CHARTER COMMUNICATIONS, INC. /MO/
Form 10-Q
July 31, 2018

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 June 30, 2018
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	84-1496755
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
400 Atlantic Street 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 Emerging growth company o

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. 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 June 30, 2018: 231,863,931

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

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

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This quarterly report on Form 10-Q is for the three and six months ended June 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," amo 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)

	June 30, 2018 (unaudited)	December 31, 2017
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 773	$ 621
Accounts receivable, less allowance for doubtful accounts of $126 and $113, respectively	1,619	1,635
Prepaid expenses and other current assets	358	299
Total current assets	2,750	2,555
INVESTMENT IN CABLE PROPERTIES:		
Property, plant and equipment, net of accumulated depreciation of $20,051 and $18,077, respectively	34,411	33,888
Customer relationships, net	10,710	11,951
Franchises	67,319	67,319
Goodwill	29,554	29,554
Total investment in cable properties, net	141,994	142,712
OTHER NONCURRENT ASSETS	1,507	1,356
Total assets	$ 146,251	$ 146,623
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	$ 8,637	$ 9,045
Current portion of long-term debt	5,387	2,045
Total current liabilities	14,024	11,090
LONG-TERM DEBT	66,730	68,186
DEFERRED INCOME TAXES	17,376	17,314
OTHER LONG-TERM LIABILITIES	2,479	2,502
SHAREHOLDERS' EQUITY:		
Class A common stock; $.001 par value; 900 million shares authorized; 239,370,330 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	35,419	35,253
Retained earnings	4,307	3,832
Treasury stock at cost; 7,506,399 and no shares, respectively	(2,281)	—

Accumulated other comprehensive loss	(2)	(1)
Total Charter shareholders' equity	37,443	39,084
Noncontrolling interests	8,199	8,447
Total shareholders' equity	45,642	47,531
Total liabilities and shareholders' equity	$ 146,251	$ 146,623

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
REVENUES	$10,854	$ 10,357	$21,511	$ 20,521
COSTS AND EXPENSES:				
Operating costs and expenses (exclusive of items shown separately below)	6,873	6,575	13,709	13,154
Depreciation and amortization	2,592	2,595	5,302	5,145
Other operating expenses, net	29	135	98	229
	9,494	9,305	19,109	18,528
Income from operations	1,360	1,052	2,402	1,993
OTHER EXPENSES:				
Interest expense, net	(878)	(749)	(1,729)	(1,462)
Loss on extinguishment of debt	—	(1)	—	(35)
Loss on financial instruments, net	(75)	(70)	(12)	(32)
Other income (expense), net	(27)	11	(30)	15
	(980)	(809)	(1,771)	(1,514)
Income before income taxes	380	243	631	479
Income tax expense	(41)	(48)	(69)	(73)
Consolidated net income	339	195	562	406
Less: Net income attributable to noncontrolling interests	(66)	(56)	(121)	(112)
Net income attributable to Charter shareholders	$273	$ 139	$441	$ 294
EARNINGS PER COMMON SHARE ATTRIBUTABLE TO CHARTER SHAREHOLDERS:				
Basic	$1.17	$ 0.53	$1.87	$ 1.11
Diluted	$1.15	$ 0.52	$1.84	$ 1.09
Weighted average common shares outstanding, basic	234,241,762	263,460,911	235,992,306	266,217,549
Weighted average common shares outstanding, diluted	237,073,566	267,309,261	239,246,727	270,249,433

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 June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Consolidated net income	$339	$195	$562	$406
Foreign currency translation adjustment	(1)	—	(1)	—
Net impact of interest rate derivative instruments	—	2	—	3
Consolidated comprehensive income	338	197	561	409
Less: Comprehensive income attributable to noncontrolling interests	(66)	(56)	(121)	(112)
Comprehensive income attributable to Charter shareholders	$272	$141	$440	$297

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

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

	Six Months Ended June 30,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Consolidated net income	$562	$406
Adjustments to reconcile consolidated net income to net cash flows from operating activities:		
Depreciation and amortization	5,302	5,145
Stock compensation expense	142	134
Accelerated vesting of equity awards	5	37
Noncash interest income, net	(177)	(196)
Loss on extinguishment of debt	—	35
Loss on financial instruments, net	12	32
Deferred income taxes	57	42
Other, net	36	(18)
Changes in operating assets and liabilities, net of effects from acquisitions:		
Accounts receivable	16	61
Prepaid expenses and other assets	(91)	(23)
Accounts payable, accrued liabilities and other	(69)	133
Net cash flows from operating activities	5,795	5,788
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(4,574)	(3,703)
Change in accrued expenses related to capital expenditures	(466)	197
Other, net	(67)	(49)
Net cash flows from investing activities	(5,107)	(3,555)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings of long-term debt	5,628	7,146
Repayments of long-term debt	(3,500)	(5,529)
Payments for debt issuance costs	(17)	(42)
Purchase of treasury stock	(2,281)	(4,223)
Proceeds from exercise of stock options	43	86
Purchase of noncontrolling interest	(328)	(429)
Distributions to noncontrolling interest	(76)	(75)
Other, net	(5)	(8)
Net cash flows from financing activities	(536)	(3,074)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	152	(841)
CASH AND CASH EQUIVALENTS, beginning of period	621	1,535
CASH AND CASH EQUIVALENTS, end of period	$773	$694
CASH PAID FOR INTEREST	$1,889	$1,653
CASH PAID FOR TAXES	$22	$33

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

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 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; purchase accounting valuations of assets and liabilities including, but not limited to, 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.

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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 June 30, 2018 and December 31, 2017:

	June 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	$ (7,519)	$10,710	$18,229	$ (6,278)	$11,951
Other intangible assets	354	(72)	282	731	(201)	530
	$18,583	$ (7,591)	$10,992	$18,960	$ (6,479)	$12,481

Amortization expense related to customer relationships and other intangible assets for the three and six months ended June 30, 2018 was $614 million and $1.3 billion, respectively, and $695 million and $1.4 billion for the three and six months ended June 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 17.

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

Six months ended December 31, 2018	$1,163
2019	2,148
2020	1,866
2021	1,591
2022	1,320
Thereafter	2,904
	$10,992

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. Accounts Payable and Accrued Liabilities

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

	June 30, 2018	December 31, 2017
Accounts payable – trade	$ 732	$ 740
Deferred revenue	486	395
Accrued liabilities:		
Programming costs	2,082	1,907
Labor	928	1,109
Capital expenditures	1,467	1,935
Interest	1,071	1,054
Taxes and regulatory fees	558	556
Property and casualty	420	408
Other	893	941
	$ 8,637	$ 9,045

4. Long-Term Debt

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

	June 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	1,236	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	497	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	496	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	1,687	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	2,465	2,500	2,464
5.500% senior notes due May 1, 2026	1,500	1,489	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	2,464	2,500	2,462
Charter Communications Operating, LLC:				
3.579% senior notes due July 23, 2020	2,000	1,990	2,000	1,988
4.464% senior notes due July 23, 2022	3,000	2,980	3,000	2,977

4.908% senior notes due July 23, 2025	4,500	4,464	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	1,981	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

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

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	9,121	9,036	9,479	9,387
Time Warner Cable, LLC:				
6.750% senior notes due July 1, 2018	2,000	2,000	2,000	2,045
8.750% senior notes due February 14, 2019	1,250	1,298	1,250	1,337
8.250% senior notes due April 1, 2019	2,000	2,089	2,000	2,148
5.000% senior notes due February 1, 2020	1,500	1,560	1,500	1,579
4.125% senior notes due February 15, 2021	700	726	700	730
4.000% senior notes due September 1, 2021	1,000	1,039	1,000	1,045
5.750% sterling senior notes due June 2, 2031 [(a)]	825	889	845	912
6.550% senior debentures due May 1, 2037	1,500	1,683	1,500	1,686
7.300% senior debentures due July 1, 2038	1,500	1,784	1,500	1,788
6.750% senior debentures due June 15, 2039	1,500	1,721	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)]	859	827	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	1,212	1,000	1,232
8.375% senior debentures due July 15, 2033	1,000	1,305	1,000	1,312
Total debt	71,105	72,117	69,003	70,231
Less current portion:				
6.750% senior notes due July 1, 2018	(2,000)	(2,000)	(2,000)	(2,045)
8.750% senior notes due February 14, 2019	(1,250)	(1,298)	—	—
8.250% senior notes due April 1, 2019	(2,000)	(2,089)	—	—
Long-term debt	$65,855	$66,730	$67,003	$68,186

(a) Principal amount includes £625 million valued at $825 million and $845 million as of June 30, 2018 and December 31, 2017, respectively, using the exchange rate at the respective dates.

(b) Principal amount includes £650 million valued at $859 million and $879 million as of June 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 into U.S. dollars is remeasured as of each balance sheet date. See Note 7. The Company has availability under the Charter Operating credit facilities of approximately $3.9 billion as of June 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 to fund buybacks of Charter Class A common stock or Charter Holdings common units.

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

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 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. Interest on the floating rate notes accrues at LIBOR plus 1.650%. The net proceeds will be used to pay related fees and expenses and for general corporate purposes, including to fund potential buybacks of Charter Class A common stock or 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.

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 three and six months ended June 30, 2017.

