

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2020
or

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

For the Transition Period From to

Commission File Number: 001-33664

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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 No.) |
| 400 Atlantic Street | Stamford | Connecticut |
| (Address of Principal Executive Offices) | | 06901 |
| | | (Zip Code) |
| | (203) 905-7801 | |
| | (Registrant's telephone number, including area code) | |

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

| Title of each class | Trading Symbol(s) | Name of each exchange on which registered |
|---------------------------------------|-------------------|---|
| Class A Common Stock \$.001 Par Value | CHTR | NASDAQ Global Select Market |

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

Indicate by check mark whether the registrants have submitted electronically every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrants were required to submit and post such files). Yes ☒ No ☐

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

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

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

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

Number of shares of Class A common stock outstanding as of September 30, 2020: 199,875,128

Number of shares of Class B common stock outstanding as of September 30, 2020: 1

CHARTER COMMUNICATIONS, INC.
QUARTERLY REPORT ON FORM 10-Q FOR THE PERIOD ENDED SEPTEMBER 30, 2020

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This quarterly report on Form 10-Q is for the three and nine months ended September 30, 2020. 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,” “designed,” “create,” “predict,” “project,” “initiatives,” “seek,” “would,” “could,” “continue,” “ongoing,” “upside,” “increases,” “focused on” and “potential,” among others. Important factors that could cause actual results to differ materially from the forward-looking statements we make in this quarterly report are set forth in this quarterly report on Form 10-Q, in our annual report on Form 10-K, and in other reports or documents that we file from time to time with the SEC, and include, but are not limited to:

- the impact of the COVID-19 pandemic on the economy, our customers, our vendors, local, state and federal governmental responses to the pandemic and our businesses generally;
- our ability to sustain and grow revenues and cash flow from operations by offering Internet, video, voice, mobile, advertising and other services to residential and commercial customers, to adequately meet the customer experience demands in our service areas 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 (“DBS”) operators, wireless broadband and telephone providers, digital subscriber line (“DSL”) providers, fiber to the home providers and providers of video content over broadband Internet connections;
- 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 and any other consumer services and service platforms;
- any events that disrupt our networks, information systems or properties and impair our operating activities or our reputation;
- 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;
- general business conditions, economic uncertainty or downturn, including the impacts of the COVID-19 pandemic to unemployment levels and the level of activity in the housing sector;
- the ability to retain and hire key personnel;
- the availability and access, in general, of funds to meet our debt obligations prior to or when they become due and to fund our operations and necessary capital expenditures, either through (i) cash on hand, (ii) free cash flow, or (iii) access to the capital or credit markets; and
- our ability to comply with all covenants in our indentures and credit facilities, any violation of which, if not cured in a timely manner, could trigger a default of our other obligations under cross-default provisions.

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

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(dollars in millions, except share data)

| | September 30, 2020 | December 31, 2019 |
|--|-----------------------|----------------------|
| | (unaudited) | |
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 1,283 | \$ 3,483 |
| Accounts receivable, less allowance for doubtful accounts of \$223 and \$151, respectively | 2,068 | 2,227 |
| Prepaid expenses and other current assets | 709 | 761 |
| Total current assets | 4,060 | 6,471 |
| RESTRICTED CASH | 3 | 66 |
| INVESTMENT IN CABLE PROPERTIES: | | |
| Property, plant and equipment, net of accumulated depreciation of \$30,407 and \$27,656, respectively | 34,196 | 34,591 |
| Customer relationships, net | 6,050 | 7,453 |
| Franchises | 67,322 | 67,322 |
| Goodwill | 29,554 | 29,554 |
| Total investment in cable properties, net | 137,122 | 138,920 |
| OTHER NONCURRENT ASSETS | 3,008 | 2,731 |
| Total assets | \$ 144,193 | \$ 148,188 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| CURRENT LIABILITIES: | | |
| Accounts payable and accrued liabilities | \$ 8,541 | \$ 8,885 |
| Current portion of long-term debt | 1,715 | 3,500 |
| Total current liabilities | 10,256 | 12,385 |
| LONG-TERM DEBT | 77,947 | 75,578 |
| DEFERRED INCOME TAXES | 17,929 | 17,711 |
| OTHER LONG-TERM LIABILITIES | 4,349 | 3,703 |
| SHAREHOLDERS' EQUITY: | | |
| Class A common stock; \$0.001 par value; 900 million shares authorized; 213,203,558 and 209,975,963 shares issued, respectively | — | — |
| Class B common stock; \$0.001 par value; 1,000 shares authorized; 1 share issued and outstanding | — | — |
| Preferred stock; \$0.001 par value; 250 million shares authorized; no shares issued and outstanding | — | — |
| Additional paid-in capital | 31,758 | 31,405 |
| Retained earnings | 2,016 | 40 |
| Treasury stock at cost; 13,328,430 and no shares, respectively | (6,868) | — |
| Accumulated other comprehensive loss | — | — |
| Total Charter shareholders' equity | 26,906 | 31,445 |
| Noncontrolling interests | 6,806 | 7,366 |
| Total shareholders' equity | 33,712 | 38,811 |
| Total liabilities and shareholders' equity | \$ 144,193 | \$ 148,188 |

