CHARTER COMMUNICATIONS, INC. /MO/
Form 10-Q
May 01, 2015

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2015
or

| | |
|---|---|
| o | 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 | 43-1857213 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification Number) |
| 400 Atlantic Street<br>Stamford, Connecticut 06901 | (203) 905-7801 |
| (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 x No o

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 x No o

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 x Accelerated filer o Non-accelerated filer o Smaller reporting company o

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

Number of shares of Class A common stock outstanding as of March 31, 2015: 112,022,182

CHARTER COMMUNICATIONS, INC.
QUARTERLY REPORT ON FORM 10-Q FOR THE PERIOD ENDED MARCH 31, 2015

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This quarterly report on Form 10-Q is for the three months ended March 31, 2015. 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, "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 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 II, Item 1A and 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," "a "target," "opportunity," "tentative," "positioning," "designed," "create," "predict," "project," "seek," "would," "could," "conti "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, 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:

Risks Related to the transaction with Advance/Newhouse Partnership ("A/N") regarding Bright House Networks, LLC ("Bright House")

- as a result of the termination of the transactions agreement between us and Comcast Corporation, we, A/N and Liberty Broadband Corporation entered into a 30-day period in which the parties may renegotiate the transaction regarding Bright House and if no agreement is reached, either we or A/N may terminate the transaction. There can be no assurance that the parties will reach agreement during these negotiations, that any agreement reached will be as favorable to us as the existing transaction terms, or that we or A/N will not terminate the transaction after completion of the negotiations;
- the ultimate outcome of the transaction, including the possibility that the transaction may not occur if closing conditions are not satisfied;
- if the transaction were to occur, the ultimate outcome and results of integrating operations and application of our operating strategies to the acquired assets and the ultimate ability to realize synergies at the levels currently expected as well as potential programming dis-synergies;
- disruption in our business relationships as a result of the transaction;
- the impact of the transaction on our stock price and future operating results, including due to transaction and integration costs, increased interest expense, business disruption, and diversion of management time and attention;
- the reduction in our current stockholders' percentage ownership and voting interest as a result of the transaction; and
- the increase in indebtedness as a result of the transaction, which will increase interest expense and may decrease our operating flexibility;

Risks Related to Our Business

- our ability to sustain and grow revenues and cash flow from operations by offering video, Internet, voice, 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, and video provided over the Internet and providers of advertising over the Internet;

- general business conditions, economic uncertainty or downturn, high 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);
- the development and deployment of new products and technologies including our cloud-based user interface, Spectrum Guide®, and downloadable security for set-top boxes;
- the effects of governmental regulation on our business or potential business combination transactions;
- 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
CONDENSED CONSOLIDATED BALANCE SHEETS
(dollars in millions, except share data)

| | March 31, 2015 (unaudited) | December 31, 2014 |
|---|---|---|
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | $20 | $3 |
| Restricted cash and cash equivalents | 7,112 | — |
| Accounts receivable, less allowance for doubtful accounts of $19 and $22, respectively | 264 | 285 |
| Prepaid expenses and other current assets | 106 | 83 |
| Total current assets | 7,502 | 371 |
| RESTRICTED CASH AND CASH EQUIVALENTS | — | 7,111 |
| INVESTMENT IN CABLE PROPERTIES: | | |
| Property, plant and equipment, net of accumulated depreciation of $5,800 and $5,484, respectively | 8,275 | 8,373 |
| Franchises | 6,006 | 6,006 |
| Customer relationships, net | 1,042 | 1,105 |
| Goodwill | 1,168 | 1,168 |
| Total investment in cable properties, net | 16,491 | 16,652 |
| OTHER NONCURRENT ASSETS | 417 | 416 |
| Total assets | $24,410 | $24,550 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| CURRENT LIABILITIES: | | |
| Accounts payable and accrued liabilities | $1,586 | $1,635 |
| Current portion of long-term debt | 6,983 | — |
| Total current liabilities | 8,569 | 1,635 |
| LONG-TERM DEBT | 13,981 | 21,023 |
| DEFERRED INCOME TAXES | 1,706 | 1,674 |
| OTHER LONG-TERM LIABILITIES | 77 | 72 |
| SHAREHOLDERS' EQUITY: | | |
| Class A common stock; $.001 par value; 900 million shares authorized; 112,098,852 and 111,999,687 shares issued, respectively | — | — |
| Class B common stock; $.001 par value; 25 million shares authorized; no shares issued and outstanding | — | — |
| Preferred stock; $.001 par value; 250 million shares authorized; no shares issued and outstanding | — | — |

| | | |
|---|---|---|
| Additional paid-in capital | 1,955 | 1,930 |
| Accumulated deficit | (1,843) | (1,762) |
| Treasury stock at cost; 76,670 and no shares, respectively | (16) | — |
| Accumulated other comprehensive loss | (19) | (22) |
| Total shareholders’ equity | 77 | 146 |
| Total liabilities and shareholders’ equity | $24,410 | $24,550 |