	Three Months Ended June 30, 2017	Six Months Ended June 30, 2017
CCO Holdings notes redemption	$ —	$ (33)
Time Warner Cable, LLC notes redemption	(1)	(1)
Charter Operating credit facility refinancing	—	(1)
	$ (1)	$ (35)

5. 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 six months ended June 30, 2018 and 2017.

	Three Months Ended June 30,				Six Months Ended June 30,			
	2018		2017		2018		2017	
	Shares	$	Shares	$	Shares	$	Shares	$

Share buybacks	5,710,247	$1,657	9,953,269	$3,299	7,303,293	$2,213	12,418,839	$4,098
Income tax withholding	23,645	7	87,828	29	196,691	68	391,865	125
Exercise cost	1,752		1,391		6,415		40,545	
	5,735,644	$1,664	10,042,488	$3,328	7,506,399	$2,281	12,851,249	$4,223

As of June 30, 2018, Charter had remaining board authority to purchase an additional $786 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.

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6. 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 primarily includes 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 10% during 2017, and was $28 million and $45 million for the three and six months ended June 30, 2018, respectively, and $18 million and $36 million for the three and six months ended June 30, 2017, respectively. Net income of Charter Holdings attributable to the preferred noncontrolling interest for financial reporting purposes is based on the preferred dividend which was $37 million and $75 million for each of the three and six months ended June 30, 2018 and 2017, respectively.

The following table represents Charter Holdings' purchase of Charter Holdings common units from A/N pursuant to the Letter Agreement (see Note 13) and the effect on total shareholders' equity during the three and six months ended June 30, 2018 and 2017.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Number of units purchased	681,553	1,232,029	1,051,028	1,315,445
Average price per unit	$295.31	$326.50	$312.38	$326.38
Amount of units purchased	$201	$402	$328	$429
Decrease in noncontrolling interest based on carrying value	$(164)	$(271)	$(254)	$(290)
Decrease in additional paid-in-capital, net of tax	$(28)	$(81)	$(56)	$(86)

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Decrease in noncontrolling interest	$(23)	$(123)	$(43)	$(166)
Increase in additional paid-in-capital, net of tax	$18	$75	$32	$102

7. 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 $78 million and $25 million included in other long-term liabilities as of June 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

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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.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Loss on Financial Instruments, Net:				
Change in fair value of cross-currency derivative instruments	(181)	(7)	$(53)	$58
Foreign currency remeasurement of Sterling Notes to U.S. dollars	106	(63)	41	(91)
Other, net	—	—	—	1
	$(75)	$(70)	$(12)	$(32)

8. 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 June 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, 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 December 31, 2017 were invested in money market funds. The money market funds were valued at the closing price reported by the fund sponsor from an actively traded exchange which approximated fair value. The money market funds potentially subjected the Company to concentration of credit risk. The amount invested within any one financial instrument did not exceed $300 million as of December 31, 2017. As of June 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.

	June 30, 2018		December 31, 2017	
	Level 1	Level 2	Level 1	Level 2
Assets				
Money market funds	$ —	$ —	$ 291	$ —
Liabilities				
Cross-currency derivative instruments	$ —	$ 78	$ —	$ 25

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

	June 30, 2018		December 31, 2017	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Senior notes and debentures	$63,081	$62,010	$60,844	$63,443
Credit facilities	$9,036	$9,099	$9,387	$9,440

The estimated fair value of the Company's senior notes and debentures as of June 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.

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 six months ended June 30, 2018 and 2017.

9. 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 June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Programming	$2,803	$2,649	$5,555	$5,253
Regulatory, connectivity and produced content	560	532	1,093	1,030
Costs to service customers	1,784	1,762	3,638	3,562
Marketing	769	760	1,520	1,525
Mobile	33	—	41	—
Other	924	872	1,862	1,784
	$6,873	$6,575	$13,709	$13,154

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 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 incremental costs related to the Company's mobile service. 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.

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10. Other Operating Expenses, Net

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Merger and restructuring costs	$28	$131	$76	$226
Special charges, net	7	4	35	6
Gain on sale of assets, net	(6)	—	(13)	(3)
	$29	$135	$98	$229

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	—	49	1	21	71
Cash paid	—	(128)	—	(16)	(144)
Remaining liability, June 30, 2018	$ 1	$ 93	$ 18	$ 13	$125

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 six months ended June 30, 2018, and $20 million and $37 million during the three and six months ended June 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. For the six months ended June 30, 2018, special charges, net also included a $22 million charge related to the Company's withdrawal liability from a multiemployer pension plan.

Gain on sale of assets, net

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

11. 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 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

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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 $41 million and $69 million for the three and six months ended June 30, 2018, respectively, and $48 million and $73 million for the three and six months ended June 30, 2017, respectively. Income tax expense decreased year over year as a result of the impacts of federal tax reform and state tax rate changes offset by higher pretax income and lower excess tax benefits from share-based compensation.

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.

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 $156 million and $164 million, excluding interest and penalties, as of June 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 2014 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 2014 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 six months ended June 30, 2018, nor does the Company anticipate a material impact in the future.

12. 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 stock units, equity awards with market conditions and Charter Holdings convertible preferred units and common units. Charter Holdings common and convertible preferred units of 31 million for each of the three and six months ended June 30, 2018 and 37 million for each of the three and six months ended June 30, 2017, were not included in the computation of diluted earnings per

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share as their effect would have been antidilutive. The following is the computation of diluted earnings per common share for the three and six months ended June 30, 2018 and 2017.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Numerator:				
Net income attributable to Charter shareholders	$273	$ 139	$441	$ 294
Denominator:				
Weighted average common shares outstanding, basic	234,241,769	266,460,911	235,992,606	266,017,549
Effect of dilutive securities:				
Assumed exercise or issuance of shares relating to stock plans	2,831,798	3,148,350	3,254,420	3,231,884
Weighted average common shares outstanding, diluted	237,073,567	269,609,261	239,246,772	269,249,433
Basic earnings per common share attributable to Charter shareholders	$1.17	$ 0.53	$1.87	$ 1.11
Diluted earnings per common share attributable to Charter shareholders	$1.15	$ 0.52	$1.84	$ 1.09

13. 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.

The Company is aware that Dr. John Malone 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 six months ended June 30, 2018, the Company recorded revenue in aggregate of approximately $17 million and $33 million,

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respectively, and for the three and six months ended June 30, 2017, the Company recorded revenue in aggregate of approximately $16 million and $33 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, each 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. In addition, Dr. Malone is a member of the board of directors of Lions Gate Entertainment Corp. ("Lions Gate", parent company of Starz, Inc.) and owns approximately 7.9% of Lions Gate's Class A voting shares and 5.5% of Lions Gate's Class B non-voting shares and has 7.9% of the voting power, pursuant to his ownership of Lions Gate Class A voting shares. Lions Gate reported in July 2018 that Dr. Malone notified it of his intention to retire from the Lions Gate board of directors effective as of their annual meeting of shareholders in September 2018. The Company purchases programming from both Discovery and Lions Gate 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 either Discovery or Lions Gate would currently be considered related parties. The amounts paid in the aggregate to Discovery and Lions Gate represent less than 3% of total operating costs and expenses for the three and six months ended June 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 $86 million and $149 million during the three and six months ended June 30, 2018, respectively, and $78 million and $146 million during the three and six months ended June 30, 2017, respectively.

14. 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 challenged 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. Charter and its directors moved to dismiss the lawsuit. In July 2018, the Court of Chancery granted the motion in part and denied it in part, thus permitting the lawsuit to proceed 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

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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 is investigating the allegations and will vigorously defend this case. While the Company is unable to predict the outcome of its investigations, 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 is investigating the allegations and will vigorously defend this case. While the Company is unable to predict the outcome of its investigations, it does not expect that this litigation will have a material effect on its operations, financial condition, or cash flows.

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 intends 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.

15. 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 June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Stock options	36,700	42,600	1,466,500	1,145,200
Restricted stock	9,700	9,500	9,700	9,500
Restricted stock units	21,700	9,500	505,400	277,700

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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 June 30, 2018, total unrecognized compensation remaining to be recognized in future periods totaled $271 million for stock options, $2 million for restricted stock and $260 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 $70 million and $142 million of stock compensation expense for the three and six months ended June 30, 2018, respectively, and $65 million and $134 million or the three and six months ended and June 30, 2017, respectively, which is included in operating costs and expenses. The Company also recorded $5 million for the six months ended June 30, 2018, and $20 million and $37 million for the three and six months ended June 30, 2017, respectively, of expense related to accelerated vesting of equity awards of terminated employees, which is recorded in merger and restructuring costs.

16. 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.

The components of net periodic pension benefit for the three and six months ended June 30, 2018 and 2017 are recorded in other income (expense), net in the consolidated statements of operations and consisted of the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Interest cost	$(32)	$(34)	$(64)	$(68)
Expected return on plan assets	52	47	104	94
Net periodic pension benefit	$20	$13	$40	$26

The Company made no cash contributions to the qualified pension plans during the three and six months ended June 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.