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

CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(dollars in millions, except per share data)

Unaudited

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|----------------------------------|-------------|---------------------------------|-------------|
| | 2020 | 2019 | 2020 | 2019 |
| REVENUES | \$ 12,039 | \$ 11,450 | \$ 35,473 | \$ 34,003 |
| COSTS AND EXPENSES: | | | | |
| Operating costs and expenses (exclusive of items shown separately below) | 7,483 | 7,435 | 22,212 | 21,915 |
| Depreciation and amortization | 2,370 | 2,415 | 7,295 | 7,465 |
| Other operating expenses, net | 14 | 14 | 23 | 71 |
| | 9,867 | 9,864 | 29,530 | 29,451 |
| Income from operations | 2,172 | 1,586 | 5,943 | 4,552 |
| OTHER INCOME (EXPENSES): | | | | |
| Interest expense, net | (946) | (963) | (2,883) | (2,833) |
| Loss on extinguishment of debt | (58) | — | (121) | — |
| Gain (loss) on financial instruments, net | 69 | (34) | (185) | (116) |
| Other pension benefits (costs), net | (115) | 9 | (94) | 27 |
| Other expense, net | (13) | (5) | (13) | (131) |
| | (1,063) | (993) | (3,296) | (3,053) |
| Income before income taxes | 1,109 | 593 | 2,647 | 1,499 |
| Income tax expense | (177) | (126) | (372) | (329) |
| Consolidated net income | 932 | 467 | 2,275 | 1,170 |
| Less: Net income attributable to noncontrolling interests | (118) | (80) | (299) | (216) |
| Net income attributable to Charter shareholders | \$ 814 | \$ 387 | \$ 1,976 | \$ 954 |
| EARNINGS PER COMMON SHARE ATTRIBUTABLE TO CHARTER SHAREHOLDERS: | | | | |
| Basic | \$ 4.01 | \$ 1.77 | \$ 9.62 | \$ 4.30 |
| Diluted | \$ 3.90 | \$ 1.74 | \$ 9.35 | \$ 4.23 |
| Weighted average common shares outstanding, basic | 202,826,502 | 218,499,213 | 205,468,736 | 221,818,079 |
| Weighted average common shares outstanding, diluted | 208,722,129 | 222,355,867 | 211,399,781 | 225,337,984 |

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

CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(dollars in millions)

