes in accruals for merger and restructuring costs are presented below:

	Employee Retention Costs	Employee Termination Costs	Transaction and Advisory Costs	Other Costs	Total
Liability, December 31, 2016	\$ 7	\$ 244	\$ 25	\$ —	\$276
Costs incurred	4	226	4	68	302
Cash paid	(10)	(298)	(12)	(60)	(380)
Remaining liability, December 31, 2017	1	172	17	8	198
Costs incurred	—	59	1	25	85
Cash paid	—	(155)	—	(23)	(178)
Remaining liability, September 30, 2018	\$ 1	\$ 76	\$ 18	\$ 10	\$105

In addition to the costs incurred indicated above, the Company recorded \$5 million of expense related to accelerated vesting of equity awards of terminated employees during the nine months ended September 30, 2018, and \$6 million and \$43 million during the three and nine months ended September 30, 2017, respectively.

Special charges, net

Special charges, net primarily includes employee termination costs not related to the acquisition of TWC and Bright House and net amounts of litigation settlements. The nine months ended September 30, 2018 includes a \$22 million charge related to the Company's withdrawal liability from a multiemployer pension plan while the three and nine months ended September 30, 2017 includes an \$83 million charge related to the Company's withdrawal liability from

a multiemployer pension plan.

(Gain) loss on sale of assets, net

(Gain) loss on sale of assets, net represents the net (gain) loss recognized on the sales and disposals of fixed assets and cable systems.

12. Income Taxes

Substantially all of the Company's operations are held through Charter Holdings and its direct and indirect subsidiaries. Charter Holdings and the majority of its subsidiaries are limited liability companies that are generally not subject to income tax. However, certain of these limited liability companies are subject to state income tax. In addition, the subsidiaries that are corporations are subject to income tax. Generally, the taxable income, gains, losses, deductions and credits of Charter Holdings are passed through

CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

(dollars in millions, except per share amounts and where indicated)

to its members, Charter and A/N. Charter is responsible for its share of taxable income or loss of Charter Holdings allocated to it in accordance with the Charter Holdings Limited Liability Company Agreement (“LLC Agreement”) and partnership tax rules and regulations. As a result, Charter's primary deferred tax component recorded in the consolidated balance sheets relates to its excess financial reporting outside basis, excluding amounts attributable to nondeductible goodwill, over Charter's tax basis in the investment in Charter Holdings.

The Company recorded income tax expense of \$109 million and \$178 million for the three and nine months ended September 30, 2018, respectively, and \$26 million and \$99 million for the three and nine months ended September 30, 2017, respectively. Income tax expense increased year over year as a result of higher pretax income offset by the impacts of federal tax reform.

The Company has reported provisional amounts for the income tax effects of Tax Cuts & Jobs Act (“Tax Reform”) for which the accounting is incomplete but a reasonable estimate could be determined. There were no specific impacts of Tax Reform that could not be reasonably estimated which the Company accounted for under prior tax law. Based on a continued analysis of the estimates and further guidance on the application of the law, it is anticipated that additional revisions may occur throughout the allowable measurement period. During the three months ended September 30, 2018, a \$12 million income tax benefit was recorded to update existing estimates reflecting more complete information. The final update is expected during the fourth quarter of 2018.

Charter Holdings, the indirect owner of the Company's cable systems, generally allocates its taxable income, gains, losses, deductions and credits proportionately according to the members' respective ownership interests, except for special allocations required under Section 704(c) of the Internal Revenue Code and the Treasury Regulations (“Section 704(c)"). Pursuant to Section 704(c) and the LLC Agreement, each item of income, gain, loss and deduction with respect to any property contributed to the capital of the partnership shall, solely for tax purposes, be allocated among the members so as to take into account any variation between the adjusted basis of such property to the partnership for U.S. federal income tax purposes and its initial gross asset value using the “traditional method” as described in the Treasury Regulations.

In determining the Company's tax provision for financial reporting purposes, the Company establishes a reserve for uncertain tax positions unless such positions are determined to be “more likely than not” of being sustained upon examination, based on their technical merits. There is considerable judgment involved in making such a determination. The Company has recorded unrecognized tax benefits totaling approximately \$171 million and \$164 million, excluding interest and penalties, as of September 30, 2018 and December 31, 2017, respectively. The Company does not currently anticipate that its reserve for uncertain tax positions will significantly increase or decrease during 2018; however, various events could cause the Company's current expectations to change in the future. These uncertain tax positions, if ever recognized in the financial statements, would be recorded in the consolidated statements of operations as part of the income tax provision.

No tax years for Charter or Charter Communications Holding Company, LLC for income tax purposes, are currently under examination by the Internal Revenue Service (“IRS”). Charter's 2016 and 2017 tax years remain open for examination and assessment. Charter's tax years ending 2015 through the short period return dated May 17, 2016 (prior to the acquisition of TWC and Bright House) remain subject to examination and assessment. Years prior to 2015 remain open solely for purposes of examination of Charter's loss and credit carryforwards. The IRS is currently examining Charter Holdings' income tax return for 2016. Charter Holdings' 2017 tax year remains open for

examination. The IRS is currently examining TWC's income tax returns for 2011 through 2014. TWC's tax year 2015 remains subject to examination and assessment. Prior to TWC's separation from Time Warner Inc. ("Time Warner") in March 2009 (the "Separation"), TWC was included in the consolidated U.S. federal and certain state income tax returns of Time Warner. The IRS is currently examining Time Warner's 2008 through 2010 income tax returns. The Company does not anticipate that these examinations will have a material impact on the Company's consolidated financial position or results of operations. In addition, the Company is also subject to ongoing examinations of the Company's tax returns by state and local tax authorities for various periods. Activity related to these state and local examinations did not have a material impact on the Company's consolidated financial position or results of operations during the three and nine months ended September 30, 2018, nor does the Company anticipate a material impact in the future.

13. Earnings Per Share

Basic earnings per common share is computed by dividing net income attributable to Charter shareholders by the weighted average number of shares of common stock outstanding during the period. Diluted earnings per common share considers the impact of potentially dilutive securities using the treasury stock and if-converted methods and is based on the weighted average number of shares used for the basic earnings per share calculation, adjusted for the dilutive effect of stock options, restricted stock, restricted

CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (UNAUDITED)

(dollars in millions, except per share amounts and where indicated)

stock units, equity awards with market conditions and Charter Holdings convertible preferred units and common units. Charter Holdings common and convertible preferred units of 30 million and 31 million for the three and nine months ended September 30, 2018, respectively, and 35 million and 37 million for the three and nine months ended September 30, 2017, respectively, were not included in the computation of diluted earnings per share as their effect would have been antidilutive. The following is the computation of diluted earnings per common share for the three and nine months ended September 30, 2018 and 2017.

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2017	
Numerator:				
Net income attributable to Charter shareholders	\$493	\$ 48	\$934	\$ 342
Denominator:				
Weighted average common shares outstanding, basic	230,552,639	23,805	234,152,623	207,603
Effect of dilutive securities:				
Assumed exercise or issuance of shares relating to stock plans	3,052,784	118,046	3,184,002	188,999
Weighted average common shares outstanding, diluted	233,605,423	141,851	237,336,625	196,602
Basic earnings per common share attributable to Charter shareholders	\$2.14	\$ 0.19	\$3.99	\$ 1.31
Diluted earnings per common share attributable to Charter shareholders	\$2.11	\$ 0.19	\$3.93	\$ 1.29

14. Related Party Transactions

The following sets forth certain transactions in which the Company and the directors, executive officers, and affiliates of the Company are involved.