17. 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

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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 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 six months ended June 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

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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 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.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Video	$4,363	$4,119	$8,655	$8,193
Internet	3,770	3,512	7,477	6,909
Voice	531	650	1,087	1,344
Residential revenue	8,664	8,281	17,219	16,446
Small and medium business	915	890	1,815	1,756
Enterprise	627	588	1,249	1,167
Commercial revenue	1,542	1,478	3,064	2,923
Advertising sales	427	381	783	718
Other	221	217	445	434
	$10,854	$10,357	$21,511	$20,521

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 $245 million and $491 million for the three and six months ended June 30, 2018, respectively, and $238 million and $473 million for the three and six months ended June 30, 2017, respectively, are reported in video, voice 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 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 June 30, 2018, current deferred revenue liabilities consisting of refundable customer prepayments of $401 million and upfront installation fees of $85 million were included in accounts payable and accrued liabilities. As of June 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 $134 million as of June 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 $254 million as of June 30, 2018. Amortization expense of $15 million and $30 million was included in regulatory, connectivity and produced content within operating expenses in the consolidated statements of operations for the three and six months ended June 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.

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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 No. 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.

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

In November 2016, the FASB issued ASU No. 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. The Company currently does not have amounts described as restricted cash; however, the Company's consolidated statement of cash flows for the year ended December 31, 2016 will be recast to present $22.3 billion of restricted cash as beginning of period cash and cash equivalents.

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

In May 2017, the FASB issued ASU No. 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 No. 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. ASU 2016-02 will be effective for interim and annual periods beginning after December 15, 2018 (January 1, 2019 for the Company). The new standard currently requires a modified retrospective transition through a cumulative-effect adjustment as of the beginning of the earliest period presented in the financial statements, although the FASB recently approved an option for transition relief to not restate or make required disclosures under the new standard in comparative periods in the period of adoption. Along with that transition relief, the FASB also recently approved a practical expedient for lessors to allow for the combined presentation of lease and non-lease

revenues when certain conditions are met.

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. 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 sheets upon adoption, and is currently evaluating the impact to its consolidated financial statements as it relates to other potential embedded lease arrangements of the business that have otherwise been previously disclosed as a contractual commitment.

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

In January 2017, the FASB issued ASU No. 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

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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.

18. 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 not one of the holding companies that directly or indirectly own 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 June 30, 2018 and December 31, 2017 and for the six months ended June 30, 2018 and 2017 follow.

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

	Non-Guarantor Subsidiaries		Guarantor Subsidiaries			
	Charter	Intermediate Holding Companies	CCO Holdings	Charter Operating and Restricted Subsidiaries	Eliminations	Charter Consolidated
ASSETS						
CURRENT ASSETS:						
Cash and cash equivalents	$—	$ 289	$—	$ 484	$—	$ 773
Accounts receivable, net	—	28	—	1,591	—	1,619
Receivables from related party	27	447	48	—	(522)	—
Prepaid expenses and other current assets	10	53	—	295	—	358
Total current assets	37	817	48	2,370	(522)	2,750
INVESTMENT IN CABLE PROPERTIES:						
Property, plant and equipment, net	—	330	—	34,081	—	34,411
Customer relationships, net	—	—	—	10,710	—	10,710
Franchises	—	—	—	67,319	—	67,319
Goodwill	—	—	—	29,554	—	29,554
Total investment in cable properties, net	—	330	—	141,664	—	141,994
INVESTMENT IN SUBSIDIARIES	54,679	61,794	80,222	—	(196,695)	—
LOANS RECEIVABLE – RELATED PARTY	246	674	526	—	(1,446)	—
OTHER NONCURRENT ASSETS	—	216	—	1,291	—	1,507
Total assets	$54,962	$ 63,831	$80,796	$ 145,325	$(198,663)	$ 146,251
LIABILITIES AND SHAREHOLDERS'/MEMBER'S EQUITY						
CURRENT LIABILITIES:						
Accounts payable and accrued liabilities	$3	$ 835	$283	$ 7,516	$—	$ 8,637
Payables to related party	—	—	—	522	(522)	—
Current portion of long-term debt	—	—	—	5,387	—	5,387
Total current liabilities	3	835	283	13,425	(522)	14,024
LONG-TERM DEBT	—	—	18,719	48,011	—	66,730
LOANS PAYABLE – RELATED PARTY	—	—	—	1,446	(1,446)	—
DEFERRED INCOME TAXES	17,331	13	—	32	—	17,376
OTHER LONG-TERM LIABILITIES	185	129	—	2,165	—	2,479

SHAREHOLDERS'/MEMBER'S EQUITY						
Controlling interest	37,443	54,679	61,794	80,222	(196,695)	37,443
Noncontrolling interests	—	8,175	—	24	—	8,199
Total shareholders'/member's equity	37,443	62,854	61,794	80,246	(196,695)	45,642
Total liabilities and shareholders'/member's equity	$54,962	$ 63,831	$80,796	$ 145,325	$(198,663)	$ 146,251

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As of December 31, 2017

	Non-Guarantor Subsidiaries		Guarantor Subsidiaries			
	Charter	Intermediate Holding Companies	CCO Holdings	Charter Operating and Restricted Subsidiaries	Eliminations	Charter Consolidated
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

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Condensed Consolidating Statements of Operations
For the six months ended June 30, 2018

	Non-Guarantor Subsidiaries		Guarantor Subsidiaries			
	Charter	Intermediate Holding Companies	CCO Holdings	Charter Operating and Restricted Subsidiaries	Eliminations	Charter Consolidated
REVENUES	$ 27	$ 560	$ —	$ 21,503	$ (579)	$ 21,511
COSTS AND EXPENSES:						
Operating costs and expenses (exclusive of items shown separately below)	27	537	—	13,724	(579)	13,709
Depreciation and amortization	—	5	—	5,297	—	5,302
Other operating expenses, net	—	4	—	94	—	98
	27	546	—	19,115	(579)	19,109
Income from operations	—	14	—	2,388	—	2,402
OTHER INCOME (EXPENSES):						
Interest income (expense), net	4	13	(508)	(1,238)	—	(1,729)
Loss on financial instruments, net	—	—	—	(12)	—	(12)
Other expense, net	—	(25)	—	(5)	—	(30)
Equity in income of subsidiaries	495	619	1,127	—	(2,241)	—
	499	607	619	(1,255)	(2,241)	(1,771)
Income before income taxes	499	621	619	1,133	(2,241)	631
INCOME TAX EXPENSE	(58)	(6)	—	(5)	—	(69)
Consolidated net income	441	615	619	1,128	(2,241)	562
Less: Net income attributable to noncontrolling interests	—	(120)	—	(1)	—	(121)
Net income	$ 441	$ 495	$ 619	$ 1,127	$ (2,241)	$ 441

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

	Non-Guarantor Subsidiaries		Guarantor Subsidiaries			
	Charter	Intermediate Holding Companies	CCO Holdings	Charter Operating and Restricted Subsidiaries	Eliminations	Charter Consolidated
REVENUES	$ 61	$ 619	$ —	$ 20,521	$ (680)	$ 20,521
COSTS AND EXPENSES:						
Operating costs and expenses (exclusive of items shown separately below)	61	607	—	13,166	(680)	13,154
Depreciation and amortization	—	5	—	5,140	—	5,145
Other operating expenses, net	—	—	—	229	—	229
	61	612	—	18,535	(680)	18,528
Income from operations	—	7	—	1,986	—	1,993
OTHER INCOME (EXPENSES):						
Interest income (expense), net	2	9	(404)	(1,069)	—	(1,462)
Loss on extinguishment of debt	—	—	(33)	(2)	—	(35)
Loss on financial instruments, net	—	—	—	(32)	—	(32)
Other income (expense), net	—	(11)	—	26	—	15
Equity in income of subsidiaries	327	442	879	—	(1,648)	—
	329	440	442	(1,077)	(1,648)	(1,514)
Income before income taxes	329	447	442	909	(1,648)	479
INCOME TAX EXPENSE	(35)	(9)	—	(29)	—	(73)
Consolidated net income	294	438	442	880	(1,648)	406
Less: Net income attributable to noncontrolling interests	—	(111)	—	(1)	—	(112)
Net income	$ 294	$ 327	$ 442	$ 879	$ (1,648)	$ 294

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Condensed Consolidating Statements of Comprehensive Income
For the six months ended June 30, 2018

	Non-Guarantor Subsidiaries	Guarantor Subsidiaries			
	Charter	Intermediate Holding Companies	CCO Holdings	Charter Operating and Restricted Subsidiaries	Eliminations	Charter Consolidated
Consolidated net income	$ 441	$ 615	$ 619	$ 1,128	$ (2,241)	$ 562
Foreign currency translation adjustment	(1)	(1)	(1)	(1)	3	(1)
Consolidated comprehensive income	$ 440	$ 614	$ 618	$ 1,127	$ (2,238)	$ 561
Less: Comprehensive income attributable to noncontrolling interests	—	(120)	—	(1)	—	(121)
Comprehensive income	$ 440	$ 494	$ 618	$ 1,126	$ (2,238)	$ 440

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

	Non-Guarantor Subsidiaries	Guarantor Subsidiaries			
	Charter	Intermediate Holding Companies	CCO Holdings	Charter Operating and Restricted Subsidiaries	Eliminations	Charter Consolidated
Consolidated net income	$ 294	$ 438	$ 442	$ 880	$ (1,648)	$ 406
Net impact of interest rate derivative instruments	3	3	3	3	(9)	3
Consolidated comprehensive income	$ 297	$ 441	$ 445	$ 883	$ (1,657)	$ 409
Less: Comprehensive income attributable to noncontrolling interests	—	(111)	—	(1)	—	(112)
Comprehensive income	$ 297	$ 330	$ 445	$ 882	$ (1,657)	$ 297