Unaudited

| | Class A Common Stock | Class B Common Stock | Additional Paid-in Capital | Retained Earnings | Treasury Stock | Accumulated Other Comprehensive Loss | Total Charter Shareholders' Equity | Non- controlling Interests | Total Shareholders' Equity |
|---|----------------------------|----------------------------|----------------------------------|----------------------|-------------------|---|--|----------------------------------|----------------------------------|
| BALANCE, December 31, 2019 | \$ — | \$ — | \$ 31,405 | \$ 40 | \$ — | \$ — | \$ 31,445 | \$ 7,366 | \$ 38,811 |
| Consolidated net income | — | — | — | 396 | — | — | 396 | 71 | 467 |
| Stock compensation expense | — | — | 90 | — | — | — | 90 | — | 90 |
| Exercise of stock options | — | — | 93 | — | — | — | 93 | — | 93 |
| Issuance of equity | — | — | 23 | — | — | — | 23 | — | 23 |
| Purchases of treasury stock | — | — | — | — | (2,352) | — | (2,352) | — | (2,352) |
| Purchase of noncontrolling interest, net of tax | — | — | (149) | — | — | — | (149) | (195) | (344) |
| Change in noncontrolling interest ownership, net of tax | — | — | 82 | — | — | — | 82 | (109) | (27) |
| Distributions to noncontrolling interest | — | — | — | — | — | — | — | (39) | (39) |
| BALANCE, March 31, 2020 | — | — | 31,544 | 436 | (2,352) | — | 29,628 | 7,094 | 36,722 |
| Consolidated net income | — | — | — | 766 | — | — | 766 | 110 | 876 |
| Stock compensation expense | — | — | 90 | — | — | — | 90 | — | 90 |
| Exercise of stock options | — | — | 28 | — | — | — | 28 | — | 28 |
| Purchases of treasury stock | — | — | — | — | (1,155) | — | (1,155) | — | (1,155) |
| Purchase of noncontrolling interest, net of tax | — | — | (42) | — | — | — | (42) | (69) | (111) |
| Change in noncontrolling interest ownership, net of tax | — | — | 41 | — | — | — | 41 | (52) | (11) |
| Distributions to noncontrolling interest | — | — | — | — | — | — | — | (38) | (38) |
| BALANCE, June 30, 2020 | — | — | 31,661 | 1,202 | (3,507) | — | 29,356 | 7,045 | 36,401 |
| Consolidated net income | — | — | — | 814 | — | — | 814 | 118 | 932 |
| Stock compensation expense | — | — | 83 | — | — | — | 83 | — | 83 |
| Exercise of stock options | — | — | 50 | — | — | — | 50 | — | 50 |
| Purchases of treasury stock | — | — | — | — | (3,361) | — | (3,361) | — | (3,361) |
| Purchase of noncontrolling interest, net of tax | — | — | (154) | — | — | — | (154) | (163) | (317) |
| Change in noncontrolling interest ownership, net of tax | — | — | 118 | — | — | — | 118 | (157) | (39) |
| Distributions to noncontrolling interest | — | — | — | — | — | — | — | (37) | (37) |
| BALANCE, September 30, 2020 | \$ — | \$ — | \$ 31,758 | \$ 2,016 | \$ (6,868) | \$ — | \$ 26,906 | \$ 6,806 | \$ 33,712 |

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

CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(dollars in millions)

Unaudited

| | Class A Common Stock | Class B Common Stock | Additional Paid-in Capital | Retained Earnings | Treasury Stock | Accumulated Other Comprehensive Loss | Total Charter Shareholders' Equity | Non- controlling Interests | Total Shareholders' Equity |
|---|----------------------------|----------------------------|-------------------------------|----------------------|-------------------|---|--|----------------------------------|----------------------------------|
| BALANCE, December 31, 2018 | \$ — | \$ — | \$ 33,507 | \$ 2,780 | \$ — | \$ (2) | \$ 36,285 | \$ 7,987 | \$ 44,272 |
| Consolidated net income | — | — | — | 253 | — | — | 253 | 64 | 317 |
| Stock compensation expense | — | — | 85 | — | — | — | 85 | — | 85 |
| Exercise of stock options | — | — | 44 | — | — | — | 44 | — | 44 |
| Purchases of treasury stock | — | — | — | — | (940) | — | (940) | — | (940) |
| Purchase of noncontrolling interest, net of tax | — | — | (15) | — | — | — | (15) | (74) | (89) |
| Change in noncontrolling interest ownership, net of tax | — | — | 22 | — | — | — | 22 | (29) | (7) |
| Distributions to noncontrolling interest | — | — | — | — | — | — | — | (39) | (39) |
| BALANCE, March 31, 2019 | — | — | 33,643 | 3,033 | (940) | (2) | 35,734 | 7,909 | 43,643 |
| Consolidated net income | — | — | — | 314 | — | — | 314 | 72 | 386 |
| Stock compensation expense | — | — | 82 | — | — | — | 82 | — | 82 |
| Exercise of stock options | — | — | 37 | — | — | — | 37 | — | 37 |
| Purchases of treasury stock | — | — | — | — | (861) | — | (861) | — | (861) |
| Purchase of noncontrolling interest, net of tax | — | — | (37) | — | — | — | (37) | (111) | (148) |
| Change in noncontrolling interest ownership, net of tax | — | — | 17 | — | — | — | 17 | (23) | (6) |
| Distributions to noncontrolling interest | — | — | — | — | — | — | — | (39) | (39) |
| BALANCE, June 30, 2019 | — | — | 33,742 | 3,347 | (1,801) | (2) | 35,286 | 7,808 | 43,094 |
| Consolidated net income | — | — | — | 387 | — | — | 387 | 80 | 467 |
| Stock compensation expense | — | — | 71 | — | — | — | 71 | — | 71 |
| Exercise of stock options | — | — | 25 | — | — | — | 25 | — | 25 |
| Purchases of treasury stock | — | — | — | — | (2,767) | — | (2,767) | — | (2,767) |
| Purchase of noncontrolling interest, net of tax | — | — | (93) | — | — | — | (93) | (215) | (308) |
| Change in noncontrolling interest ownership, net of tax | — | — | 65 | — | — | — | 65 | (87) | (22) |
| Distributions to noncontrolling interest | — | — | — | — | — | — | — | (38) | (38) |
| BALANCE, September 30, 2019 | \$ — | \$ — | \$ 33,810 | \$ 3,734 | \$ (4,568) | \$ (2) | \$ 32,974 | \$ 7,548 | \$ 40,522 |