The accompanying notes are an integral part of these condensed consolidated financial statements.
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CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(dollars in millions, except per share and share data)
Unaudited

| | Three Months Ended March 31, 2015 | 2014 |
|---|---|---|
| REVENUES | $2,362 | $2,202 |
| COSTS AND EXPENSES: | | |
| Operating costs and expenses (exclusive of items shown separately below) | 1,581 | 1,447 |
| Depreciation and amortization | 514 | 505 |
| Other operating expenses, net | 18 | 10 |
| | 2,113 | 1,962 |
| Income from operations | 249 | 240 |
| OTHER EXPENSES: | | |
| Interest expense, net | (289) | (211) |
| Loss on derivative instruments, net | (6) | (2) |
| | (295) | (213) |
| Income (loss) before income taxes | (46) | 27 |
| Income tax expense | (35) | (64) |
| Net loss | $(81) | $(37) |
| LOSS PER COMMON SHARE, BASIC AND DILUTED | $(0.73) | $(0.35) |
| Weighted average common shares outstanding, basic and diluted | 111,655,617 | 106,439,198 |

CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(dollars in millions)
Unaudited

| | Three Months Ended March 31, 2015 | 2014 |
|---|---|---|
| Net loss | $(81) | $(37) |
| Net impact of interest rate derivative instruments, net of tax | 3 | 6 |
| Comprehensive loss | $(78) | $(31) |

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

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CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(dollars in millions)
Unaudited

| | Three Months Ended March 31, | |
|---|---|---|
| | 2015 | 2014 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net loss | $(81) | $(37) |
| Adjustments to reconcile net loss to net cash flows from operating activities: | | |
| Depreciation and amortization | 514 | 505 |
| Noncash interest expense | 8 | 10 |
| Loss on derivative instruments, net | 6 | 2 |
| Deferred income taxes | 34 | 62 |
| Other, net | 22 | 15 |
| Changes in operating assets and liabilities, net of effects from acquisitions: | | |
| Accounts receivable | 21 | 18 |
| Prepaid expenses and other assets | (26) | (17) |
| Accounts payable, accrued liabilities and other | 30 | 19 |
| Net cash flows from operating activities | 528 | 577 |
| | | |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchases of property, plant and equipment | (351) | (539) |
| Change in accrued expenses related to capital expenditures | (76) | 36 |
| Restricted cash in escrow | (1) | — |
| Other, net | (13) | 4 |
| Net cash flows from investing activities | (441) | (499) |
| | | |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Borrowings of long-term debt | 332 | 293 |
| Repayments of long-term debt | (392) | (388) |
| Purchase of treasury stock | (16) | (11) |
| Proceeds from exercise of options and warrants | 6 | 6 |
| Other, net | — | 5 |
| Net cash flows from financing activities | (70) | (95) |
| | | |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 17 | (17) |
| CASH AND CASH EQUIVALENTS, beginning of period | 3 | 21 |
| CASH AND CASH EQUIVALENTS, end of period | $20 | $4 |
| | | |
| CASH PAID FOR INTEREST | $255 | $225 |

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

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CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
(dollars in millions, except per share amounts and where indicated)

1. Organization and Basis of Presentation

Organization

Charter Communications, Inc. ("Charter") is a holding company whose principal asset is a 100% common equity interest in Charter Communications Holding Company, LLC ("Charter Holdco"). Charter owns cable systems through its subsidiaries, which are collectively, with Charter, referred to herein as the "Company." All significant intercompany accounts and transactions among consolidated entities have been eliminated.

The Company is a cable operator providing services in the United States. The Company offers to residential and commercial customers traditional cable video programming, Internet services, and voice services, as well as advanced video services such as video on demand, high definition television, and digital video recorder ("DVR") service. The Company sells its cable video programming, Internet, voice, and advanced video services primarily on a subscription basis. The Company also sells local advertising on cable networks and on the Internet and provides fiber connectivity to cellular towers.

Basis of Presentation

The accompanying condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("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 condensed 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 and acquisition accounting for property, plant and equipment, intangibles and goodwill; income taxes; contingencies and programming expense. Actual results could differ from those estimates.

Certain prior period amounts, primarily merger and acquisition costs, have been reclassified to conform with the 2015 presentation.