Liberty Broadband and A/N

Under the terms of the Amended and Restated Stockholders Agreement with Liberty Broadband Corporation (“Liberty Broadband”), A/N and Charter, dated May 23, 2015, the number of Charter’s directors is fixed at 13, and includes its CEO. Two designees selected by A/N are members of the board of directors of Charter and three designees selected by Liberty Broadband are members of the board of directors of Charter. The remaining eight directors are not affiliated with either A/N or Liberty Broadband. Each of A/N and Liberty Broadband is entitled to nominate at least one director to each of the committees of Charter’s board of directors, subject to applicable stock exchange listing rules and certain specified voting or equity ownership thresholds for each of A/N and Liberty Broadband, and provided that the Nominating and Corporate Governance Committee and the Compensation and Benefit Committee each have at least a majority of directors independent from A/N, Liberty Broadband and Charter (referred to as the “unaffiliated directors”). Each of the Nominating and Corporate Governance Committee and the Compensation and Benefits Committee is currently comprised of three unaffiliated directors and one designee of each of A/N and Liberty Broadband. A/N and Liberty Broadband also have certain other committee designation and other governance rights. Mr. Thomas Rutledge, the Company’s CEO, is the chairman of the board of Charter.

In December 2017, Charter and A/N entered into an amendment to the letter agreement (the “Letter Agreement”) that requires A/N to sell to Charter or to Charter Holdings, on a monthly basis, a number of shares of Charter Class A common stock or Charter Holdings common units that represents a pro rata participation by A/N and its affiliates in any repurchases of shares of Charter Class A common stock from persons other than A/N effected by Charter during the immediately preceding calendar month, at a purchase price equal to the average price paid by Charter for the shares repurchased from persons other than A/N during such immediately preceding calendar month. A/N and Charter both have the right to terminate or suspend the pro rata repurchase arrangement on a prospective basis once Charter or Charter Holdings have repurchased shares of Class A common stock or Charter Holdings common units from A/N and its affiliates for an aggregate purchase price of \$400 million which threshold has been reached.

CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

(dollars in millions, except per share amounts and where indicated)

The Company is aware that Dr. John Malone, a director emeritus of Charter and Chairman of the board of directors and holder of 47.1% of voting interest in Liberty Broadband, may be deemed to have a 37.5% voting interest in Qurate Retail, Inc. ("Qurate," formerly known as Liberty Interactive Corporation) and is on the board of directors of Qurate. Qurate wholly owns HSN, Inc. ("HSN") and QVC, Inc. ("QVC"). The Company has programming relationships with HSN and QVC. For the three and nine months ended September 30, 2018, the Company recorded revenue in aggregate of approximately \$18 million and \$51 million, respectively, and for the three and nine months ended September 30, 2017, the Company recorded revenue in aggregate of approximately \$17 million and \$50 million, respectively, from HSN and QVC as part of channel carriage fees and revenue sharing arrangements for home shopping sales made to customers in the Company's footprint.

Dr. Malone and Mr. Steven Miron, a member of Charter's board of directors, also serve on the board of directors of Discovery Communications, Inc., ("Discovery"). The Company is aware that Dr. Malone owns 93.6% of the series B common stock of Discovery, 6% of the series C common stock of Discovery and has a 28% voting interest in Discovery for the election of directors. The Company is aware that Advance/Newhouse Programming Partnership ("A/N PP"), an affiliate of A/N and of which Mr. Miron is the CEO, owns 100% of the Series A-1 preferred stock of Discovery and 100% of the Series C-1 preferred stock of Discovery and has a 24.2% voting interest for the election of directors. A/N PP has the right to appoint three directors out of a total of eleven directors to Discovery's board to be elected by the holders of Discovery's Series A-1 preferred stock. The Company purchases programming from Discovery pursuant to agreements entered into prior to Dr. Malone and Mr. Miron joining Charter's board of directors. Based on publicly available information, the Company does not believe that Discovery would currently be considered a related party. The amount paid in the aggregate to Discovery represents less than 3% of total operating costs and expenses for the three and nine months ended September 30, 2018 and 2017.

Equity Investments

The Company has agreements with certain equity-method investees pursuant to which the Company has made or received related party transaction payments. The Company recorded payments to equity-method investees totaling \$99 million and \$248 million during the three and nine months ended September 30, 2018, respectively, and \$62 million and \$208 million during the three and nine months ended September 30, 2017, respectively.

15. Contingencies

In August 2015, a purported stockholder of Charter, Matthew Sciabacucchi, filed a lawsuit in the Delaware Court of Chancery, on behalf of a putative class of Charter stockholders, challenging the transactions involving Charter, TWC, A/N, and Liberty Broadband announced by Charter on May 26, 2015. The lawsuit, which named as defendants Charter and its board of directors, alleged that the transactions resulted from breaches of fiduciary duty by Charter's directors and that Liberty Broadband improperly benefited from the challenged transactions at the expense of other Charter stockholders. The lawsuit has proceeded to the discovery phase. Charter denies any liability, believes that it has substantial defenses, and intends to vigorously defend this lawsuit. Although Charter is unable to predict the outcome of this lawsuit, it does not expect the outcome will have a material effect on its operations, financial condition or cash flows.

The California Attorney General and the Alameda County, California District Attorney are investigating whether certain of Charter's waste disposal policies, procedures and practices are in violation of the California Business and Professions Code and the California Health and Safety Code. That investigation was commenced in January 2014. A similar investigation involving TWC was initiated in February 2012. Charter is cooperating with these investigations. While the Company is unable to predict the outcome of these investigations, it does not expect that the outcome will have a material effect on its operations, financial condition, or cash flows.

On December 19, 2011, Sprint Communications Company L.P. ("Sprint") filed a complaint in the U.S. District Court for the District of Kansas alleging that TWC infringed certain U.S. patents purportedly relating to Voice over Internet Protocol ("VoIP") services. A trial began on February 13, 2017. On March 3, 2017 the jury returned a verdict of \$140 million against TWC and further concluded that TWC had willfully infringed Sprint's patents. The court subsequently declined to enhance the damage award as a result of the purported willful infringement and awarded Sprint an additional \$6 million, representing pre-judgment interest on the damages award. The Company has appealed the case to the United States Court of Appeals for the Federal Circuit. In addition to its appeal, the Company continues to pursue indemnity from one of its vendors and has brought a patent suit against Sprint (TC Tech, LLC v. Sprint) in the U.S. District Court for the District of Delaware implicating Sprint's LTE technology. The impact of the Sprint verdict was reflected in the measurement period adjustments to net current liabilities. The Company does not

CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

(dollars in millions, except per share amounts and where indicated)

expect that the outcome of this litigation will have a material adverse effect on its operations or financial condition. The ultimate outcome of this litigation or the pursuit of indemnity against the Company's vendor cannot be predicted.