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

| | Nine Months Ended September 30, | |
|---|--|-----------------|
| | 2020 | 2019 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Consolidated net income | \$ 2,275 | \$ 1,170 |
| Adjustments to reconcile consolidated net income to net cash flows from operating activities: | | |
| Depreciation and amortization | 7,295 | 7,465 |
| Stock compensation expense | 263 | 238 |
| Noncash interest income, net | (31) | (89) |
| Other pension (benefits) costs, net | 94 | (27) |
| Loss on extinguishment of debt | 121 | — |
| Loss on financial instruments, net | 185 | 116 |
| Deferred income taxes | 252 | 233 |
| Other, net | (21) | 148 |
| Changes in operating assets and liabilities, net of effects from acquisitions and dispositions: | | |
| Accounts receivable | 159 | (564) |
| Prepaid expenses and other assets | (240) | (225) |
| Accounts payable, accrued liabilities and other | 61 | (75) |
| Net cash flows from operating activities | <u>10,413</u> | <u>8,390</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchases of property, plant and equipment | (5,352) | (4,913) |
| Change in accrued expenses related to capital expenditures | (70) | (449) |
| Real estate investments through variable interest entities | (122) | (125) |
| Other, net | (43) | 10 |
| Net cash flows from investing activities | <u>(5,587)</u> | <u>(5,477)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Borrowings of long-term debt | 10,352 | 13,157 |
| Repayments of long-term debt | (9,711) | (10,886) |
| Payments for debt issuance costs | (91) | (48) |
| Issuance of equity | 23 | — |
| Purchase of treasury stock | (6,868) | (4,568) |
| Proceeds from exercise of stock options | 171 | 106 |
| Purchase of noncontrolling interest | (884) | (593) |
| Distributions to noncontrolling interest | (114) | (116) |
| Borrowings for real estate investments through variable interest entities, net | 63 | — |
| Other, net | (30) | (133) |
| Net cash flows from financing activities | <u>(7,089)</u> | <u>(3,081)</u> |
| NET DECREASE IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH | (2,263) | (168) |
| CASH, CASH EQUIVALENTS AND RESTRICTED CASH, beginning of period | 3,549 | 765 |
| CASH, CASH EQUIVALENTS AND RESTRICTED CASH, end of period | <u>\$ 1,286</u> | <u>\$ 597</u> |
| CASH PAID FOR INTEREST | <u>\$ 3,023</u> | <u>\$ 3,065</u> |
| CASH PAID FOR TAXES | <u>\$ 84</u> | <u>\$ 55</u> |

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 a leading broadband connectivity company and cable operator. Over an advanced communications network, the Company offers a full range of state-of-the-art residential and business services including Spectrum Internet, TV, Mobile and Voice. For small and medium-sized companies, Spectrum Business® delivers the same suite of broadband products and services coupled with special features and applications to enhance productivity, while for larger businesses and government entities, Spectrum Enterprise provides highly customized, fiber-based solutions. Spectrum Reach® delivers tailored advertising and production for the modern media landscape. The Company also distributes award-winning news coverage, sports and high-quality original programming to its customers through Spectrum Networks and Spectrum Originals.