2. Acquisitions and Dispositions

Comcast Transactions
On April 25, 2014, the Company entered into a binding definitive agreement (the "Comcast Transactions Agreement") with Comcast Corporation ("Comcast"), which contemplated the following transactions: (1) an asset purchase, (2) an asset exchange and (3) a contribution and spin-off transaction (collectively, the "Comcast Transactions"). Pursuant to

the terms of the Comcast Transactions Agreement, Comcast had the right to terminate the Comcast Transactions Agreement upon termination of the merger agreement among Comcast, Time Warner Cable Inc. (“TWC”) and Tango Acquisition Sub, Inc. (the “Merger Agreement”). On April 24, 2015, Comcast and TWC terminated the Merger Agreement, and Comcast delivered a notice of termination of the Comcast Transactions Agreement to Charter (the “Termination Notice”).

Charter Communications Operating, LLC ("Charter Operating") received a commitment from certain financial institutions to provide incremental senior secured term loan facilities totaling up to $8.4 billion and a senior secured incremental revolving facility equal to $500 million under the Charter Operating credit facility. The amount of the commitment for the incremental term loan facilities was reduced by $3.5 billion at the closing of the CCOH Safari, LLC notes offering discussed below. Further, under the commitment, in September 2014, Charter Operating executed a Term G Loan Incremental Activation Notice (the “Notice”) under its existing Amended and Restated Credit Agreement, dated as of April 11, 2012, as further amended, restated, supplemented or otherwise modified from time to time (the “Credit Agreement”). The Notice established a new tranche of Term G Loan commitments (the “Term G Loans”) in an aggregate principal amount of $3.5 billion that was fully drawn on September 12, 2014. Charter intended to use the proceeds of the Term G Loans to fund the closing of the transactions contemplated by the Comcast Transactions Agreement and placed the proceeds into escrow pending such closing pursuant to an Escrow Credit Agreement among CCO Safari, LLC (“CCO Safari”), an indirect subsidiary of Charter, as borrower, Bank of America, N.A., as administrative agent (the "Escrow Agent”), and the lenders party thereto (the “Escrow Credit Agreement”) and an Escrow Agreement, dated as of September 12, 2014 (the “Escrow Agreement”), between CCO Safari and the Escrow Agent. As part of the establishment of the Escrow Credit Agreement and Escrow Agreement, Charter Operating assigned all of its obligations with respect to the Term G Loans and transferred all of the proceeds from the Term G Loans to CCO Safari who then assumed all obligations of Charter Operating under the Term G Loans.

Pursuant to the provisions of the Escrow Agreement, Charter notified the Escrow Agent on April 27, 2015 that as a result of the termination of the Comcast Transactions Agreement, the escrow release conditions could not be satisfied and directed the Escrow Agent to release the escrowed funds and repay the Term G Loans. Under the Escrow Credit Agreement, the repayment price was equal to 99.5% of the principal amount outstanding under the loans, plus accrued and unpaid interest from the last interest payment date for the loans, but not including, the date of repayment. In addition, effective on termination of the Comcast Transactions Agreement, the remaining committed facilities of $1.4 billion of senior secured incremental term loans and the Company's option to activate $500 million of a senior secured incremental revolver were automatically terminated.

In November 2014, CCOH Safari, LLC (“CCOH Safari”), an indirect subsidiary of Charter, issued $1.5 billion aggregate principal amount of 5.50% senior notes due 2022 and $2.0 billion aggregate principal amount of 5.75% senior notes due 2024 (collectively, the "CCOH Safari Notes"). Charter intended to use the proceeds to fund the closing of the transactions contemplated by the Comcast Transactions Agreement and placed the proceeds into escrow pending such closing pursuant to an Escrow Agreement, dated as of November 5, 2014 (the “CCOH Safari Escrow Agreement”), by and among U.S. Bank National Association (the “CCOH Safari Escrow Agent”), The Bank of New York Mellon Trust Company, N. A. (the “CCOH Safari Trustee”), and CCOH Safari.

Under the CCOH Safari Escrow Agreement, upon Charter’s notification to the CCOH Safari Escrow Agent and the CCOH Safari Trustee that the Comcast Transactions Agreement had been terminated, the CCOH Safari Notes were subject to a special redemption. The special redemption price is equal to 100% of the initial issue price of the CCOH Safari Notes, plus accrued and unpaid interest from the issue date of the CCOH Safari Notes, up to, but not including, the date of such special redemption. On April 24, 2015, CCOH Safari notified the CCOH Safari Escrow Agent and the CCOH Safari Trustee that the Comcast Transactions Agreement had been terminated, that the CCOH Safari Notes were subject to a special redemption and directed the CCOH Safari Escrow Agent to disburse the proceeds and redeem the CCOH Safari Notes pursuant to the terms of the CCOH Safari Escrow Agreement.