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 six months ended June 30, 2018

	Non-Guarantor Subsidiaries	Guarantor Subsidiaries			
	Charter	Intermediate Holding Companies	CCO Holdings	Charter Operating and Restricted Subsidiaries	Eliminations	Charter Consolidated
NET CASH FLOWS FROM OPERATING ACTIVITIES	$ 6	$ 73	$ (502)	$ 6,218	$ —	$ 5,795
CASH FLOWS FROM INVESTING ACTIVITIES:						
Purchases of property, plant and equipment	—	—	—	(4,574)	—	(4,574)
Change in accrued expenses related to capital expenditures	—	—	—	(466)	—	(466)
Contributions to subsidiaries	(43)	(77)	(77)	—	197	—
Distributions from subsidiaries	2,282	2,656	3,158	—	(8,096)	—
Other, net	—	(12)	—	(55)	—	(67)
Net cash flows from investing activities	2,239	2,567	3,081	(5,095)	(7,899)	(5,107)
CASH FLOWS FROM FINANCING ACTIVITIES:						
Borrowings of long-term debt	—	—	—	5,628	—	5,628
Repayments of long-term debt	—	—	—	(3,500)	—	(3,500)
Borrowings (repayments) loans payable - related parties	(7)	—	—	7	—	—
Payments for debt issuance costs	—	—	—	(17)	—	(17)
Purchase of treasury stock	(2,281)	—	—	—	—	(2,281)
Proceeds from exercise of stock options	43	—	—	—	—	43
Purchase of noncontrolling interest	—	(328)	—	—	—	(328)
Distributions to noncontrolling interest	—	(75)	—	(1)	—	(76)
Contributions from parent	—	43	77	77	(197)	—
Distributions to parent	—	(2,282)	(2,656)	(3,158)	8,096	—
Other, net	—	—	—	(5)	—	(5)
Net cash flows from financing activities	(2,245)	(2,642)	(2,579)	(969)	7,899	(536)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	—	(2)	—	154	—	152
CASH AND CASH EQUIVALENTS, beginning of period	—	291	—	330	—	621
CASH AND CASH EQUIVALENTS, end of period	$ —	$ 289	$ —	$ 484	$ —	$ 773

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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 six months ended June 30, 2017

	Non-Guarantor Subsidiaries		Guarantor Subsidiaries			
	Charter	Intermediate Holding Companies	CCO Holdings	Charter Operating and Restricted Subsidiaries	Eliminations	Charter Consolidated
NET CASH FLOWS FROM OPERATING ACTIVITIES	$ 135	$ 25	$ (353)	$ 5,981	$ —	$ 5,788
CASH FLOWS FROM INVESTING ACTIVITIES:						
Purchases of property, plant and equipment	—	—	—	(3,703)	—	(3,703)
Change in accrued expenses related to capital expenditures	—	—	—	197	—	197
Contribution to subsidiary	(87)	—	(693)	—	780	—
Distributions from subsidiaries	4,233	4,622	3,228	—	(12,083)	—
Other, net	—	—	—	(49)	—	(49)
Net cash flows from investing activities	4,146	4,622	2,535	(3,555)	(11,303)	(3,555)
CASH FLOWS FROM FINANCING ACTIVITIES:						
Borrowings of long-term debt	—	—	3,246	3,900	—	7,146
Repayments of long-term debt	—	—	(775)	(4,754)	—	(5,529)
Borrowings (repayments) loans payable - related parties	(178)	—	—	178	—	—
Payments for debt issuance costs	—	—	(31)	(11)	—	(42)
Purchase of treasury stock	(4,223)	—	—	—	—	(4,223)
Proceeds from exercise of stock options	86	—	—	—	—	86
Purchase of noncontrolling interest	—	(429)	—	—	—	(429)
Distributions to noncontrolling interest	—	(75)	—	—	—	(75)
Contributions from parent	—	87	—	693	(780)	—
Distributions to parent	—	(4,233)	(4,622)	(3,228)	12,083	—
Other, net	—	(1)	—	(7)	—	(8)
Net cash flows from financing activities	(4,315)	(4,651)	(2,182)	(3,229)	11,303	(3,074)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(34)	(4)	—	(803)	—	(841)
CASH AND CASH EQUIVALENTS, beginning of period	57	154	—	1,324	—	1,535
CASH AND CASH EQUIVALENTS, end of period	$ 23	$ 150	$ —	$ 521	$ —	$ 694

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Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

General

Charter Communications, Inc. (together with its controlled subsidiaries, “Charter”) is the second largest cable operator in the United States and a leading broadband communications services company providing video, Internet and voice services to approximately 27.6 million residential and business customers at June 30, 2018. We also recently launched our mobile service to residential customers. In addition, we sell video and online advertising inventory to local, regional and national advertising customers and fiber-delivered communications and managed information technology ("IT") solutions to larger enterprise customers. We also own and operate regional sports networks and local sports, news and community channels and sell security and home management services in 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 all of the operations reside. All significant intercompany accounts and transactions among consolidated entities have been eliminated.

Overview

In 2017, we completed the roll-out of Spectrum pricing and packaging ("SPP") to Time Warner Cable Inc. ("TWC") and Bright House Networks, LLC ("Bright House") markets simplifying our offers and improving our packaging of products, allowing us to deliver more value to new and existing customers. As of June 30, 2018, approximately 70% of our residential customers are in an SPP package. In 2017, we also began converting the remaining TWC and Bright House analog markets to an all-digital platform enabling us to deliver more HD channels and higher Internet speeds. As of June 30, 2018, 91% of our footprint was all-digital. Our corporate organization, as well as our marketing, sales and product development departments, are centralized. Field operations are managed through eleven regional areas, each designed to represent a combination of designated marketing areas. In 2017, we began migrating TWC and Bright House customer care centers to our model of using virtualized, U.S.-based in-house call centers. We are focused on deploying superior products and service with minimal service disruptions as we integrate our information technology and network operations. We intend to continue to insource the TWC and Bright House workforces in our call centers and in our field operations, which we expect to lead to lower customer churn and longer customer lifetimes. Our integration activities will continue in 2018 with the expectation that by 2019 we will have substantially integrated the practices and systems of Charter, TWC and Bright House.

At the end of the second quarter of 2018, we launched our mobile product under our mobile virtual network operator ("MVNO") reseller agreement with Verizon Communications Inc. ("Verizon"). Our Spectrum mobile service is currently offered to our residential customers subscribing to our Internet service and runs on Verizon's wireless network combined with our existing network of in-home and outdoor WiFi hotspots. In the future, we may also offer our mobile service to small and medium business customers on similar terms. We also invested in our mobile operating partnership with Comcast Corporation this quarter, with a portion representing our equity investment in the partnership and a portion representing a prepayment of software development and related services for the mobile back office platform. As the partnership delivers services, we will reflect such services as capital or operating expense depending on the nature of services delivered. As a result of growth costs for a new product line and implementing our operating strategy across TWC and Bright House, we cannot be certain that we will be able to grow revenues or maintain our margins at recent historical rates. During the three and six months ended June 30, 2018, Adjusted EBITDA was reduced by approximately $33 million and $41 million, respectively, related to mobile and free cash flow was reduced by approximately $116 million and $141 million, respectively.

We realized revenue, Adjusted EBITDA and income from operations during the periods presented as follows (in millions; all percentages are calculated using whole numbers. Minor differences may exist due to rounding):

	Three Months Ended June 30,			Six Months Ended June 30,		
	2018	2017	% Change	2018	2017	% Change
Revenues	$10,854	$10,357	4.8 %	$21,511	$20,521	4.8 %
Adjusted EBITDA	$4,051	$3,847	5.3 %	$7,944	$7,501	5.9 %
Income from operations	$1,360	$1,052	29.3 %	$2,402	$1,993	20.5 %

Adjusted EBITDA is defined as consolidated net income plus net interest expense, income taxes, depreciation and amortization, stock compensation expense, loss on extinguishment of debt, (gain) loss on financial instruments, net, other (income) expense, net and other operating (income) expenses, such as merger and restructuring costs, special charges and gain (loss) on sale or

retirement of assets. See "—Use of Adjusted EBITDA and Free Cash Flow" for further information on Adjusted EBITDA and free cash flow.

Growth in total revenue, Adjusted EBITDA and income from operations for the three and six months ended June 30, 2018 compared to the corresponding prior periods was primarily due to growth in our residential Internet and commercial business customers. In addition to the items noted above, Adjusted EBITDA growth was affected by increases in operating costs and expenses primarily programming and mobile. Income from operations for the six months ended June 30, 2018 was additionally affected by an increase in depreciation and amortization offset by a decrease in merger and restructuring costs.

The following table summarizes our customer statistics for video, Internet and voice as of June 30, 2018 and 2017 (in thousands except per customer data and footnotes).