Sprint filed a second suit against Charter on December 2, 2017 in the United States District Court for the District of Delaware. This suit alleges infringement of 15 patents related to the Company's provision of VoIP services (ten of which were already asserted against Legacy TWC in the matter described above). Charter will vigorously defend this case. While the Company is unable to predict the outcome of this Sprint suit, it does not expect that this litigation will have a material effect on its operations, financial condition, or cash flows.

Sprint filed a third suit against Charter on May 17, 2018 in the United States District Court for the Eastern District of Virginia. This suit alleges infringement of three patents related to the Company's video on demand services. The Company will vigorously defend this case. While the Company is unable to predict the outcome of this litigation, it does not expect that this litigation will have a material effect on its operations, financial condition, or cash flows.

The New York Public Service Commission (the "PSC") has issued multiple orders against Charter including two orders on July 27, 2018 relating to the agreement by which the PSC approved Charter's merger with TWC. One order finds that Charter had failed to satisfy one of its merger conditions by not extending its high speed broadband network according to the PSC's recent interpretation of which homes and businesses Charter built to should count, and it directs the initiation of a court action to impose financial and other penalties on Charter. The second order, rescinds the PSC's January 2016 approval of Charter's acquisition of TWC's New York operations and directs Charter to submit a plan to effect an orderly transition to a successor provider or providers for Charter to cease operations in New York within six months of the order. As the PSC and Charter have entered into discussions with the possibility of resolving the PSC related matters, the PSC has extended such deadline on three occasions with the last extension requiring submission of an exit plan by December 24, 2018. On July 30, 2018, the PSC filed a petition for penalties and injunctive relief in the Supreme Court of the State of New York seeking penalties of \$100,000 per day from June 18, 2018 and until Charter complies with the PSC order and also seeks injunctive relief from the court to enjoin failure to comply with the New York Public Service Laws or any regulation or order of the PSC. While the Company believes the actions by the PSC are without merit and intends to defend the actions vigorously and does not believe the results of the proceedings will have a material adverse effect on Charter, no assurance can be given that, should an adverse outcome result, it would not be material to its consolidated financial condition, results of operations or liquidity. The Company cannot predict the outcome of the PSC claims, including any negotiations, nor can it reasonably estimate a range of possible loss in the event of an adverse result.

On October 23, 2015, the New York Office of the Attorney General (the "NY AG") began an investigation of TWC's advertised Internet speeds and other Internet product advertising. On February 1, 2017, the NY AG filed suit in the Supreme Court for the State of New York alleging that TWC's advertising of Internet speeds was false and misleading. The suit seeks restitution and injunctive relief. The Company continues to defend itself vigorously. Although no assurances can be made that such defenses would ultimately be successful, the Company does not expect that the outcome of this litigation will have a material adverse effect on its operations, financial condition or cash flows.

In addition to the Sprint litigation described above, the Company is a defendant or co-defendant in several additional lawsuits involving alleged infringement of various patents relating to various aspects of its businesses. Other industry participants are also defendants in certain of these cases. In the event that a court ultimately determines that the

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

The Company is party to other lawsuits, claims and regulatory inquiries that arise in the ordinary course of conducting its business. The ultimate outcome of these other legal matters pending against the Company cannot be predicted, and although such lawsuits and claims are not expected individually to have a material adverse effect on the Company's consolidated financial condition, results of operations or liquidity, such lawsuits could have, in the aggregate, a material adverse effect on the Company's consolidated financial condition, results of operations or liquidity. Whether or not the Company ultimately prevails in any particular lawsuit or claim, litigation can be time consuming and costly and injure the Company's reputation.

CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (UNAUDITED)

(dollars in millions, except per share amounts and where indicated)

16. Stock Compensation Plans

Charter's 2009 Stock Incentive Plan provides for grants of nonqualified stock options, incentive stock options, stock appreciation rights, dividend equivalent rights, performance units and performance shares, share awards, phantom stock, restricted stock units and restricted stock. Directors, officers and other employees of the Company and its subsidiaries, as well as others performing consulting services for the Company, are eligible for grants under the 2009 Stock Incentive Plan.

Charter granted the following equity awards for the periods presented.

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Stock options	24,200	20,900	1,490,700	1,167,100
Restricted stock	500	—	10,200	9,500
Restricted stock units	13,500	5,100	518,900	283,000

Charter stock options and restricted stock units generally cliff vest upon the three year anniversary of each grant. Certain stock options and restricted stock units vest based on achievement of stock price hurdles. Stock options generally expire ten years from the grant date and restricted stock units have no voting rights. Restricted stock generally vests one year from the date of grant. TWC restricted stock units that were converted into Charter restricted stock units generally vest 50% on each of the third and fourth anniversary of the grant date.

As of September 30, 2018, total unrecognized compensation remaining to be recognized in future periods totaled \$235 million for stock options, \$2 million for restricted stock and \$224 million for restricted stock units and the weighted average period over which they are expected to be recognized is two years for stock options, one year for restricted stock and two years for restricted stock units.

The Company recorded \$71 million and \$213 million of stock compensation expense for the three and nine months ended September 30, 2018, respectively, and \$64 million and \$198 million for the three and nine months ended September 30, 2017, respectively, which is included in operating costs and expenses. The Company also recorded \$5 million for the nine months ended September 30, 2018, and \$6 million and \$43 million for the three and nine months ended September 30, 2017, respectively, of expense related to accelerated vesting of equity awards of terminated employees, which is recorded in merger and restructuring costs in other operating expenses, net in the consolidated statements of operations.

17. Employee Benefit Plans

The Company sponsors two qualified defined benefit pension plans, the TWC Pension Plan and the TWC Union Pension Plan, that provide pension benefits to a majority of employees who were employed by TWC before the acquisition of TWC. The Company also provides a nonqualified defined benefit pension plan for certain employees under the TWC Excess Pension Plan.

Pension benefits are based on formulas that reflect the employees' years of service and compensation during their employment period. Actuarial gains or losses are changes in the amount of either the benefit obligation or the fair value of plan assets resulting from experience different from that assumed or from changes in assumptions. The Company has elected to follow a mark-to-market pension accounting policy for recording the actuarial gains or losses annually during the fourth quarter, or earlier if a remeasurement event occurs during an interim period. No future compensation increases or future service will be credited to participants of the pension plans given the frozen nature of the plans.

CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (UNAUDITED)

(dollars in millions, except per share amounts and where indicated)

The components of net periodic pension benefit (costs) for the three and nine months ended September 30, 2018 and 2017 are recorded in other pension benefits (costs) in the consolidated statements of operations and consisted of the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Interest cost	\$(32)	\$(33)	\$(96)	\$(101)
Expected return on plan assets	52	46	156	140
Remeasurement gain (loss), net	187	(30)	187	(30)
Net periodic pension benefit (costs)	\$207	\$(17)	\$247	\$9

During the three and nine months ended September 30, 2018 and 2017, settlements for lump-sum distributions to qualified and nonqualified pension plan participants exceeded the estimated annual interest cost of the plans. As a result, the pension liability and pension asset values were reassessed as of September 30, 2018 and 2017 utilizing remeasurement date assumptions in accordance with the Company's mark-to-market pension accounting policy to record gains and losses in the period in which a remeasurement event occurs. The \$187 million remeasurement gain recorded during the three and nine months ended September 30, 2018 was primarily driven by the effects of an increase of the discount rate from 3.68% at December 31, 2017 to 4.24% at September 30, 2018. This was partially offset by a loss to record pension assets to fair value at September 30, 2018. The \$30 million remeasurement loss recorded during the three and nine months ended September 30, 2017 was primarily driven by the adoption of the revised lump sum conversion mortality tables published by the Internal Revenue Service effective January 1, 2018, and the effects of a decrease of the discount rate from 4.20% at December 31, 2016 to 3.88% at September 30, 2017. The effects of these changes were partially offset by a gain to record pension assets to fair value at September 30, 2017. The expected long-term rate of return on plan assets has decreased from 6.50% at December 31, 2017 to 5.75% at September 30, 2018 reflecting changes in the mix of plan assets.

The Company made no cash contributions to the qualified pension plans during the three and nine months ended September 30, 2018 and 2017; however, the Company may make discretionary cash contributions to the qualified pension plans in the future. Such contributions will be dependent on a variety of factors, including current and expected interest rates, asset performance, the funded status of the qualified pension plans and management's judgment. For the nonqualified unfunded pension plan, the Company will continue to make contributions during 2018 to the extent benefits are paid.

18. Recently Issued Accounting Standards

Accounting Standards Adopted January 1, 2018

ASU No. 2014-09, Revenue from Contracts with Customers ("ASU 2014-09")

In May 2014, the Financial Accounting Standards Board ("FASB") issued ASU 2014-09 which is a comprehensive revenue recognition standard that superseded nearly all revenue recognition guidance under U.S. GAAP. ASU 2014-09 provides a single principles-based, five step model to be applied to all contracts with customers, which steps are to (1) identify the contract(s) with the customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract and (5) recognize revenue when each performance obligation is satisfied.

The Company adopted ASU 2014-09 as of January 1, 2018 using the modified retrospective transition method with a cumulative-effect adjustment to equity. The adoption of ASU 2014-09 did not have a material impact on the Company's financial position or results of operation. Previously reported results will not be restated under this transition method. The adoption results in the deferral of residential and small and medium business installation revenues and enterprise commission expenses over a period of time instead of recognized immediately. The adoption also results in the reclassification of the amortization of up-front fees paid to market and serve customers who reside in residential MDUs to operating costs and expenses instead of amortized as an intangible to depreciation and amortization expense.

The January 1, 2018 adoption cumulative-effect adjustment consisted of an increase to other noncurrent assets of \$120 million, an increase to accounts payable and accrued liabilities of \$71 million, an increase to deferred income tax liabilities of \$11 million

CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

(dollars in millions, except per share amounts and where indicated)

and an increase to total shareholders' equity of \$38 million. The Company applied the cumulative-effect adjustment to all contracts as of January 1, 2018. Operating results for the three and nine months ended September 30, 2018 are not materially different than results that would have been reported under guidance in effect before application of ASU 2014-09.

Nature of Services

Residential Services

Residential customers are offered video, Internet and voice services primarily on a subscription basis. Residential customers may generally cancel their subscriptions at any time without penalty. Each subscription service provided is accounted for as a distinct performance obligation and revenue is recognized ratably over a one month service period as the subscription services are delivered. Each optional service purchased is generally accounted for as a distinct performance obligation when purchased and revenue is recognized when the service is provided.

Residential video customers have the option to purchase additional tiers of services, as well as video-on-demand ("VOD") programming and pay-per-view programming on a per-event basis. Video revenues consist primarily of revenues from the selected programming service tier, as well as VOD fees, pay-per-view fees, retransmission fees, regulatory fees, equipment service fees and video installation fees.

Residential Internet customers receive data download and upload services with speeds dependent on the selected tier of service. Customers are also offered a security suite, an in-home WiFi product, and an out-of-home WiFi service. Internet revenues consist primarily of data services, WiFi service fees and Internet installation fees.

Residential voice customers receive unlimited local and long distance calling to United States, Canada, Mexico, and Puerto Rico, voicemail, call waiting, caller ID, call forward and other features. Customers may also purchase international calling either by the minute, or through packages of minutes per month. Voice revenues consist primarily of voice services and regulatory fees.

Small and Medium Business

Small and medium business customers are offered video, Internet and voice services similar to those provided to residential customers. Small and medium business customers may generally cancel their subscriptions at any time without penalty. Each subscription service provided is accounted for as a distinct performance obligation and revenue is recognized ratably over a one month service period as the subscription services are delivered.

Enterprise Solutions

Enterprise Solutions include fiber-delivered communications and managed information technology solutions to larger businesses, as well as high-capacity last-mile data connectivity services to mobile and wireline carriers, Internet service providers, and other competitive carriers on a wholesale basis. Services are primarily offered on a subscription basis with a contractually specified and non-cancelable service period. The non-cancelable contract terms for enterprise services generally range from two to seven years. Each subscription service provided is accounted for as a distinct performance obligation and revenue is recognized ratably over the contract period as the subscription services

are delivered. Enterprise subscription services are billed as monthly recurring charges to customers and related installation services, if applicable, are billed upon completion of the customer installation. Installation services are not accounted for as distinct performance obligations, but rather a component of the connectivity services, and therefore upfront installation fees are deferred and recognized as revenue over the related contract period.

Advertising Services

The Company offers local, regional and national businesses the opportunity to advertise in individual and multiple markets on cable television networks and digital outlets. Placement of advertising is accounted for as a distinct performance obligation and revenue is recognized at the point in time when the advertising is distributed. In some markets, the Company has formed advertising interconnects or entered into representation agreements with other video distributors, under which the Company sells advertising on behalf of those distributors. In other markets, the Company has entered into representation agreements under which another operator in the area will sell advertising on the Company's behalf. For representation arrangements in which the Company controls the sale of advertising and acts as the principal to the transaction, the Company recognizes revenue earned from the advertising

CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (UNAUDITED)

(dollars in millions, except per share amounts and where indicated)

customer on a gross basis and the amount remitted to the distributor as an operating expense. For other representation arrangements in which the Company does not control the sale of advertising and acts as an agent to the transaction, the Company recognizes revenue net of any fee remitted to the distributor.

Mobile

At the end of the second quarter of 2018, the Company launched its mobile product which is available to residential customers subscribing to its Internet service. Mobile services are sold under an unlimited data plan or a by-the-gig data usage plan and revenue is recognized as the services are provided. Customers can purchase mobile devices and accessory products and have the option to pay for devices under an installment plan. Revenue is recognized from the sale of devices at the time of shipment.