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

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

Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) and the rules and regulations of the Securities and Exchange Commission (the “SEC”). Accordingly, certain information and footnote disclosures typically included in the Company’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, impairments of franchises and goodwill, pension benefits and income taxes. Actual results could differ from those estimates.

Certain prior period amounts have been reclassified to conform with the 2020 presentation.

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

2. Franchises, Goodwill and Other Intangible Assets

Indefinite-lived and finite-lived intangible assets consist of the following as of September 30, 2020 and December 31, 2019:

| | September 30, 2020 | | | December 31, 2019 | | |
|-------------------------------------|-----------------------|--------------------------|---------------------|-----------------------|--------------------------|---------------------|
| | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
| Indefinite-lived intangible assets: | | | | | | |
| Franchises | \$ 67,322 | \$ — | \$ 67,322 | \$ 67,322 | \$ — | \$ 67,322 |
| Goodwill | 29,554 | — | 29,554 | 29,554 | — | 29,554 |
| Trademarks | 159 | — | 159 | 159 | — | 159 |
| | <u>\$ 97,035</u> | <u>\$ —</u> | <u>\$ 97,035</u> | <u>\$ 97,035</u> | <u>\$ —</u> | <u>\$ 97,035</u> |
| Finite-lived intangible assets: | | | | | | |
| Customer relationships | \$ 18,230 | \$ (12,180) | \$ 6,050 | \$ 18,230 | \$ (10,777) | \$ 7,453 |
| Other intangible assets | 405 | (150) | 255 | 405 | (122) | 283 |
| | <u>\$ 18,635</u> | <u>\$ (12,330)</u> | <u>\$ 6,305</u> | <u>\$ 18,635</u> | <u>\$ (10,899)</u> | <u>\$ 7,736</u> |

Amortization expense related to customer relationships and other intangible assets for the three and nine months ended September 30, 2020 was \$445 million and \$1.4 billion, respectively, and \$516 million and \$1.6 billion for the three and nine months ended September 30, 2019, respectively. The Company expects amortization expense on its finite-lived intangible assets will be as follows:

| | |
|--------------------------------------|-----------------|
| Three months ended December 31, 2020 | \$ 443 |
| 2021 | 1,599 |
| 2022 | 1,329 |
| 2023 | 1,072 |
| 2024 | 821 |
| Thereafter | 1,041 |
| | <u>\$ 6,305</u> |

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.

3. Investments

Real Estate Investments through Variable Interest Entities

In July 2018, the Company entered into a build-to-suit lease arrangement with a single-asset special purpose entity ("SPE Building 1") to build the first building in the building complex for the new Charter headquarters in Stamford, Connecticut. The SPE Building 1 obtained a first-lien mortgage note to finance the construction with fixed monthly payments through July 15, 2035 with a 5.612% coupon interest rate. All payments of the mortgage note are guaranteed by Charter. The initial term of the lease is 15 years commencing August 1, 2020, with no termination options. At the end of the lease term there is a mirrored put option for the SPE to sell the property to Charter and call option for Charter to purchase the property for a fixed purchase price.

In April 2020, the Company entered into a build-to-suit lease agreement with a second special purpose entity ("SPE Building 2") to build the adjoining building and atrium, in the building complex for the new Charter headquarters in Stamford, Connecticut. As of September 30, 2020, Charter does not guarantee the financing for SPE Building 2. The initial term of the lease is 15 years commencing February 26, 2022, with no termination options. At the end of the lease term there is a put option for the SPE Building 2 to sell the property to Charter for a fixed price. If SPE Building 2 does not exercise the put option and