	Approximate as of June 30,	
	2018 [b]	2017 [a][b]
Customer Relationships [c]		
Residential	25,871	25,157
Small and Medium Business	1,750	1,580
Total Customer Relationships	27,621	26,737
Residential Primary Service Units ("PSU")		
Video	16,206	16,502
Internet	23,070	22,005
Voice	10,325	10,375
	49,601	48,882
Monthly Residential Revenue per Residential Customer [d]	$111.88	$109.99
Small and Medium Business PSUs		
Video	476	423
Internet	1,552	1,390
Voice	994	863
	3,022	2,676
Monthly Small and Medium Business Revenue per Customer [e]	$176.96	$190.37
Enterprise PSUs [f]	235	202

(a) Since the closing of the TWC and Bright House transactions in May 2016, we have reported our customer data and results using legacy company reporting methodologies. During the second quarter of 2018, we implemented certain reporting changes on a retrospective basis which allowed for the recasting of historical customer data and results using consistent definitions and reporting methodologies across all three legacy companies. The changes to previously reported customer data and results occurred primarily within TWC and Bright House and include:

(i) the reclassification of certain customer types, particularly universities, from residential where they were previously reported based on the number of billed units in a bulk contract to small and medium business accounts where they are reported based on the number of physical sites;

(ii) the recasting of small and medium business and enterprise PSUs which were previously reported based on billing relationships to now being reported based on the number of physical sites; and

(iii) the reclassification of fiber video service from small and medium business to enterprise.

TWC Hawaii customer statistics are expected to move to our standard methodology in early 2019 and variances, if any, will be disclosed at that time.

(b) We calculate the aging of customer accounts based on the monthly billing cycle for each account. On that basis, as of June 30, 2018 and 2017, customers include approximately 227,500 and 214,100 customers, respectively, whose accounts were over 60 days past due, approximately 19,300 and 15,800 customers, respectively, whose accounts were over 90 days past due and approximately 13,200 and 9,000 customers, respectively, whose accounts were over 120 days past due.

(c) Customer relationships include the number of customers that receive one or more levels of service, encompassing video, Internet and voice services, without regard to which service(s) such customers receive. Customers who reside in residential multiple dwelling units ("MDUs") and that are billed under bulk contracts are counted based on the number of billed units within each bulk MDU. Total customer relationships excludes enterprise customer relationships.

(d) Monthly residential revenue per residential customer is calculated as total residential video, Internet and voice quarterly revenue divided by three divided by average residential customer relationships during the respective quarter.

(e) Monthly small and medium business revenue per customer is calculated as total small and medium business quarterly revenue divided by three divided by average small and medium business customer relationships during the respective quarter.

(f) Enterprise PSUs represent the aggregate number of fiber service offerings counting each separate service offering as an individual PSU.

Critical Accounting Policies and Estimates

For a discussion of our critical accounting policies and the means by which we develop estimates therefore, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in our 2017 Annual Report on Form 10-K. There have been no material changes from the critical accounting policies described in our Form 10-K.

Results of Operations

Revenue line items and certain associated expenses have been recast to reflect the customer changes described in note (a) under "Overview" above and to classify certain expenses more closely with organizational responsibility. There were no changes to total revenue, Adjusted EBITDA, capital expenditures, free cash flow or net income. The following table sets forth the consolidated statements of operations for the periods presented (dollars in millions, except per share data):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Revenues	$10,854	$ 10,357	$21,511	$ 20,521
Costs and Expenses:				
Operating costs and expenses (exclusive of items shown separately below)	6,873	6,575	13,709	13,154
Depreciation and amortization	2,592	2,595	5,302	5,145
Other operating expenses, net	29	135	98	229
	9,494	9,305	19,109	18,528
Income from operations	1,360	1,052	2,402	1,993
Other Expenses:				
Interest expense, net	(878)	(749)	(1,729)	(1,462)
Loss on extinguishment of debt	—	(1)	—	(35)
Loss on financial instruments, net	(75)	(70)	(12)	(32)
Other income (expense), net	(27)	11	(30)	15
	(980)	(809)	(1,771)	(1,514)
Income before income taxes	380	243	631	479
Income tax expense	(41)	(48)	(69)	(73)
Consolidated net income	339	195	562	406
Less: Net income attributable to noncontrolling interests	(66)	(56)	(121)	(112)
Net income attributable to Charter shareholders	$273	$ 139	$441	$ 294
EARNINGS PER COMMON SHARE ATTRIBUTABLE TO CHARTER SHAREHOLDERS:				
Basic	$1.17	$ 0.53	$1.87	$ 1.11
Diluted	$1.15	$ 0.52	$1.84	$ 1.09
Weighted average common shares outstanding, basic	234,241,762	263,460,911	235,992,306	266,217,549
Weighted average common shares outstanding, diluted	237,073,566	267,309,261	239,246,727	270,249,433

Revenues. Total revenues grew $497 million and $990 million for the three and six months ended June 30, 2018, respectively, compared to the corresponding period in 2017 primarily due to increases in the number of residential Internet and commercial business customers, price adjustments as well as growth in expanded basic video penetration offset by a decrease in limited basic video customers.

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Revenues by service offering were as follows (dollars in millions; all percentages are calculated using whole numbers. Minor differences may exist due to rounding):

	Three Months Ended June 30,			Six Months Ended June 30,		
	2018	2017	% Change	2018	2017	% Change
Video	$4,363	$4,119	5.9 %	$8,655	$8,193	5.6 %
Internet	3,770	3,512	7.3 %	7,477	6,909	8.2 %
Voice	531	650	(18.3)%	1,087	1,344	(19.1)%
Residential revenue	8,664	8,281	4.6 %	17,219	16,446	4.7 %
Small and medium business	915	890	2.9 %	1,815	1,756	3.4 %
Enterprise	627	588	6.7 %	1,249	1,167	7.0 %
Commercial revenue	1,542	1,478	4.4 %	3,064	2,923	4.9 %
Advertising sales	427	381	12.0 %	783	718	9.0 %
Other	221	217	1.5 %	445	434	2.3 %
	$10,854	$10,357	4.8 %	$21,511	$20,521	4.8 %

Video revenues consist primarily of revenues from basic and digital video services provided to our residential customers, as well as franchise fees, equipment rental and video installation revenue. The increase in video revenues is attributable to the following (dollars in millions):

	Three months ended June 30, 2018 compared to three months ended June 30, 2017 Increase / (Decrease)	Six months ended June 30, 2018 compared to six months ended June 30, 2017 Increase / (Decrease)
Increase related to rate changes	$ 334	$ 631
Decrease in average residential video customers	(80)	(153)
Decrease in video on demand and pay-per-view	(10)	(16)
	$ 244	$ 462

The increases related to rate changes were primarily due to price adjustments including promotional roll-off, service level changes and bundle revenue allocation. Residential video customers decreased by 296,000 from June 30, 2017 to June 30, 2018.

The increase in Internet revenues from our residential customers is attributable to the following (dollars in millions):

	Three months ended June 30, 2018 compared to three months ended June 30, 2017 Increase / (Decrease)	Six months ended June 30, 2018 compared to six months ended June 30, 2017 Increase / (Decrease)
Increase in average residential Internet customers	$ 171	$ 345
Increase related to rate changes	87	223
	$ 258	$ 568

Residential Internet customers grew by 1,065,000 customers from June 30, 2017 to June 30, 2018. The increases related to rate changes were primarily due to price adjustments including promotional roll-off and bundle revenue allocation.

The decrease in voice revenues from our residential customers is attributable to the following (dollars in millions):

	Three months ended June 30, 2018 compared to three months ended June 30, 2017 Increase / (Decrease)	Six months ended June 30, 2018 compared to six months ended June 30, 2017 Increase / (Decrease)
Decrease related to rate changes	$ (118)	$ (259)
Increase (decrease) in average residential voice customers	(1)	2
	$ (119)	$ (257)

The decreases related to rate changes were primarily due to value-based pricing and bundle revenue allocation. Residential voice customers decreased by 50,000 customers from June 30, 2017 to June 30, 2018.

The increase in small and medium business commercial revenues is attributable to the following (dollars in millions):

	Three months ended June 30, 2018 compared to three months ended June 30, 2017 Increase / (Decrease)	Six months ended June 30, 2018 compared to six months ended June 30, 2017 Increase / (Decrease)
Increase in small and medium business customers	$ 95	$ 190
Decrease related to rate changes	(70)	(131)
	$ 25	$ 59

Small and medium business PSUs grew by 346,000 from June 30, 2017 to June 30, 2018. The decreases related to rate changes were primarily due to value pricing related to SPP, net of promotional roll-off and price adjustments.

Enterprise PSUs increased 33,000 from June 30, 2017 to June 30, 2018. Enterprise commercial revenues increased $39 million and $82 million during the three and six months ended June 30, 2018 compared to the corresponding periods in 2017 primarily due to growth in customers.

Advertising sales revenues consist primarily of revenues from commercial advertising customers, programmers and other vendors, as well as local cable and advertising on regional sports and news channels. Advertising sales revenues increased $46 million and $65 million during the three and six months ended June 30, 2018, respectively, compared to the corresponding periods in 2017 primarily due to an increase in political and continued roll-out of addressability and newer advanced advertising products that allows for more targeted media purchases using our inventory.

Other revenues consist of revenue from regional sports and news channels (excluding intercompany charges or advertising sales on those channels), home shopping, late payment fees, wire maintenance fees and other miscellaneous revenues. Other revenues increased $4 million and $11 million during the three and six months ended June 30, 2018, respectively, compared to the corresponding periods in 2017 primarily due to an increase in late payment fees.