The Company's revenues by product line are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Video	\$4,332	\$4,208	\$12,987	\$12,401
Internet	3,809	3,555	11,286	10,464
Voice	512	611	1,599	1,955
Residential revenue	8,653	8,374	25,872	24,820
Small and medium business	922	896	2,737	2,652
Enterprise	632	594	1,881	1,761
Commercial revenue	1,554	1,490	4,618	4,413
Advertising sales	440	373	1,223	1,091
Mobile	17	—	17	—
Other	228	221	673	655
	\$10,892	\$10,458	\$32,403	\$30,979

Fees imposed on the Company by various governmental authorities are passed through on a monthly basis to the Company's customers and are periodically remitted to authorities. Fees of \$239 million and \$730 million for the three and nine months ended September 30, 2018, respectively, and \$244 million and \$717 million for the three and nine months ended September 30, 2017, respectively, are reported in video, voice, mobile and commercial revenues, on a gross basis with a corresponding operating expense because the Company is acting as a principal. Certain taxes, such as sales taxes imposed on the Company's customers, collected and remitted to state and local authorities, are recorded on a net basis because the Company is acting as an agent in such situation.

A significant portion of our revenue is derived from customers who may generally cancel their subscriptions at any time without penalty. As such, the amount of revenue related to unsatisfied performance obligations is not necessarily indicative of the future revenue to be recognized from our existing customer base. Revenue from customers with a contractually specified term and non-cancelable service period will be recognized over the term of such contracts,

which is generally two to seven years for our enterprise contracts.

Significant Judgments

The Company often provides multiple services to a customer. Provision of customer premise equipment, installation services, and additional service tiers may have a significant level of integration and interdependency with the subscription video, Internet, voice, or connectivity services provided. Judgment is required to determine whether provision of customer premise equipment, installation services, and additional service tiers are considered distinct and accounted for separately, or not distinct and accounted for together with the subscription services.

Allocation of the transaction price to the distinct performance obligations in bundled residential service subscriptions requires judgment. The transaction price for a bundle of residential services is frequently less than the sum of the standalone selling prices of each individual service. The Company allocates the residential services bundle discount among the services to which the

CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

(dollars in millions, except per share amounts and where indicated)

discount relates based on the relative standalone selling prices of those services. Standalone selling prices for the Company's residential video and Internet services are directly observable, while standalone selling price for the Company's residential voice service is estimated using the adjusted market assessment approach which relies upon information from peers and competitors who sell residential voice services individually.

The Company believes residential and small and medium business non-refundable upfront installation fees charged to customers result in a material right to renew the contract as such fees are not required to be paid upon subsequent renewals. The residential and small and medium business upfront fee is deferred over the period the fee remains material to the customer, which the Company has estimated to be approximately six months. Estimation of the period the fee remains material to the customer requires consideration of both quantitative and qualitative factors including average installation fee, average revenue per customer, and customer behavior, among others.

Contract Liabilities

Timing of revenue recognition may differ from the timing of invoicing to customers. Residential, small and medium business, and enterprise customers are invoiced for subscription services in advance of the service period. Deferred revenue liabilities, or contract liabilities, are recorded when the Company collects payments in advance of performing the services. Deferred revenue liabilities, or contract liabilities, are also recorded when the Company invoices customers upfront for installation services that are recognized as revenue over time. Residential and small and medium business installation revenues are deferred over the period the fee remains material to the customer. Enterprise installation revenues are deferred using a portfolio approach over the average contract life of each enterprise service category. As of September 30, 2018, current deferred revenue liabilities consisting of refundable customer prepayments of \$410 million and upfront installation fees of \$88 million were included in accounts payable and accrued liabilities. As of September 30, 2018, long-term deferred revenue liabilities consisting of enterprise upfront installation fees of \$34 million were included in other long-term liabilities.

Contract Costs

The Company recognizes an asset for incremental costs of obtaining a contract with a customer if the amortization period of those costs is expected to be longer than one year and the costs are expected to be recovered. Enterprise sales commission costs meet the requirements to be deferred and, as a result, are recognized using a portfolio approach over a commission expense weighted-average enterprise contract period. Deferred enterprise commission costs are included in other noncurrent assets in the consolidated balance sheet and totaled \$138 million as of September 30, 2018. As the amortization period of residential and small and medium business commissions costs is less than one year, the Company applies the practical expedient that allows such costs to be expensed as incurred. The Company has determined that the amortization period associated with residential and small and medium business commission costs is less than one year based on qualitative and quantitative factors.

The Company recognizes an asset for costs incurred to fulfill a contract when those costs are directly related to services provided under the contract, generate or enhance resources of the entity that will be used in performing service obligations under the contract, and are expected to be recovered. Up-front fees paid to MDUs, such as apartment building owners, in order to gain access to market and serve tenants who reside within the MDU meet the requirements to be deferred and, as a result, are recognized over the term of the MDU contract. Deferred upfront MDU fees are amortized on a straight-line basis and are included in other noncurrent assets in the consolidated

balance sheet and totaled \$266 million as of September 30, 2018. Amortization expense of \$16 million and \$46 million was included in regulatory, connectivity and produced content within operating expenses in the consolidated statements of operations for the three and nine months ended September 30, 2018, respectively. Residential and small and medium business installation costs not capitalized into property, plant and equipment are expensed as incurred under cable industry-specific guidance.

ASU No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (“ASU 2016-15”)

In August 2016, the FASB issued ASU 2016-15 which clarifies how entities should classify cash receipts and cash payments related to eight specific cash flow matters on the statement of cash flows, with the objective of reducing existing diversity in practice. The Company adopted ASU 2016-15 on January 1, 2018. The adoption of ASU 2016-15 did not have a material impact to the Company’s consolidated financial statements.

CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

(dollars in millions, except per share amounts and where indicated)

ASU No. 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory ("ASU 2016-16")

In October 2016, the FASB issued ASU 2016-16 which requires both the selling entity and the buying entity in an intra-entity asset transfer (other than the transfer of inventory) to immediately recognize the current and deferred income tax consequences of the transaction. Income tax effects of intra-entity transfers of inventory will continue to be deferred until the inventory has been sold to a third party. The Company adopted the standard on January 1, 2018, using a modified retrospective approach, with the cumulative-effect adjustment recognized directly to shareholders equity for the income tax effects of intra-entity asset transfers (other than transfers of inventory) that happened before the adoption date. The Company identified a \$31 million increase to total shareholders' equity and corresponding increase to deferred tax assets related to the adoption, which was recorded during the three months ended September 30, 2018.

ASU No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash ("ASU 2016-18")

In November 2016, the FASB issued ASU 2016-18 which requires that amounts generally described as restricted cash to be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. ASU 2016-18 does not provide a definition of restricted cash or restricted cash equivalents. The Company adopted ASU 2016-18 on January 1, 2018. The new guidance will only be applicable to amounts described by the Company as restricted cash. As a result of the adoption of ASU 2016-18, \$48 million of restricted cash was included in ending period cash, cash equivalents and restricted cash in the Company's consolidated statement of cash flow for the nine months ended September 30, 2018. The Company's consolidated statement of cash flows for the year ended December 31, 2016 will also be recast to present \$22.3 billion of restricted cash as beginning of period cash, cash equivalents and restricted cash.

ASU No. 2017-09, Scope of Modification Accounting ("ASU 2017-09")

In May 2017, the FASB issued ASU 2017-09 which amends the scope of modification accounting for share-based payment arrangements. The ASU provides guidance on the types of changes to the terms or conditions of share-based payment awards to which an entity would be required to apply modification accounting. ASU 2017-09 is applied prospectively to awards modified on or after the effective date. The Company adopted ASU 2017-09 on January 1, 2018. The adoption of ASU 2017-09 did not have a material impact to the Company's consolidated financial statements.