Bright House Transaction

As previously announced, on March 31, 2015, the Company entered into a definitive Contribution Agreement (the “Bright House Contribution Agreement”) with Advance/Newhouse Partnership (“A/N”), A/NPC Holdings LLC, CCH I, LLC ("New Charter"), an indirect subsidiary of the Company, and Charter Communications Holdings, LLC (“Charter Holdings”), the Company's wholly owned subsidiary, pursuant to which Charter would become the owner of the membership interests in Bright House Networks, LLC (“Bright House”) and any other assets (other than certain excluded assets) primarily related to Bright House (the “Bright House Transaction”). In connection with the Bright House Contribution Agreement, the Company also entered into an amended and restated Stockholders Agreement (the

“Bright House Stockholders Agreement”) with Liberty Broadband Corporation (“Liberty”) and A/N, which Bright House Stockholders Agreement would replace the Company's existing stockholders agreement with Liberty, as amended October 14, 2014.

The transaction contemplated by the Bright House Contribution Agreement is subject to completion of certain regulatory approvals, the approval of certain matters related to the Bright House Transaction by Charter’s stockholders, and other customary closing conditions. As announced by Charter on April 24, 2015, the Comcast Transactions Agreement was terminated by Comcast, and the closing of the Comcast Transactions had been a condition to the Bright House Contribution Agreement. As a result, the parties to the Bright House Stockholders’ Agreement are to consider and negotiate for a period of 30 days in good faith, amendments to the terms of the Bright House Transaction agreements that may be desirable to consummate the Bright House Transaction. No party is under any obligation to reach such an agreement and the Bright House Contribution Agreement and the Bright House Stockholders Agreement may be terminated by either party at any time within a 30 day period immediately following the expiration of the 30 day negotiation period.

CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
(dollars in millions, except per share amounts and where indicated)

3. Franchises, Goodwill and Other Intangible Assets

As of March 31, 2015 and December 31, 2014, indefinite lived and finite-lived intangible assets are presented in the following table:

| | March 31, 2015 | | | December 31, 2014 | | |
|---|---|---|---|---|---|---|
| | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
| Indefinite-lived intangible assets: | | | | | | |
| Franchises | $6,006 | $— | $6,006 | $6,006 | $— | $6,006 |
| Goodwill | 1,168 | — | 1,168 | 1,168 | — | 1,168 |
| Trademarks | 159 | — | 159 | 159 | — | 159 |
| Other intangible assets | 4 | — | 4 | 4 | — | 4 |
| | $7,337 | $— | $7,337 | $7,337 | $— | $7,337 |
| Finite-lived intangible assets: | | | | | | |
| Customer relationships | $2,616 | $1,574 | $1,042 | $2,616 | $1,511 | $1,105 |
| Other intangible assets | 164 | 66 | 98 | 151 | 60 | 91 |
| | $2,780 | $1,640 | $1,140 | $2,767 | $1,571 | $1,196 |

Amortization expense related to customer relationships and other intangible assets for the three months ended March 31, 2015 and 2014 was $69 million and $76 million, respectively.

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

| | |
|---|---|
| Nine months ended December 31, 2015 | $201 |
| 2016 | 236 |
| 2017 | 202 |
| 2018 | 168 |
| 2019 | 132 |
| Thereafter | 201 |
| | $1,140 |

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 CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
(dollars in millions, except per share amounts and where indicated)

## 4. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consist of the following as of March 31, 2015 and December 31, 2014:

| | March 31, 2015 | December 31, 2014 |
|---|---|---|
| Accounts payable – trade | $128 | $140 |
| Accrued capital expenditures | 192 | 268 |
| Deferred revenue | 89 | 85 |
| Accrued liabilities: | | |
| Interest | 237 | 212 |
| Programming costs | 451 | 430 |
| Franchise related fees | 56 | 65 |
| Compensation | 152 | 169 |
| Other | 281 | 266 |
| | $1,586 | $1,635 |

## 5. Debt

Debt consists of the following as of March 31, 2015 and December 31, 2014:

| | March 31, 2015 | | December 31, 2014 | |
|---|---|---|---|---|
| | Principal Amount | Accreted Value | Principal Amount | Accreted Value |
| CCOH Safari, LLC | | | | |
| 5.500% senior notes due December 1, 2022 | $1,500 | $1,500 | $1,500 | $1,500 |
| 5.750% senior notes due December 1, 2024 | 2,000 | 2,000 | 2,000 | 2,000 |
| CCO Holdings, LLC: | | | | |
| 7.250% senior notes due October 30, 2017 | 1,000 | 1,000 | 1,000 | 1,000 |
| 7.000% senior notes due January 15, 2019 | 1,400 | 1,395 | 1,400 | 1,394 |
| 8.125% senior notes due April 30, 2020 | 700 | 700 | 700 | 700 |
| 7.375% senior notes due June 1, 2020 | 750 | 750 | 750 | 750 |
| 5.250% senior notes due March 15, 2021 | 500 | 500 | 500 | 500 |
| 6.500% senior notes due April 30, 2021 | 1,500 | 1,500 | 1,500 | 1,500 |
| 6.625% senior notes due January 31, 2022 | 750 | 747 | 750 | 747 |
| 5.250% senior notes due September 30, 2022 | 1,250 | 1,240 | 1,250 | 1,240 |
| 5.125% senior notes due February 15, 2023 | 1,000 | 1,000 | 1,000 | 1,000 |
| 5.750% senior notes due September 1, 2023 | 500 | 500 | 500 | 500 |
| 5.750% senior notes due January 15, 2024 | 1,000 | 1,000 | 1,000 | 1,000 |
| Charter Communications Operating, LLC: | | | | |
| Credit facilities | 3,682 | 3,649 | 3,742 | 3,709 |
| CCO Safari, LLC (an Unrestricted Subsidiary) | | | | |
| Credit facility due September 12, 2021 | 3,500 | 3,483 | 3,500 | 3,483 |