Operating costs and expenses. The increases in our operating costs and expenses, exclusive of items shown separately in the consolidated statements of operations, are attributable to the following (dollars in millions):

	Three months ended June 30, 2018 compared to three months ended June 30, 2017 Increase / (Decrease)	Six months ended June 30, 2018 compared to six months ended June 30, 2017 Increase / (Decrease)
Programming	$ 154	$ 302
Regulatory, connectivity and produced content	28	63
Costs to service customers	22	76
Marketing	9	(5)
Mobile	33	41
Other	52	78
	$ 298	$ 555

Programming costs were approximately $2.8 billion and $2.6 billion, representing 41% and 40% of total operating costs and expenses for the three months ended June 30, 2018 and 2017, respectively, and $5.6 billion and $5.3 billion, representing 41% and 40% of total operating costs and expenses for the six months ended June 30, 2018 and 2017, respectively. Programming costs consist primarily of costs paid to programmers for basic, digital, premium, video on demand and pay-per-view programming. The increase in programming costs is primarily a result of contractual rate adjustments, including renewals and increases in amounts paid for retransmission consents, higher expanded basic video package customers partly offset by one-time programming benefits during the six months ended June 30, 2018. We expect programming expenses will continue to increase due to a variety of factors, including annual increases imposed by programmers with additional selling power as a result of media consolidation, increased demands by owners of broadcast stations for payment for retransmission consent or linking carriage of other services to retransmission consent, and additional programming, particularly new services. We have been unable to fully pass these increases on to our customers nor do we expect to be able to do so in the future without a potential loss of customers.

Regulatory, connectivity and produced content increased $28 million and $63 million during the three and six months ended June 30, 2018, respectively, compared to the corresponding periods in 2017 primarily due to the adoption of Accounting Standards Update 2014-09 as of January 1, 2018, which results in the reclassification of expenses related to the amortization of up-front fees paid to market and serve customers who reside in MDUs that were recorded in depreciation and amortization expense in the prior-year period to regulatory, connectivity and produced content expenses, as well as higher regulatory fees related to higher video revenue. For more information, see Note 17 to the accompanying consolidated financial statements contained in “Item 1. Financial Statements.”

Costs to service customers increased $22 million and $76 million during the three and six months ended June 30, 2018, respectively, compared to the corresponding periods in 2017 primarily due to an increase in bad debt expense.

The change in other expense is attributable to the following (dollars in millions):

	Three months ended June 30, 2018 compared to three months ended June 30, 2017 Increase / (Decrease)	Six months ended June 30, 2018 compared to six months ended June 30, 2017 Increase / (Decrease)
Corporate costs	$ 22	$ 8
Advertising sales expense	12	26
Property tax and insurance	9	21
Enterprise	8	13
Stock compensation expense	5	8
Other	(4)	2
	$ 52	$ 78

Depreciation and amortization. Depreciation and amortization expense decreased by $3 million and increased by $157 million during the three and six months ended June 30, 2018, respectively, compared to the corresponding periods in 2017. The decrease during the three months ended June 30, 2018 compared to the corresponding period in 2017 was primarily due to a decrease in depreciation and amortization as assets acquired from TWC and Bright House become fully depreciated. Both time periods were also impacted by an increase in depreciation as a result of more recent capital expenditures, offset by certain assets becoming fully depreciated.

Other operating expenses, net. The decrease in other operating expenses, net are attributable to the following (dollars in millions):

	Three months ended June 30, 2018 compared to three months ended June 30, 2017 Increase / (Decrease)	Six months ended June 30, 2018 compared to six months ended June 30, 2017 Increase / (Decrease)
Merger and restructuring costs	$ (103)	$ (150)
Special charges, net	3	29
Gain on sale of assets, net	(6)	(10)
	$ (106)	$ (131)

The decrease in merger and restructuring costs during the three and six months ended June 30, 2018 compared to the corresponding periods in 2017 is primarily due to a decrease of approximately $97 million and $136 million of employee termination and retention costs, respectively. The increase in special charges, net during the six months ended June 30, 2018 is primarily due to an increase in a withdrawal liability from a multiemployer pension plan of approximately $22 million. See Note 10 to the accompanying consolidated financial statements contained in “Item 1. Financial Statements.”

Interest expense, net. Net interest expense increased by $129 million and $267 million for the three and six months ended June 30, 2018, respectively, compared to the corresponding periods in 2017 primarily as a result of an increase in weighted average debt outstanding of approximately $9 billion primarily due to the issuance of notes throughout 2017 and 2018 for general corporate purposes including stock buybacks.

Loss on extinguishment of debt. Loss on extinguishment of debt was $1 million and $35 million for the three and six months ended June 30, 2017, respectively. The loss on extinguishment of debt for the six months ended June 30, 2017 primarily represents losses recognized as a result of repurchases of CCO Holdings, LLC ("CCO Holdings") notes. For more information, see Note 4 to the accompanying consolidated financial statements contained in “Item 1. Financial Statements.”

Loss on financial instruments, net. We recorded losses of $75 million and $12 million during the three and six months ended June 30, 2018, respectively, and $70 million and $32 million during the three and six months ended June 30,

2017, respectively. Gains and losses on financial instruments are primarily recognized due to changes in the fair value of our cross currency derivative instruments and the foreign currency remeasurement of the fixed-rate British pound sterling denominated notes (the "Sterling Notes") into U.S. dollars. For more information, see Note 7 to the accompanying consolidated financial statements contained in "Item 1. Financial Statements."

Other income (expense), net. Other income (expense), net primarily represents equity losses on our equity-method investments of approximately $47 million and $70 million for the three and six months ended June 30, 2018, respectively, and $2 million and $11 million for the three and six months ended June 30, 2017, respectively, offset by other pension benefits. See Note 16 to the accompanying consolidated financial statements contained in "Item 1. Financial Statements."

Income tax expense. We recognized income tax expense of $41 million and $69 million for the three and six months ended June 30, 2018, respectively, and $48 million and $73 million for the three and six months ended June 30, 2017, respectively. Income tax expense decreased year over year as a result of the impacts of federal tax reform and state tax rate changes offset by higher pretax income and lower excess tax benefits from share-based compensation. For more information, see Note 11 to the accompanying consolidated financial statements contained in "Item 1. Financial Statements."

Net income attributable to noncontrolling interest. Net income attributable to noncontrolling interest for financial reporting purposes represents A/N's portion of Charter Holdings' net income based on its effective common unit ownership interest and the preferred dividend of $37 million and $75 million for each of the three and six months ended June 30, 2018 and 2017, respectively.

For more information, see Note 6 to the accompanying consolidated financial statements contained in “Item 1. Financial Statements.”

Net income attributable to Charter shareholders. Net income attributable to Charter shareholders increased from $139 million for the three months ended June 30, 2017 to $273 million for the three months ended June 30, 2018, and from $294 million for the six months ended June 30, 2017 to $441 million for the six months ended June 30, 2018 primarily as a result of the factors described above.

Use of Adjusted EBITDA and Free Cash Flow

We use certain measures that are not defined by GAAP to evaluate various aspects of our business. Adjusted EBITDA and free cash flow are non-GAAP financial measures and should be considered in addition to, not as a substitute for, consolidated net income and net cash flows from operating activities reported in accordance with GAAP. These terms, as defined by us, may not be comparable to similarly titled measures used by other companies. Adjusted EBITDA and free cash flow are reconciled to consolidated net income and net cash flows from operating activities, respectively, below.

Adjusted EBITDA eliminates the significant non-cash depreciation and amortization expense that results from the capital-intensive nature of our businesses as well as other non-cash or special items, and is unaffected by our capital structure or investment activities. However, this measure is limited in that it does not reflect the periodic costs of certain capitalized tangible and intangible assets used in generating revenues and our cash cost of financing. These costs are evaluated through other financial measures.

Free cash flow is defined as net cash flows from operating activities, less capital expenditures and changes in accrued expenses related to capital expenditures.

Management and Charter’s board of directors use Adjusted EBITDA and free cash flow to assess our performance and our ability to service our debt, fund operations and make additional investments with internally generated funds. In addition, Adjusted EBITDA generally correlates to the leverage ratio calculation under our credit facilities or outstanding notes to determine compliance with the covenants contained in the facilities and notes (all such documents have been previously filed with the Securities and Exchange Commission (the “SEC”)). For the purpose of calculating compliance with leverage covenants, we use Adjusted EBITDA, as presented, excluding certain expenses paid by our operating subsidiaries to other Charter entities. Our debt covenants refer to these expenses as management fees, which were $265 million and $538 million for the three and six months ended June 30, 2018, respectively, and $256 million and $529 million for the three and six months ended June 30, 2017, respectively.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Consolidated net income	$339	$195	$562	$406
Plus: Interest expense, net	878	749	1,729	1,462
Income tax expense	41	48	69	73
Depreciation and amortization	2,592	2,595	5,302	5,145
Stock compensation expense	70	65	142	134
Loss on extinguishment of debt	—	1	—	35
Loss on financial instruments, net	75	70	12	32
Other, net	56	124	128	214
Adjusted EBITDA	$4,051	$3,847	$7,944	$7,501

Net cash flows from operating activities	$3,096	$2,945	$5,795	$5,788
Less: Purchases of property, plant and equipment	(2,391)	(2,148)	(4,574)	(3,703)
Change in accrued expenses related to capital expenditures	99	347	(466)	197
Free cash flow	$804	$1,144	$755	$2,282

Liquidity and Capital Resources

Introduction

This section contains a discussion of our liquidity and capital resources, including a discussion of our cash position, sources and uses of cash, access to credit facilities and other financing sources, historical financing activities, cash needs, capital expenditures and outstanding debt.