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Company exercises its first renewal term there is call option for Charter to purchase property for a fixed purchase price in year 3 of the first renewal term. As the Company has determined that SPE Building 1 and SPE Building 2 (collectively, the "SPEs") are variable interest entities ("VIEs") of which the Company became the primary beneficiary upon the effectiveness of the arrangements in July 2018 and April 2020, respectively, the Company has consolidated the assets and liabilities of the SPEs in its consolidated balance sheets as of September 30, 2020 and December 31, 2019 as follows.

| | September 30, 2020 | December 31, 2019 |
|-------------------------------|---------------------------|--------------------------|
| Assets | | |
| Current assets | \$ 3 | \$ — |
| Restricted cash | \$ 3 | \$ 66 |
| Property, plant and equipment | \$ 431 | \$ 295 |
| Liabilities | | |
| Current liabilities | \$ 30 | \$ 11 |
| Other long-term liabilities | \$ 410 | \$ 350 |

Property, plant and equipment includes land, a parking garage and building construction costs, including the capitalization of qualifying interest. Other long-term liabilities includes mortgage note liabilities and liability-classified noncontrolling interests for the SPEs recorded at amortized cost with accretion towards settlement of the put/call option in the leases. As of September 30, 2020 and December 31, 2019, other long-term liabilities include \$332 million and \$339 million, respectively, in SPE Building 1 mortgage note liability.

The consolidated statement of cash flows for the nine months ended September 30, 2020 includes \$122 million in building construction costs for the SPEs and \$4 million in distributions to noncontrolling interests for SPE Building 1 offset by \$63 million in net borrowings for real estate investments for the SPEs. The consolidated statement of cash flows for the nine months ended September 30, 2019 includes a decrease to restricted cash of \$125 million related to building construction costs for SPE Building 1.

Equity Investments

The Company recorded impairments on equity investments of approximately \$121 million during the nine months ended September 30, 2019 which were recorded in other expense, net in the consolidated statements of operations.

4. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consist of the following as of September 30, 2020 and December 31, 2019:

| | September 30, 2020 | December 31, 2019 |
|-----------------------------|---------------------------|--------------------------|
| Accounts payable – trade | \$ 728 | \$ 786 |
| Deferred revenue | 477 | 460 |
| Accrued liabilities: | | |
| Programming costs | 1,913 | 2,042 |
| Labor | 1,129 | 1,028 |
| Capital expenditures | 1,264 | 1,441 |
| Interest | 962 | 1,052 |
| Taxes and regulatory fees | 585 | 537 |
| Property and casualty | 472 | 458 |
| Operating lease liabilities | 233 | 214 |
| Other | 778 | 867 |
| | <u>\$ 8,541</u> | <u>\$ 8,885</u> |

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5. Leases

Operating lease expenses were \$110 million and \$326 million for the three and nine months ended September 30, 2020, respectively, and \$105 million and \$321 million for the three and nine months ended September 30, 2019, respectively, inclusive of \$34 million and \$101 million for the three and nine months ended September 30, 2020, respectively, and \$31 million and \$96 million for the three and nine months ended September 30, 2019, respectively, of both short-term lease costs and variable lease costs that were not included in the measurement of operating lease liabilities.

Cash paid for amounts included in the measurement of operating lease liabilities, recorded as operating cash flows in the statements of cash flows, were \$221 million and \$219 million for the nine months ended September 30, 2020 and 2019, respectively. Operating lease right-of-use assets obtained in exchange for operating lease obligations were \$253 million and \$209 million for the nine months ended September 30, 2020 and 2019, respectively.

Supplemental balance sheet information related to leases is as follows.

| | September 30, 2020 | December 31, 2019 |
|--|--------------------|-------------------|
| Operating lease right-of-use assets: | | |
| Included within other noncurrent assets | \$ 1,157 | \$ 1,092 |
| Operating lease liabilities: | | |
| Current portion included within accounts payable and accrued liabilities | \$ 233 | \$ 214 |
| Long-term portion included within other long-term liabilities | 1,045 | 979 |
| | <u>\$ 1,278</u> | <u>\$ 1,193</u> |
| Weighted average remaining lease term for operating leases | 6.3 years | 6.6 years |
| Weighted average discount rate for operating leases | 4.1 % | 4.4 % |

Maturities of lease liabilities are as follows.