| | | | | |
|---|---|---|---|---|
| Total debt | $ 21,032 | $ 20,964 | $ 21,092 | $ 21,023 |
| Less: current portion | 7,000 | 6,983 | — | — |
| Long-term debt | 14,032 | 13,981 | 21,092 | 21,023 |

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CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
(dollars in millions, except per share amounts and where indicated)

The accreted values presented above represent the principal amount of the debt less the original issue discount at the time of sale, plus the accretion 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. The Company has availability under its credit facilities of approximately $875 million as of March 31, 2015.

The Company has reclassified the CCOH Safari Notes and CCO Safari's Term G Loans to current portion of long-term debt in the condensed consolidated balance sheet as of March 31, 2015 as a result of the conditions that gave rise to the Termination Notice received from Comcast on April 24, 2015, which occurred prior to the release of these condensed consolidated financial statements. The proceeds included in escrow were also reclassified to current restricted cash and cash equivalents. See Note 2.

6. Common Stock

During the three months ended March 31, 2015 and 2014, the Company withheld 76,670 and 77,834, respectively, shares of its common stock in payment of $16 million and $11 million, respectively, income tax withholding owed by employees upon vesting of restricted shares and restricted stock units. In December 2014, Charter's board of directors approved the retirement of the then
currently held treasury stock and those shares were retired as of December 31, 2014. The Company accounts for treasury stock using the cost method and includes treasury stock as a component of total shareholders' equity.

7. Accounting for Derivative Instruments and Hedging Activities

The Company uses interest rate derivative instruments to manage its interest costs and reduce the Company’s exposure to increases in floating interest rates. The Company manages its exposure to fluctuations in interest rates by maintaining a mix of fixed and variable rate debt. Using interest rate derivative instruments, the Company agrees to exchange, at specified intervals through 2017, the difference between fixed and variable interest amounts calculated by reference to agreed-upon notional principal amounts. The Company does not hold or issue derivative instruments for speculative trading purposes.

The effect of interest rate derivatives on the Company’s condensed consolidated balance sheets is presented in the table below:

| | March 31, 2015 | December 31, 2014 |
|---|---|---|
| Accrued interest | $— | $2 |
| Other long-term liabilities | $21 | $16 |
| Accumulated other comprehensive loss | $(19 ) | $(22 ) |

The Company holds interest rate derivative instruments not designated as hedges which are marked to fair value, with the impact recorded as a gain or loss on derivative instruments, net in the Company's condensed consolidated statements of operations. While these interest rate derivative instruments are not designated as cash flow hedges for accounting purposes, management continues to believe such instruments are closely correlated with the respective debt, thus managing associated risk. These interest rate derivative instruments were de-designated in 2013 and the balance that remains in accumulated other comprehensive loss for these interest rate derivative instruments is being amortized over the respective lives of the contracts and recorded as a loss within loss on derivative instruments, net in the Company's condensed consolidated statements of operations. The estimated net amount of existing losses that are reported in accumulated other comprehensive loss as of March 31, 2015 that is expected to be reclassified into earnings within the next twelve months is approximately $8 million.

CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
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The effects of interest rate derivative instruments on the Company's condensed consolidated statements of operations is presented in the table below.

| | Three Months Ended March 31, 2015 | 2014 |
|---|---|---|
| Loss on derivative instruments, net: | | |
| Change in fair value of interest rate derivative instruments not designated as cash flow hedges | $(3) | $4 |
| Loss reclassified from accumulated other comprehensive loss into earnings as a result of cash flow hedge discontinuance | (3) | (6) |
| | $(6) | $(2) |

As of March 31, 2015 and December 31, 2014, the Company had $1.1 billion and $1.4 billion, respectively, in notional amounts of interest rate derivative instruments outstanding. The notional amounts of interest rate instruments do not represent amounts exchanged by the parties and, thus, are not a measure of exposure to credit loss. The amounts exchanged were determined by reference to the notional amount and the other terms of the contracts.