Recent Events

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 to fund buybacks of Charter Class A common stock or 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 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. Interest on the floating rate notes accrues at LIBOR plus 1.650%. The net proceeds will be used to pay related fees and expenses and for general corporate purposes, including to fund potential buybacks of Charter Class A common stock or Charter Holdings common units.

Overview of Our Contractual Obligations and Liquidity

We have significant amounts of debt. The principal amount of our debt as of June 30, 2018 was $71.1 billion, consisting of $9.1 billion of credit facility debt, $43.1 billion of investment grade senior secured notes and $18.9 billion of high-yield senior unsecured notes. Our business requires significant cash to fund principal and interest payments on our debt.

Our projected cash needs and projected sources of liquidity depend upon, among other things, our actual results, and the timing and amount of our expenditures. As we launch our new mobile services, we expect an initial funding period to grow a new product as well as negative working capital impacts from the timing of device-related cash flows when we provide the handset or tablet to customers pursuant to equipment installment plans. Free cash flow was $804 million and $755 million for the three and six months ended June 30, 2018, respectively, and $1.1 billion and $2.3 billion for the three and six months ended June 30, 2017, respectively. The decrease in free cash flow is primarily due to an unfavorable change in working capital as well as an increase in capital expenditures. As of June 30, 2018, the amount available under our credit facilities was approximately $3.9 billion and cash on hand was approximately $773 million. We expect to utilize free cash flow, cash on hand and availability under our credit facilities as well as future refinancing transactions to further extend the maturities of our obligations. The timing and terms of any refinancing transactions will be subject to market conditions among other considerations. Additionally, we may, from time to time, and depending on market conditions and other factors, use cash on hand and the proceeds from securities offerings or other borrowings to retire our debt through open market purchases, privately negotiated purchases, tender offers or redemption provisions. We believe we have sufficient liquidity from cash on hand, free cash flow and Charter Operating's revolving credit facility as well as access to the capital markets to fund our projected cash needs.

We continue to evaluate the deployment of our cash on hand and anticipated future free cash flow including to invest in our business growth and other strategic opportunities, including mergers and acquisitions as well as stock repurchases and dividends. Charter's target leverage remains at 4 to 4.5 times, and up to 3.5 times at the Charter Operating level. Our leverage was 4.5 as of June 30, 2018. We may increase the total amount of our indebtedness to maintain leverage within Charter's target leverage range. During the three and six months ended June 30, 2018, Charter purchased approximately 5.7 million and 7.3 million shares, respectively, of Charter Class A common stock for approximately $1.7 billion and $2.2 billion, respectively, and during the three and six months ended June 30, 2017, Charter purchased approximately 10.0 million and 12.4 million shares, respectively, of Charter Class A common stock for approximately $3.3 billion and $4.1 billion, respectively.

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. Charter Holdings purchased from A/N 0.7 million and 1.1 million Charter Holdings common units at an average price per unit of $295.31 and $312.38, or $201 million and $328 million, during the three and six months ended June 30, 2018, respectively. Charter Holdings purchased from A/N 1.2 million and 1.3 million Charter Holdings common units at an average price per unit of $326.50 and $326.38, or $402 million and $429 million, during the three and six months ended June 30, 2017, respectively.

As of June 30, 2018, Charter had remaining board authority to purchase an additional $786 million of Charter's Class A common stock and/or Charter Holdings common units. Charter is not obligated to acquire any particular amount of common stock, and the timing of any purchases that may occur cannot be predicted and will largely depend on market conditions and other potential uses of capital. Purchases may include open market purchases, tender offers or negotiated transactions.

As possible acquisitions, swaps or dispositions arise, we actively review them against our objectives including, among other considerations, improving the operational efficiency, geographic clustering of assets, product development or technology capabilities of our business and achieving appropriate return targets, and we may participate to the extent we believe these possibilities present attractive opportunities. However, there can be no assurance that we will actually complete any acquisitions, dispositions or system swaps, or that any such transactions will be material to our operations or results.

Free Cash Flow

Free cash flow decreased $340 million and $1.5 billion during the three and six months ended June 30, 2018, respectively, compared to the corresponding prior periods in 2017 due to the following (dollars in millions).

	Three months ended June 30, 2018 compared to three months ended June 30, 2017 Increase / (Decrease)	Six months ended June 30, 2018 compared to six months ended June 30, 2017 Increase / (Decrease)
Changes in working capital, excluding change in accrued interest	$ (277)	$ (991)
Increase in capital expenditures	(243)	(871)
Increase in cash paid for interest, net	(121)	(238)
Increase in Adjusted EBITDA	204	443
Decrease in merger and restructuring costs	83	118
Other, net	14	12
	$ (340)	$ (1,527)

Free cash flow was reduced by $116 million and $141 million during the three and six months ended June 30, 2018, respectively, compared to the corresponding prior periods due to mobile with impacts negatively affecting working capital, capital expenditures and Adjusted EBITDA. The changes in working capital, excluding change in accrued interest is primarily due to the timing of fourth quarter 2017 capital expenditures and other payments.

Limitations on Distributions

Distributions by our subsidiaries to a parent company for payment of principal on parent company notes are restricted under indentures and credit facilities governing our indebtedness, unless there is no default under the applicable indenture and credit facilities, and unless each applicable subsidiary's leverage ratio test is met at the time of such distribution. As of June 30, 2018, there was no default under any of these indentures or credit facilities, and each subsidiary met its applicable leverage ratio tests based on June 30, 2018 financial results. There can be no assurance that they will satisfy these tests at the time of the contemplated distribution. Distributions by Charter Operating for payment of principal on parent company notes are further restricted by the covenants in its credit facilities.

However, without regard to leverage, during any calendar year or any portion thereof during which the borrower is a flow-through entity for tax purposes, and so long as no event of default exists, the borrower may make distributions to the equity interests of the borrower in an amount sufficient to make permitted tax payments.

In addition to the limitation on distributions under the various indentures, distributions by our subsidiaries may be limited by applicable law, including the Delaware Limited Liability Company Act, under which our subsidiaries may only make distributions if they have “surplus” as defined in the act.

Historical Operating, Investing, and Financing Activities

Cash and Cash Equivalents. We held $773 million and $621 million in cash and cash equivalents as of June 30, 2018 and December 31, 2017, respectively.

Operating Activities. Net cash provided by operating activities increased $7 million during the six months ended June 30, 2018 compared to the six months ended June 30, 2017, primarily due to an increase in Adjusted EBITDA of $443 million and a decrease in merger and restructuring costs of $118 million and cash paid for taxes of $19 million offset by changes in working capital, excluding the change in accrued interest and accrued expenses related to capital expenditures, that used $328 million more cash and an increase in cash paid for interest, net of $238 million.

Investing Activities. Net cash used in investing activities was $5.1 billion and $3.6 billion for the six months ended June 30, 2018 and 2017, respectively. The increase in cash used was primarily due to an increase in capital expenditures.

Financing Activities. Net cash used in financing activities was $536 million and $3.1 billion for the six months ended June 30, 2018 and 2017, respectively. The decrease in cash used was primarily due to a decrease in the purchase of treasury stock and noncontrolling interest as well as an increase in the amount by which borrowings of long-term debt exceeded repayments.

Capital Expenditures

We have significant ongoing capital expenditure requirements. Capital expenditures were $2.4 billion and $4.6 billion for the three and six months ended June 30, 2018, respectively, and $2.1 billion and $3.7 billion for the three and six months ended June 30, 2017, respectively. The increase was primarily due to higher scalable infrastructure related to the timing of spend and planned product improvements, higher support capital investments due to the timing of spend and mobile and higher line extensions as a result of regulatory merger conditions, offset by a decrease in CPE expenditures due to timing. See the table below for more details.

The actual amount of our capital expenditures in 2018 will depend on a number of factors, including our all-digital transition in the TWC and Bright House markets, further spend related to product development and growth rates of both our residential and commercial businesses.

Our capital expenditures are funded primarily from cash flows from operating activities and borrowings on our credit facility. In addition, our accrued liabilities related to capital expenditures decreased by $466 million and increased by $197 million for the six months ended June 30, 2018 and 2017, respectively.

The following tables present our major capital expenditures categories in accordance with National Cable and Telecommunications Association ("NCTA") disclosure guidelines for the three and six months ended June 30, 2018 and 2017. These disclosure guidelines are not required disclosures under GAAP, nor do they impact our accounting for capital expenditures under GAAP (dollars in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Customer premise equipment (a)	$828	$1,017	$1,762	$1,724
Scalable infrastructure (b)	587	382	1,073	650
Line extensions (c)	353	297	644	545
Upgrade/rebuild (d)	190	145	332	252
Support capital (e)	433	307	763	532
Total capital expenditures	$2,391	$2,148	$4,574	$3,703
Capital expenditures included in total related to:				
Commercial services	$309	$335	$592	$603
All-digital transition	$88	$5	$274	$6
Mobile	$53	$—	$70	$—

(a) Customer premise equipment includes costs incurred at the customer residence to secure new customers and revenue generating units, including customer installation costs and customer premise equipment (e.g., set-top boxes and cable modems).

(b) Scalable infrastructure includes costs not related to customer premise equipment, to secure growth of new customers and revenue generating units, or provide service enhancements (e.g., headend equipment).