Accounting Standards Not Yet Adopted

ASU No. 2016-02, Leases ("ASU 2016-02")

In February 2016, the FASB issued ASU 2016-02 which requires lessees to recognize almost all leases on their balance sheet as a right-of-use asset and a lease liability. Lessees are allowed to account for short-term leases (i.e., leases with a term of 12 months or less) off-balance sheet, consistent with current operating lease accounting. For income statement purposes, the FASB retained a dual model, requiring leases to be classified as either operating or finance. Classification will be based on criteria that are largely similar to those applied in current lease accounting, but without explicit bright lines.

The Company plans to adopt ASU 2016-02 using the modified retrospective approach with a cumulative-effect adjustment recorded at the beginning of the period of adoption (January 1, 2019). Therefore, upon adoption, the Company will recognize and measure operating leases on the consolidated balance sheet without revising comparative period information or disclosure. The modified retrospective approach includes a number of optional practical expedients that entities may elect to apply. The Company anticipates electing the transition package practical expedient which would eliminate the reassessment of past leases, classification and initial direct costs. The Company anticipates adopting the land easements practical expedient which allows adopters the ability not to retrospectively treat land easements as leases; however, must apply lease accounting prospectively to land easements if they meet the definition of a lease.

The Company's adoption process of ASU 2016-02 is ongoing, including evaluating and quantifying the impact on its consolidated financial statements, identifying the population of leases (and embedded leases), implementing a selected technology solution and collecting and validating lease data. Although the Company has not yet completed the evaluation of the new standard, or quantified its impact, the Company expects its lease obligations designated as operating leases (as disclosed in Note 20 to the audited consolidated financial statements in its most recent Annual Report on Form 10-K) will be reported on the consolidated balance sheet upon adoption.

CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

(dollars in millions, except per share amounts and where indicated)

ASU No. 2017-04, Simplifying the Test for Goodwill Impairment (“ASU 2017-04”)

In January 2017, the FASB issued ASU 2017-04 which eliminates step two from the goodwill impairment test. Under the new standard, to the extent the carrying amount of a reporting unit exceeds the fair value, the Company will record an impairment charge equal to the difference. The impairment charge recognized should not exceed the total amount of goodwill allocated to the reporting unit. ASU 2017-04 will be effective for interim and annual periods beginning after December 15, 2019 (January 1, 2020 for the Company). Early adoption is permitted for interim or annual goodwill impairment tests performed after January 1, 2017. The Company is currently in the process of evaluating the impact that the adoption of ASU 2017-04 will have on its consolidated financial statements.

ASU No. 2018-13, Changes to the Disclosure Requirements for Fair Value Measurement (“ASU 2018-13”)

In August 2018, the FASB issued ASU 2018-13 which amends fair value measurement disclosure requirements aiming to improve the overall usefulness of disclosures to financial statement users and reduce unnecessary costs to companies when preparing the disclosures. ASU 2018-13 will be effective for interim and annual periods beginning after December 15, 2019 (January 1, 2020 for the Company). Early adoption is permitted. The Company does not expect the adoption of ASU 2017-13 to have a material impact on its consolidated financial statements.

ASU No. 2018-14, Changes to the Disclosure Requirements for Defined Benefit Plans (“ASU 2018-14”)

In August 2018, the FASB issued ASU 2018-14 which amends Accounting Standards Codification 715 to add, remove, and clarify disclosure requirements related to defined benefit pension and other postretirement plans. ASU 2018-14 will be effective for interim and annual periods beginning after December 15, 2021 (January 1, 2022 for the Company). Early adoption is permitted. The Company does not expect the adoption of ASU 2017-14 to have a material impact on its consolidated financial statements.

ASU No. 2018-15, Customer’s Accounting for Implementation Costs in a Cloud Computing Arrangement That Is a Service Contract (“ASU 2018-15”)

In August 2018, the FASB issued ASU 2018-15 which requires upfront implementation costs incurred in a cloud computing arrangement (or hosting arrangement) that is a service contract to be amortized to hosting expense over the term of the arrangement, beginning when the module or component of the hosting arrangement is ready for its intended use. ASU 2018-15 will be effective for annual and interim periods beginning after December 15, 2019 (January 1, 2020 for the Company). Early adoption is permitted. The Company is currently in the process of evaluating the impact that the adoption of ASU 2018-15 will have on its consolidated financial statements.

19. Consolidating Schedules

Each of Charter Operating, TWC, LLC, TWCE, CCO Holdings and certain subsidiaries jointly, severally, fully and unconditionally guarantee the outstanding debt securities of the others (other than the CCO Holdings notes) on an unsecured senior basis and the condensed consolidating financial information has been prepared and presented pursuant to SEC Regulation S-X Rule 3-10, Financial Statements of Guarantors and Issuers of Guaranteed Securities Registered or Being Registered. Certain Charter Operating subsidiaries that are regulated telephone entities only

become guarantor subsidiaries upon approval by regulators. This information is not intended to present the financial position, results of operations and cash flows of the individual companies or groups of companies in accordance with generally accepted accounting principles.

The "Intermediate Holding Companies" column includes the assets and liabilities of the captive insurance company, a company wholly-owned by Charter outside of Charter Holdings and which does not, directly or indirectly, own any interest in Charter Holdings. The "Charter Operating and Restricted Subsidiaries" column is presented to comply with the terms of the Credit Agreement.

Condensed consolidating financial statements as of September 30, 2018 and December 31, 2017 and for the nine months ended September 30, 2018 and 2017 follow.

CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

(dollars in millions, except per share amounts and where indicated)

Charter Communications, Inc. and Subsidiaries
Condensed Consolidating Balance Sheets
As of September 30, 2018

	Non-Guarantor Subsidiaries		Guarantor Subsidiaries		Eliminations	Charter Consolidated
	Charter	Intermediate Holding Companies	CCO Holdings	Charter Operating and Restricted Subsidiaries		
ASSETS						
CURRENT ASSETS:						
Cash and cash equivalents	\$—	\$ 261	\$—	\$ 351	\$—	\$ 612
Accounts receivable, net	—	29	—	1,707	—	1,736
Receivables from related party	25	498	53	—	(576)) —
Prepaid expenses and other current assets	7	39	—	335	—	381
Total current assets	32	827	53	2,393	(576)	) 2,729
RESTRICTED CASH	—	48	—	—	—	48
INVESTMENT IN CABLE PROPERTIES:						
Property, plant and equipment, net	—	447	—	34,293	—	34,740
Customer relationships, net	—	—	—	10,136	—	10,136
Franchises	—	—	—	67,319	—	67,319
Goodwill	—	—	—	29,554	—	29,554
Total investment in cable properties, net	—	447	—	141,302	—	141,749
INVESTMENT IN SUBSIDIARIES	54,440	61,513	79,969	—	(195,922)) —
LOANS RECEIVABLE – RELATED PARTY	246	674	526	—	(1,446)) —
OTHER NONCURRENT ASSETS	—	215	—	1,347	(3)	) 1,559
Total assets	\$54,718	\$ 63,724	\$80,548	\$ 145,042	\$(197,947)	) \$ 146,085
LIABILITIES AND SHAREHOLDERS’/MEMBER’S EQUITY						
CURRENT LIABILITIES:						
Accounts payable and accrued liabilities	\$4	\$ 861	\$311	\$ 7,335	\$—	\$ 8,511
Payables to related party	—	—	—	576	(576)) —
Current portion of long-term debt	—	—	—	3,339	—	3,339
Total current liabilities	4	861	311	11,250	(576)	) 11,850
LONG-TERM DEBT	—	—	18,724	50,411	—	69,135
LOANS PAYABLE – RELATED PARTY	—	—	—	1,446	(1,446)) —
DEFERRED INCOME TAXES	17,408	16	—	—	(3)	) 17,421