8. Fair Value Measurements

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

- Level 1 – inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 – inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset 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 March 31, 2015 and December 31, 2014 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 condensed consolidated financial statements are not necessarily indicative of the amounts the Company would realize in a current market exchange.

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

The Company's restricted cash and cash equivalents are primarily invested in money market funds and 90-day or less commercial paper. The money market funds are valued at the closing price reported by the fund sponsor from an actively traded exchange and commercial paper is valued at cost plus the accretion of the discount on a yield to maturity basis, which approximates fair value. The money market funds and commercial paper potentially subject us to concentrations of credit risk. The amount invested within any one financial instrument did not exceed $550 million during the three months ended March 31, 2015. As of March 31, 2015 and December 31, 2014, there were no significant concentrations of financial instruments in a single investee, industry or geographic location.

The interest rate derivative instruments are valued using a present value calculation based on an implied forward LIBOR curve (adjusted for Charter Operating’s or counterparties’ credit risk). The weighted average pay rate for the Company’s currently effective interest rate derivative instruments was 1.61% and 1.87% at March 31, 2015 and December 31, 2014, respectively (exclusive of applicable spreads).

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The Company's financial instruments that are accounted for at fair value on a recurring basis are presented in the table below.

| | March 31, 2015 | | | December 31, 2014 | | |
|---|---|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Level 1 | Level 2 | Level 3 |
| Assets | | | | | | |
| Money market funds | $4,112 | $— | $— | $4,112 | $— | $— |
| Commercial paper | $— | $3,000 | $— | $— | $2,999 | $— |
| Liabilities | | | | | | |
| Interest rate derivatives | $— | $21 | $— | $— | $18 | $— |

A summary of the carrying value and fair value of the Company’s debt at March 31, 2015 and December 31, 2014 is as follows:

| | March 31, 2015 | | December 31, 2014 | |
|---|---|---|---|---|
| | Carrying Value | Fair Value | Carrying Value | Fair Value |
| Debt | | | | |
| Senior notes | $13,832 | $14,358 | $13,831 | $14,205 |
| Credit facilities | $7,132 | $7,198 | $7,192 | $7,186 |

The estimated fair value of the Company’s senior notes at March 31, 2015 and December 31, 2014 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.

Nonfinancial Assets and Liabilities

The Company’s nonfinancial assets such as franchises, property, plant, and equipment, and other intangible assets are not measured at fair value on a recurring basis; however they are subject to fair value adjustments in certain circumstances, such as when there is evidence that an impairment may exist. No impairments were recorded during the three months ended March 31, 2015 and 2014.

9. Operating Costs and Expenses

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

| | Three Months Ended March 31, | |
|---|---|---|
| | 2015 | 2014 |
| Programming | $666 | $606 |
| Franchise, regulatory and connectivity | 107 | 107 |
| Costs to service customers | 420 | 400 |

| | | |
|---|---|---|
| Marketing | 136 | 133 |
| Transition costs | 21 | — |
| Other | 231 | 201 |
| | $1,581 | $1,447 |

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Programming costs consist primarily of costs paid to programmers for basic, premium, digital, video on demand, and pay-per-view programming. Franchise, regulatory and connectivity costs represent payments to franchise and regulatory authorities and costs directly related to providing Internet and voice services. Costs to service customers include residential and commercial costs related to field operations, network operations and customer care including internal and third party labor for installations, service and repairs, maintenance, billing and collection, occupancy and vehicle costs. Marketing costs represents the costs of marketing to our current and potential commercial and residential customers including labor costs. Transition costs represent expenses incurred in connection with the Comcast Transactions. Other includes bad debt expense, corporate overhead, commercial and advertising sales expenses, property tax and insurance and stock compensation expense, among others.

## 10. Other Operating Expenses, Net

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

| | Three Months Ended March 31, | |
|---|---|---|
| | 2015 | 2014 |
| Merger and acquisition costs | $13 | $3 |
| Special charges, net | 2 | 4 |
| Loss on sale of assets, net | $3 | $3 |
| | $18 | $10 |

### Merger and acquisition costs

Merger and acquisition costs represents costs incurred in connection with merger and acquisition transactions, such as advisory, legal and accounting fees, among others.

### Special charges, net

Special charges, net, primarily includes severance charges and net amounts of litigation settlements.

### Loss on sale of assets, net

Loss on sale of assets, net, represents the net gain or loss recognized on the sales and disposals of fixed assets and cable systems.

## 11. Income Taxes

All of Charter’s operations are held through Charter Holdco and its direct and indirect subsidiaries. Charter Holdco and the majority of its subsidiaries are generally limited liability companies that are not subject to income tax. However, certain of these limited liability companies are subject to state income tax. In addition, the indirect subsidiaries that are corporations are subject to federal and state income tax. All of the remaining taxable income, gains, losses, deductions and credits of Charter Holdco are passed through to Charter and its direct subsidiaries.