(c) Line extensions include network costs associated with entering new service areas (e.g., fiber/coaxial cable, amplifiers, electronic equipment, make-ready and design engineering).

(d) Upgrade/rebuild includes costs to modify or replace existing fiber/coaxial cable networks, including betterments.

(e) Support capital includes costs associated with the replacement or enhancement of non-network assets due to technological and physical obsolescence (e.g., non-network equipment, land, buildings and vehicles).

Recently Issued Accounting Standards

See Note 17 to the accompanying consolidated financial statements contained in "Item 1. Financial Statements" for a discussion of recently issued accounting standards.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

We use derivative instruments to manage foreign exchange risk on the Sterling Notes, and do 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 derivative instruments have maturities of June 2031 and July 2042. We are required to post collateral on the cross-currency derivative instruments when such instruments are in a liability position. In May 2016, we 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. For more information, see Note 7 to the accompanying consolidated financial statements contained in "Item 1. Financial Statements."

As of June 30, 2018 and December 31, 2017, the weighted average interest rate on the credit facility debt was approximately 3.9% and 3.4%, respectively, and the weighted average interest rate on the senior notes was approximately 5.7% as of both time periods, resulting in a blended weighted average interest rate of 5.4% as of both time periods. The interest rate on approximately 87% and 86% of the total principal amount of our debt was effectively fixed as of June 30, 2018 and December 31, 2017, respectively.

The table set forth below summarizes the fair values and contract terms of financial instruments subject to interest rate risk maintained by us as of June 30, 2018 (dollars in millions).

	2018	2019	2020	2021	2022	Thereafter	Total	Fair Value
Debt:								
Fixed-Rate	$2,000	$3,250	$3,500	$2,200	$4,250	$46,784	$61,984	$62,010
Average Interest Rate	6.75 %	8.44 %	4.19 %	4.32 %	4.70 %	5.69 %	5.67 %	
Variable Rate	$104	$207	$207	$207	$207	$8,189	$9,121	$9,099
Average Interest Rate	3.93 %	4.35 %	4.51 %	4.50 %	4.47 %	4.72 %	4.69 %	

Interest rates on variable-rate debt are estimated using the average implied forward LIBOR for the year of maturity based on the yield curve in effect at June 30, 2018 including applicable bank spread.

Item 4. Controls and Procedures.

As of the end of the period covered by this report, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we have evaluated the effectiveness of our design and operation of disclosure controls and procedures with respect to the information generated for use in this quarterly report. The evaluation was based upon reports and certifications provided by a number of executives. Based on, and as of the date of that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures were effective to provide reasonable assurances that information required to be disclosed in the reports we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms.

In designing and evaluating the disclosure controls and procedures, our management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable, not absolute, assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based upon the evaluation, we believe that our controls provide such reasonable assurances.

During the quarter ended June 30, 2018, there was no change in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II

Item 1. Legal Proceedings.

Our Annual Report on Form 10-K for the year ended December 31, 2017 includes “Legal Proceedings” under Item 3 of Part I. Other than as described below and in Note 14 to the accompanying consolidated financial statements contained in “Item 1. Financial Statements,” there have been no material changes from the legal proceedings described in our Form 10-K.

On March 28, 2017, prior to the expiration of the collective bargaining agreement on March 31, 2017, approximately 1,600 of our employees in New York City and New Jersey, represented by Local 3 of the International Brotherhood of Electrical Workers (the “IBEW”) commenced a strike. Local 3 called the strike because it rejected Charter’s proposal of substantial increases in wages and enrolling employees in Charter’s robust health and retirement benefits, preferring relatively flat wages and continuing to participate in the IBEW sponsored multi-employer pension and medical plans. During the strike, Charter and the IBEW continued to negotiate but ultimately reached an impasse. As a result of the impasse, Charter implemented the terms of its proposal, which terms are consistent with terms adopted in contracts between Charter and two other local IBEW union groups negotiated during the same period. A group of employees represented by Local 3 have subsequently petitioned for an election to decertify the IBEW as the collective bargaining representative for the New York City and New Jersey bargaining unit employees.

During this period, the New York Public Service Commission (the “PSC”) has issued multiple orders against Charter including denying a simple franchise transfer of a small upstate New York cable system that Charter had planned to quickly upgrade to bring robust broadband services to the community for the first time. These orders include two orders on July 27, 2018 relating to the agreement by which the PSC approved Charter’s merger with Time Warner Cable. One order rejected Charter’s arguments as to why Charter has complied with the merger conditions and 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, based primarily upon Charter’s progress in meeting its broadband expansion commitment as judged by the PSC, rescinds the PSC’s January 2016 approval of Charter’s acquisition of Time Warner Cable’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. Such plan has been ordered to be submitted within 60 days of the July 27, 2018 order. 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. Charter continues to believe that its plain reading of the merger conditions is correct and that it is in compliance with the merger conditions. Charter has substantial defenses and appeal rights regarding the actions of the PSC and is aggressively defending against these unprecedented actions. We expect these proceedings to continue for up to several years. 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 the Company’s consolidated financial condition, results of operations or liquidity. The Company cannot predict the outcome of the PSC claims nor can it reasonably estimate a range of possible loss in the event of an adverse result.

Item 1A. Risk Factors.

Our Annual Report on Form 10-K for the year ended December 31, 2017 includes "Risk Factors" under Item 1A of Part I. There have been no material changes from the updated risk factors described in our Form 10-K.

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Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

(C) Purchases of Equity Securities by the Issuer

The following table presents Charter's purchases of equity securities completed during the second quarter of 2018 (dollars in millions, except per share amounts):

Period	Total Number of Shares Purchased [1]	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs [2]	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs [2]
April 1 - 30, 2018	2,440,017	$309.69	2,433,300	$286
May 1 - 31, 2018	1,658,703	$271.58	1,642,500	$968
June 1 - 30, 2018	1,636,924	$279.67	1,634,447	$786

(1) Includes 6,717, 16,203 and 2,477 shares withheld from employees for the payment of taxes and exercise costs upon the exercise of stock options or vesting of other equity awards for the months of April, May and June 2018, respectively.

(2) During the three months ended June 30, 2018, Charter purchased approximately 5.7 million shares of its Class A common stock for approximately $1.7 billion. Charter Holdings purchased 0.7 million Charter Holdings common units from A/N at an average price per unit of $295.31, or $201 million, during the three months ended June 30, 2018. As of June 30, 2018, Charter had remaining board authority to purchase an additional $786 million of Charter's Class A common stock and/or Charter Holdings common units. In addition to open market purchases including pursuant to Rule 10b5-1 plans adopted from time to time, Charter may also buy shares of Charter Class A common stock, from time to time, pursuant to private transactions outside of its Rule 10b5-1 plan and any such repurchases would also trigger the repurchases from A/N pursuant to and to the extent provided in the Letter Agreement.

Item 6. Exhibits.

See Exhibit Index.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, Charter Communications, Inc. has duly caused this quarterly report to be signed on its behalf by the undersigned, thereunto duly authorized.

CHARTER COMMUNICATIONS, INC.,
Registrant

By: /s/ Kevin D. Howard
Kevin D. Howard
Senior Vice President - Finance, Controller and
Chief Accounting Officer

Date: July 31, 2018

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Exhibit Index

Exhibit	Description
10.1	Underwriting Agreement, dated as of April 3, 2018, among Charter Communications Operating, LLC, Charter Communications Operating Capital Corp., CCO Holdings, LLC, as parent guarantor, the subsidiary guarantors party thereto and Citigroup Global Markets Inc. and Deutsche Bank Securities Inc., as representatives of the several underwriters named therein (incorporated by reference to Exhibit 99.1 to the current report on Form 8-K filed by Charter Communications, Inc. on April 6, 2018 (File No. 001-33664)).
10.2	Ninth Supplemental Indenture, dated as of April 17, 2018, among Charter Communications Operating, LLC, Charter Communications Operating Capital Corp., as issuers, CCO Holdings, LLC, the subsidiary guarantors party thereto and The Bank of New York Mellon Trust Company, N.A., as trustee and collateral agent (incorporated by reference to Exhibit 4.2 to the current report on Form 8-K filed by Charter Communications, Inc. on April 20, 2018 (File No. 001-33664)).
31.1*	Certificate of Chief Executive Officer pursuant to Rule 13a-14(a)/Rule 15d-14(a) under the under the Securities Exchange Act of 1934.
31.2*	Certificate of Chief Financial Officer pursuant to Rule 13a-14(a)/Rule 15d-14(a) under the Securities Exchange Act of 1934.
32.1*	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Chief Executive Officer).
32.2*	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Chief Financial Officer).
101**	The following financial statements from Charter Communications, Inc.'s Quarterly Report on Form 10-Q for the three and six months ended June 30, 2018, filed with the Securities and Exchange Commission on July 31, 2018, formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Balance Sheets; (ii) the Consolidated Statements of Operations; (iii) the Consolidated Statements of Comprehensive Income; (iv) the Consolidated Statements of Cash Flows; and (vi) the Notes to the Consolidated Financial Statements.

* Filed herewith.

** This exhibit will not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934 (15 U.S.C. 78r) or otherwise subject to the liability of that section. Such exhibit will not be deemed to be incorporated by reference into any filing under the Securities Act or Securities Exchange Act, except to the extent that the company specifically incorporates it by reference.