OTHER LONG-TERM LIABILITIES	201	308	—	1,942	—	2,451
SHAREHOLDERS'/MEMBER'S EQUITY						
Controlling interest	37,105	54,440	61,513	79,969	(195,922)	37,105
Noncontrolling interests	—	8,099	—	24	—	8,123
Total shareholders'/member's equity	37,105	62,539	61,513	79,993	(195,922)	45,228
Total liabilities and shareholders'/member's equity	\$54,718	\$ 63,724	\$80,548	\$ 145,042	\$(197,947)	\$ 146,085

CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (UNAUDITED)

(dollars in millions, except per share amounts and where indicated)

Charter Communications, Inc. and Subsidiaries
 Condensed Consolidating Balance Sheets
 As of December 31, 2017

	Non-Guarantor Subsidiaries		Guarantor Subsidiaries		Eliminations	Charter Consolidated
	Charter	Intermediate Holding Companies	CCO Holdings	Charter Operating and Restricted Subsidiaries		
ASSETS						
CURRENT ASSETS:						
Cash and cash equivalents	\$—	\$ 291	\$—	\$ 330	\$—	\$ 621
Accounts receivable, net	—	24	—	1,611	—	1,635
Receivables from related party	22	613	55	—	(690)	—
Prepaid expenses and other current assets	22	34	—	243	—	299
Total current assets	44	962	55	2,184	(690)	2,555
INVESTMENT IN CABLE PROPERTIES:						
Property, plant and equipment, net	—	336	—	33,552	—	33,888
Customer relationships, net	—	—	—	11,951	—	11,951
Franchises	—	—	—	67,319	—	67,319
Goodwill	—	—	—	29,554	—	29,554
Total investment in cable properties, net	—	336	—	142,376	—	142,712
INVESTMENT IN SUBSIDIARIES	56,263	63,558	81,980	—	(201,801)	—
LOANS RECEIVABLE – RELATED PARTY	233	655	511	—	(1,399)	—
OTHER NONCURRENT ASSETS	—	223	—	1,133	—	1,356
Total assets	\$56,540	\$ 65,734	\$82,546	\$ 145,693	\$(203,890)	\$ 146,623
LIABILITIES AND SHAREHOLDERS’/MEMBER’S EQUITY						
CURRENT LIABILITIES:						
Accounts payable and accrued liabilities	\$4	\$ 900	\$280	\$ 7,861	\$—	\$ 9,045
Payables to related party	—	—	—	690	(690)	—
Current portion of long-term debt	—	—	—	2,045	—	2,045
Total current liabilities	4	900	280	10,596	(690)	11,090
LONG-TERM DEBT	—	—	18,708	49,478	—	68,186
LOANS PAYABLE – RELATED PARTY	—	—	—	1,399	(1,399)	—
DEFERRED INCOME TAXES	17,268	14	—	32	—	17,314
OTHER LONG-TERM LIABILITIES	184	134	—	2,184	—	2,502

SHAREHOLDERS'/MEMBER'S EQUITY

Controlling interest	39,084	56,263	63,558	81,980	(201,801)	39,084
Noncontrolling interests	—	8,423	—	24	—	8,447
Total shareholders'/member's equity	39,084	64,686	63,558	82,004	(201,801)	47,531
 Total liabilities and shareholders'/member's equity	 \$56,540	 \$ 65,734	 \$82,546	 \$ 145,693	 \$(203,890)	 \$ 146,623

CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

(dollars in millions, except per share amounts and where indicated)

Charter Communications, Inc. and Subsidiaries
Condensed Consolidating Statements of Operations
For the nine months ended September 30, 2018

	Non-Guarantor Subsidiaries	Intermediate Charter Holding Companies	Guarantor Subsidiaries CCO Holdings	Charter Operating and Restricted Subsidiaries	Eliminations	Charter Consolidated
REVENUES	\$37	\$ 844	\$—	\$ 32,390	\$ (868)	\$ 32,403
COSTS AND EXPENSES:						
Operating costs and expenses (exclusive of items shown separately below)	37	810	—	20,742	(868)	20,721
Depreciation and amortization	—	8	—	7,776	—	7,784
Other operating expenses, net	—	4	—	112	—	116
	37	822	—	28,630	(868)	28,621
Income from operations	—	22	—	3,760	—	3,782
OTHER INCOME (EXPENSES):						
Interest income (expense), net	7	21	(762)	(1,896)	—	(2,630)
Other pension benefits	—	—	—	247	—	247
Other expense, net	—	(26)	—	(49)	—	(75)
Equity in income of subsidiaries	1,085	1,286	2,048	—	(4,419)	—
	1,092	1,281	1,286	(1,698)	(4,419)	(2,458)
Income before income taxes	1,092	1,303	1,286	2,062	(4,419)	1,324
Income tax expense	(158)	(7)	—	(13)	—	(178)
Consolidated net income	934	1,296	1,286	2,049	(4,419)	1,146
Less: Net income attributable to noncontrolling interests	—	(211)	—	(1)	—	(212)
Net income	\$934	\$ 1,085	\$ 1,286	\$ 2,048	\$ (4,419)	\$ 934

CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (UNAUDITED)

(dollars in millions, except per share amounts and where indicated)

Charter Communications, Inc. and Subsidiaries
 Condensed Consolidating Statements of Operations
 For the nine months ended September 30, 2017

	Non-Guarantor Subsidiaries	Intermediate Charter Holding Companies	Guarantor Subsidiaries CCO Holdings	Charter Operating and Restricted Subsidiaries	Eliminations	Charter Consolidated
REVENUES	\$ 79	\$ 897	\$ —	\$ 30,979	\$ (976)	\$ 30,979
COSTS AND EXPENSES:						
Operating costs and expenses (exclusive of items shown separately below)	79	883	—	19,871	(976)	19,857
Depreciation and amortization	—	7	—	7,839	—	7,846
Other operating expenses, net	—	—	—	374	—	374
	79	890	—	28,084	(976)	28,077
Income from operations	—	7	—	2,895	—	2,902
OTHER INCOME (EXPENSES):						
Interest income (expense), net	4	14	(631)	(1,637)	—	(2,250)
Loss on extinguishment of debt	—	—	(33)	(2)	—	(35)
Loss on financial instruments, net	—	—	—	(15)	—	(15)
Other pension benefits	—	—	—	9	—	9
Other expense, net	—	(12)	—	(2)	—	(14)
Equity in income of subsidiaries	390	548	1,212	—	(2,150)	—
	394	550	548	(1,647)	(2,150)	(2,305)
Income before income taxes	394	557	548	1,248	(2,150)	597
Income tax expense	(52)	(12)	—	(35)	—	(99)
Consolidated net income	342	545	548	1,213	(2,150)	498
Less: Net income attributable to noncontrolling interests	—	(155)	—	(1)	—	(156)
Net income	\$ 342	\$ 390	\$ 548	\$ 1,212	\$ (2,150)	\$ 342

CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (UNAUDITED)

(dollars in millions, except per share amounts and where indicated)

Charter Communications, Inc. and Subsidiaries
 Condensed Consolidating Statements of Comprehensive Income
 For the nine months ended September 30, 2018

	Non-Guarantor Subsidiaries	Intermediate Charter Holding Companies	CCO Holdings	Guarantor Subsidiaries Charter Operating and Restricted Subsidiaries	Eliminations	Charter Consolidated
Consolidated net income	\$934	\$ 1,296	\$ 1,286	\$ 2,049	\$ (4,419)	\$ 1,146
Foreign currency translation adjustment	(1)	(1)	(1)	(1)	3	(1)
Consolidated comprehensive income	933	1,295	1,285	2,048	(4,416)	1,145
Less: Comprehensive income attributable to noncontrolling interests	—	(211)	—	(1)	—	(212)
Comprehensive income	\$933	\$ 1,084	\$ 1,285	\$ 2,047	\$ (4,416)	\$ 933

Charter Communications, Inc. and Subsidiaries
 Condensed Consolidating Statements of Comprehensive Income
 For the nine months ended September 30, 2017

	Non-Guarantor Subsidiaries	Intermediate Charter Holding Companies	CCO Holdings	Guarantor Subsidiaries Charter Operating and Restricted Subsidiaries	Eliminations	Charter Consolidated
Consolidated net income	\$ 342	\$ 545	\$ 548	\$ 1,213	\$ (2,150)	\$ 498
Net impact of interest rate derivative instruments	4	4	4	4	(12)	4
Foreign currency translation adjustment	1	1	1	1	(3)	1
Consolidated comprehensive income	347	550	553	1,218	(2,165)	503
Less: Comprehensive income attributable to noncontrolling interests	—	(155)	—	(1)	—	(156)
Comprehensive income	\$ 347	\$ 395	\$ 553	\$ 1,217	\$ (2,165)	\$ 347

CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (UNAUDITED)

(dollars in millions, except per share amounts and where indicated)

Charter Communications, Inc. and Subsidiaries
 Condensed Consolidating Statements of Cash Flows
 For the nine months ended September 30, 2018

	Non-Guarantor Subsidiaries		Guarantor Subsidiaries		Eliminations	Charter Consolidated
	Charter Companies	Intermediate Holding Companies	CCO Holdings	Charter Operating and Restricted Subsidiaries		
NET CASH FLOWS FROM OPERATING ACTIVITIES	\$ 4	\$ 91	\$(728)	\$ 9,232	\$ —	\$ 8,599
CASH FLOWS FROM INVESTING ACTIVITIES:						
Purchases of property, plant and equipment	—	—	—	(6,692)	—	(6,692)
Change in accrued expenses related to capital expenditures	—	—	—	(620)	—	(620)
Real estate investments through variable interest entities	—	(15)	—	—	—	(15)
Contributions to subsidiaries	(56)	(127)	(127)	—	310	—
Distributions from subsidiaries	3,217	3,763	4,491	—	(11,471)	—
Other, net	—	(10)	—	(93)	—	(103)
Net cash flows from investing activities	3,161	3,611	4,364	(7,405)	(11,161)	(7,430)
CASH FLOWS FROM FINANCING ACTIVITIES:						
Borrowings of long-term debt	—	—	—	11,552	—	11,552
Repayments of long-term debt	—	—	—	(8,964)	—	(8,964)
Borrowings (repayments) loans payable - related parties	(7)	—	—	7	—	—
Payments for debt issuance costs	—	—	—	(29)	—	(29)
Purchase of treasury stock	(3,214)	—	—	—	—	(3,214)
Proceeds from exercise of stock options	56	—	—	—	—	56
Purchase of noncontrolling interest	—	(473)	—	—	—	(473)
Distributions to noncontrolling interest	—	(113)	—	(1)	—	(114)
Contributions from parent	—	56	127	127	(310)	—
Distributions to parent	—	(3,217)	(3,763)	(4,491)	11,471	—
Borrowings for real estate investments through variable interest entities	—	170	—	—	—	170
Distributions to variable interest entities noncontrolling interest	—	(107)	—	—	—	(107)
Other, net	—	—	—	(7)	—	(7)
Net cash flows from financing activities	(3,165)	(3,684)	(3,636)	(1,806)	11,161	(1,130)
NET INCREASE IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH	—	18	—	21	—	39

CASH, CASH EQUIVALENTS AND RESTRICTED	—	291	—	330	—	621
CASH, beginning of period						
CASH, CASH EQUIVALENTS AND RESTRICTED	\$ —	\$ 309	\$ —	\$ 351	\$ —	\$ 660
CASH, end of period						

CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

(dollars in millions, except per share amounts and where indicated)

Charter Communications, Inc. and Subsidiaries
Condensed Consolidating Statements of Cash Flows
For the nine months ended September 30, 2017

	Non-Guarantor Subsidiaries	Intermediate Charter Holding Companies	CCO Holdings	Guarantor Subsidiaries Charter Operating and Restricted Subsidiaries	Eliminations	Charter Consolidated
NET CASH FLOWS FROM OPERATING ACTIVITIES	\$ 95	\$ 80	\$(504)	\$ 9,025	\$ —	\$ 8,696
CASH FLOWS FROM INVESTING ACTIVITIES:						
Purchases of property, plant and equipment	—	—	—	(6,096)	—	(6,096)
Change in accrued expenses related to capital expenditures	—	—	—	276	—	276
Contribution to subsidiary	(111)	—	(693)	—	804	—
Distributions from subsidiaries	7,759	8,641	5,912	—	(22,312)	—
Other, net	—	—	—	(63)	—	(63)
Net cash flows from investing activities	7,648	8,641	5,219	(5,883)	(21,508)	(5,883)
CASH FLOWS FROM FINANCING ACTIVITIES:						
Borrowings of long-term debt	—	—	4,747	7,368	—	12,115
Repayments of long-term debt	—	—	(775)	(4,759)	—	(5,534)
Borrowings (repayments) loans payable - related parties	(163)	—	—	163	—	—
Payments for debt issuance costs	—	—	(46)	(37)	—	(83)
Purchase of treasury stock	(7,748)	—	—	—	—	(7,748)
Proceeds from exercise of stock options	111	—	—	—	—	111
Purchase of noncontrolling interest	—	(922)	—	—	—	(922)
Distributions to noncontrolling interest	—	(115)	—	—	—	(115)
Contributions from parent	—	111	—	693	(804)	—
Distributions to parent	—	(7,759)	(8,641)	(5,912)	22,312	—
Other, net	—	—	—	(8)	—	(8)
Net cash flows from financing activities	(7,800)	(8,685)	(4,715)	(2,492)	21,508	(2,184)