For the three months ended March 31, 2015 and 2014, the Company recorded $35 million and $64 million of income tax expense, respectively. Income tax expense is recognized primarily through increases in deferred tax liabilities related to the Company's investment in Charter Holdco, as well as through current federal and state income tax expense and increases in the deferred tax liabilities of certain of our indirect corporate subsidiaries.

As of March 31, 2015 and December 31, 2014, the Company had net deferred income tax liabilities of approximately $1.7 billion and $1.6 billion, respectively. Included in net deferred income tax liabilities is net current deferred tax assets of $23 million and $26 million as of March 31, 2015 and December 31, 2014, respectively, which are included in prepaid expenses and other current assets in the accompanying condensed consolidated balance sheets of the Company. Net deferred tax liabilities included approximately $236 million at March 31, 2015 and December 31, 2014, relating to certain indirect subsidiaries of Charter Holdco that file separate federal or state income tax returns. The remainder of the Company's net deferred tax liability arose from Charter's investment in Charter Holdco, and was largely attributable to the characterization of franchises for financial reporting purposes as indefinite-lived.

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 did not have any unrecognized tax benefits as of March 31, 2015 or December 31, 2014.

No tax years for Charter or Charter Holdco, for income tax purposes, are currently under examination by the IRS. Tax years ending 2011 through 2014 remain subject to examination and assessment. Years prior to 2011 remain open solely for purposes of examination of Charter’s loss and credit carryforwards.

12. Related Party Transactions

The Company is aware that Dr. John Malone, one of Charter's board of directors, may be deemed to have a 36.0% voting interest in Liberty Interactive Corp. (“Liberty Interactive”) and is Chairman of the board of directors, an executive officer position, of Liberty Interactive. Liberty Interactive owns 38.0% of the common stock of HSN, Inc. (“HSN”) and has the right to elect 20% of the board members of HSN. Liberty Interactive wholly owns QVC, Inc (“QVC”). The Company has programming relationships with HSN and QVC which pre-date the Liberty Media ownership of Charter. For the three months ended March 31, 2015 and 2014, the Company received payments in aggregate of approximately $3 million 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 also serves on the board of directors of Discovery Communications, Inc., (“Discovery”) and the Company is aware that Dr. Malone owns 4.7% in the aggregate of the common stock of Discovery and has a 28.7% voting interest in Discovery for the election of directors. In addition, Dr. Malone owns approximately 10.8% in the aggregate of the common stock of Starz and has 47.2% of the voting power. Mr. Gregory Maffei, one of Charter's board of directors, is a non-executive Chairman of the board of Starz. The Company purchases programming from both Discovery and Starz pursuant to agreements entered into prior to Dr. Malone and Mr. Maffei joining Charter's board of directors. Based on publicly available information, the Company does not believe that either Discovery or Starz would currently be considered related parties. The amounts paid in aggregate to Discovery and Starz represent less than 3% of total operating costs and expenses for the three months ended March 31, 2015 and 2014.

13. Contingencies

The Company is a defendant or co-defendant in several lawsuits involving alleged infringement of various patents relating to various aspects of its businesses. Other industry participants are also defendants in certain of these cases. 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 lawsuits and claims that arise in the ordinary course of conducting its business, including lawsuits claiming violation of wage and hour laws. 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.

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## 14. 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.

The Company granted the following equity awards for the periods presented.

| | Three Months Ended March 31, | |
|---|---|---|
| | 2015 | 2014 |
| Stock options | 1,238,900 | 1,174,800 |
| Restricted stock | — | — |
| Restricted stock units | 145,500 | 143,700 |

Stock options granted prior to 2014 generally vest annually over three or four years from either the grant date or delayed vesting commencement dates. Stock options generally expire ten years from the grant date. Restricted stock vests annually over a one to four-year period beginning from the date of grant. Certain stock options and restricted stock vest based on achievement of stock price hurdles. Restricted stock units have no voting rights, and restricted stock units granted prior to 2014 vest ratably over three or four years from either the grant date or delayed vesting commencement dates. Stock options and restricted stock units granted in 2014 and 2015 cliff vest over three years.

As of March 31, 2015, total unrecognized compensation remaining to be recognized in future periods totaled $128 million for stock options, $7 million for restricted stock and $45 million for restricted stock units and the weighted average period over which they are expected to be recognized is 2 years for stock options, 1 year for restricted stock and 2 years for restricted stock units.

The Company recorded $19 million and $12 million of stock compensation expense for the three months ended March 31, 2015 and 2014, respectively, which is included in operating costs and expenses.