| | Operating leases |
|--|-------------------------|
| Three months ended December 31, 2020 | \$ 78 |
| 2021 | 298 |
| 2022 | 262 |
| 2023 | 233 |
| 2024 | 194 |
| Thereafter | 462 |
| Undiscounted lease cash flow commitments | 1,527 |
| Reconciling impact from discounting | (249) |
| Lease liabilities on consolidated balance sheet as of September 30, 2020 | <u>\$ 1,278</u> |

The Company has \$61 million and \$62 million of finance lease liabilities recognized in the consolidated balance sheets as of September 30, 2020 and December 31, 2019, respectively, included within accounts payable and accrued liabilities and other long-term liabilities. The related finance lease right-of-use assets are recorded in property, plant and equipment, net. The Company's finance leases were not considered material for further supplemental lease disclosures.

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6. Long-Term Debt

Long-term debt consists of the following as of September 30, 2020 and December 31, 2019:

| | September 30, 2020 | | December 31, 2019 | |
|---|---------------------------|-----------------------|--------------------------|-----------------------|
| | Principal Amount | Accreted Value | Principal Amount | Accreted Value |
| CCO Holdings, LLC: | | | | |
| 5.250% senior notes due September 30, 2022 | \$ — | \$ — | \$ 1,250 | \$ 1,241 |
| 5.125% senior notes due February 15, 2023 | — | — | 1,000 | 995 |
| 4.000% senior notes due March 1, 2023 | 500 | 498 | 500 | 497 |
| 5.125% senior notes due May 1, 2023 | — | — | 1,150 | 1,145 |
| 5.750% senior notes due September 1, 2023 | — | — | 500 | 497 |
| 5.750% senior notes due January 15, 2024 | — | — | 150 | 149 |
| 5.875% senior notes due April 1, 2024 | — | — | 1,700 | 1,690 |
| 5.375% senior notes due May 1, 2025 | 750 | 747 | 750 | 746 |
| 5.750% senior notes due February 15, 2026 | 2,500 | 2,474 | 2,500 | 2,471 |
| 5.500% senior notes due May 1, 2026 | 1,500 | 1,492 | 1,500 | 1,491 |
| 5.875% senior notes due May 1, 2027 | 800 | 796 | 800 | 796 |
| 5.125% senior notes due May 1, 2027 | 3,250 | 3,224 | 3,250 | 3,222 |
| 5.000% senior notes due February 1, 2028 | 2,500 | 2,471 | 2,500 | 2,469 |
| 5.375% senior notes due June 1, 2029 | 1,500 | 1,501 | 1,500 | 1,501 |
| 4.750% senior notes due March 1, 2030 | 3,050 | 3,042 | 3,050 | 3,041 |
| 4.500% senior notes due August 15, 2030 | 2,750 | 2,750 | — | — |
| 4.250% senior notes due February 1, 2031 | 3,000 | 3,001 | — | — |
| 4.500% senior notes due May 1, 2032 | 1,400 | 1,387 | — | — |
| Charter Communications Operating, LLC: | | | | |
| 3.579% senior notes due July 23, 2020 | — | — | 2,000 | 1,997 |
| 4.464% senior notes due July 23, 2022 | 3,000 | 2,990 | 3,000 | 2,987 |
| Senior floating rate notes due February 1, 2024 | 900 | 902 | 900 | 902 |
| 4.500% senior notes due February 1, 2024 | 1,100 | 1,094 | 1,100 | 1,093 |
| 4.908% senior notes due July 23, 2025 | 4,500 | 4,474 | 4,500 | 4,471 |
| 3.750% senior notes due February 15, 2028 | 1,000 | 988 | 1,000 | 987 |
| 4.200% senior notes due March 15, 2028 | 1,250 | 1,241 | 1,250 | 1,240 |
| 5.050% senior notes due March 30, 2029 | 1,250 | 1,241 | 1,250 | 1,241 |
| 2.800% senior notes due April 1, 2031 | 1,600 | 1,583 | — | — |
| 6.384% senior notes due October 23, 2035 | 2,000 | 1,983 | 2,000 | 1,982 |
| 5.375% senior notes due April 1, 2038 | 800 | 786 | 800 | 786 |
| 6.484% senior notes due October 23, 2045 | 3,500 | 3,468 | 3,500 | 3,467 |
| 5.375% senior notes due May 1, 2047 | 2,500 | 2,506 | 2,500 | 2,506 |
| 5.750% senior notes due April 1, 2048 | 2,450 | 2,391 | 2,450 | 2,391 |
| 5.125% senior notes due July 1, 2049 | 1,250 | 1,240 | 1,250 | 1,240 |
| 4.800% senior notes due March 1, 2050 | 2,800 | 2,797 | 2,800 | 2,798 |
| 3.700% senior notes due April 1, 2051 | 1,400 | 1,380 | — | — |
| 6.834% senior notes due October 23, 2055 | 500 | 495 | 500 | 495 |
| Credit facilities | 10,219 | 10,147 | 10,427 | 10,345 |
| Time Warner Cable, LLC: | | | | |