## 15. Consolidating Schedules

The CCO Holdings, LLC ("CCO Holdings") notes are obligations of CCO Holdings. However, the CCO Holdings notes are also jointly, severally, fully and unconditionally guaranteed on an unsecured senior basis by Charter. The Charter Operating and Restricted Subsidiaries column is presented as a requirement pursuant to the terms of the Charter Operating credit agreement. The CCOH Safari Notes are obligations of CCOH Safari. The Unrestricted Subsidiary - CCO Safari column is a Non-Recourse Subsidiary under the Charter Operating credit agreement. In September 2014, Charter Operating entered into the Term G Loans and assigned all of its obligations with respect to the Term G Loans and transferred all of the proceeds from the Term G Loans to CCO Safari. Upon receiving the Termination Notice, Charter reclassified the CCOH Safari Notes and the Term G Loans to current portion of long-term debt in the Company's condensed consolidated balance sheets. The proceeds from the CCOH Safari Notes and the CCO Safari Term G Loans were also reclassified to current restricted cash and cash equivalents. See Note 2.

The accompanying condensed consolidating financial information has been prepared and presented pursuant to SEC Regulation S-X Rule 3-10, Financial Statements of Guarantors and Affiliates Whose Securities Collateralize an Issue Registered or Being Registered. 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.

Condensed consolidating financial statements as of March 31, 2015 and December 31, 2014 and for the three months ended March 31, 2015 and 2014 follow.

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Charter Communications, Inc. and Subsidiaries
Condensed Consolidating Balance Sheets
As of March 31, 2015

| | Charter | Intermediate Holding Companies | CCOH Safari | CCO Holdings | Charter Operating and Restricted Subsidiaries | Unrestricted Subsidiary - CCO Safari | Eliminations | Charter Consolidated |
|---|---|---|---|---|---|---|---|---|
| ASSETS | | | | | | | | |
| CURRENT ASSETS: | | | | | | | | |
| Cash and cash equivalents | $3 | $ 1 | $— | $— | $ 16 | $ — | $ — | $ 20 |
| Restricted cash and cash equivalents | — | — | 3,599 | — | — | 3,513 | — | 7,112 |
| Accounts receivable, net | 10 | 7 | — | — | 247 | — | — | 264 |
| Receivables from related party | 40 | 223 | | 3 | — | — | (266) | — |
| Prepaid expenses and other current assets | 22 | 9 | — | — | 75 | — | — | 106 |
| Total current assets | 75 | 240 | 3,599 | 3 | 338 | 3,513 | (266) | 7,502 |
| RESTRICTED CASH AND CASH EQUIVALENTS | — | — | — | — | — | — | — | — |
| INVESTMENT IN CABLE PROPERTIES: | | | | | | | | |
| Property, plant and equipment, net | — | 29 | — | — | 8,246 | — | — | 8,275 |
| Franchises | — | — | — | — | 6,006 | — | — | 6,006 |
| Customer relationships, net | — | — | — | — | 1,042 | — | — | 1,042 |
| Goodwill | — | — | — | — | 1,168 | — | — | 1,168 |
| Total investment in cable properties, net | — | 29 | — | — | 16,462 | — | — | 16,491 |
| PREFERRED INTEREST IN CC VIII | — | 446 | — | — | — | — | (446) | — |
| INVESTMENT IN SUBSIDIARIES | 1,473 | 432 | — | 10,306 | 27 | — | (12,238) | — |
| LOANS RECEIVABLE – RELATED PARTY | — | 333 | — | 597 | — | — | (930) | — |
| OTHER NONCURRENT ASSETS | — | 167 | 2 | 101 | 143 | 4 | — | 417 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Total assets | $1,548 | $ 1,647 | $3,601 | $11,007 | $ 16,970 | $ 3,517 | $ (13,880 ) | $ 24,410 |
| LIABILITIES AND SHAREHOLDERS'/MEMBERS' EQUITY | | | | | | | | |
| CURRENT LIABILITIES: | | | | | | | | |
| Accounts payable and accrued liabilities | $3 | $ 157 | $66 | $164 | $ 1,189 | $ 7 | $ — | $ 1,586 |
| Payables to related party | — | — | — | — | 266 | — | (266 ) | — |
| Current portion of long-term debt | — | — | 3,500 | — | — | 3,483 | — | 6,983 |
| Total current liabilities | 3 | 157 | 3,566 | 164 | 1,455 | 3,490 | (266 ) | 8,569 |
| LONG-TERM DEBT | — | — | — | 10,332 | 3,649 | — | — | 13,981 |
| LOANS PAYABLE – RELATED PARTY | — | — | 114 | — | 816 | — | (930 ) | — |
| DEFERRED INCOME TAXES | 1,468 | — | — | — | 238 | — | — | 1,706 |
| OTHER LONG-TERM LIABILITIES | — | 17 | — | — | 60 | | | |