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| | | | | |
|---|------------------|------------------|------------------|------------------|
| 5.000% senior notes due February 1, 2020 | — | — | 1,500 | 1,503 |
| 4.125% senior notes due February 15, 2021 | 700 | 704 | 700 | 711 |
| 4.000% senior notes due September 1, 2021 | 1,000 | 1,011 | 1,000 | 1,021 |
| 5.750% sterling senior notes due June 2, 2031 ^(a) | 806 | 860 | 828 | 886 |
| 6.550% senior debentures due May 1, 2037 | 1,500 | 1,670 | 1,500 | 1,675 |
| 7.300% senior debentures due July 1, 2038 | 1,500 | 1,766 | 1,500 | 1,772 |
| 6.750% senior debentures due June 15, 2039 | 1,500 | 1,708 | 1,500 | 1,713 |
| 5.875% senior debentures due November 15, 2040 | 1,200 | 1,254 | 1,200 | 1,255 |
| 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) | 839 | 810 | 861 | 831 |
| 4.500% senior debentures due September 15, 2042 | 1,250 | 1,144 | 1,250 | 1,142 |
| Time Warner Cable Enterprises LLC: | | | | |
| 8.375% senior debentures due March 15, 2023 | 1,000 | 1,115 | 1,000 | 1,148 |
| 8.375% senior debentures due July 15, 2033 | 1,000 | 1,273 | 1,000 | 1,284 |
| Total debt | 79,064 | 79,662 | 78,416 | 79,078 |
| Less current portion: | | | | |
| 5.000% senior notes due February 1, 2020 | — | — | (1,500) | (1,503) |
| 3.579% senior notes due July 23, 2020 | — | — | (2,000) | (1,997) |
| 4.125% senior notes due February 15, 2021 | (700) | (704) | — | — |
| 4.000% senior notes due September 1, 2021 | (1,000) | (1,011) | — | — |
| Long-term debt | \$ 77,364 | \$ 77,947 | \$ 74,916 | \$ 75,578 |

(a) Principal amount includes £625 million remeasured at \$806 million and \$828 million as of September 30, 2020 and December 31, 2019, respectively, using the exchange rate at the respective dates.

(b) Principal amount includes £650 million remeasured at \$839 million and \$861 million as of September 30, 2020 and December 31, 2019, respectively, using the exchange rate at the respective dates.

The accreted values presented in the table above represent the principal amount of the debt adjusted for original issue discount or premium at the time of sale, deferred financing costs, and, in regards to debt assumed in acquisitions, fair value premium adjustments as a result of applying acquisition accounting plus the accretion of those amounts to the balance sheet date. However, the amount that is currently payable if the debt becomes immediately due is equal to the principal amount of the debt. In regards to the fixed-rate British pound sterling denominated notes (the "Sterling Notes"), the principal amount of the debt and any premium or discount is remeasured into US dollars as of each balance sheet date. See Note 9. The Company has availability under the Charter Operating credit facilities of approximately \$4.7 billion as of September 30, 2020.

In February 2020, CCO Holdings, LLC ("CCO Holdings") and CCO Holdings Capital Corp. jointly issued \$1.65 billion aggregate principal amount of 4.500% senior unsecured notes due 2030 at par and in March 2020, an additional \$1.1 billion of the same series of notes were issued at a price of 102.5% of the aggregate principal amount. Also in March 2020, CCO Holdings and CCO Holdings Capital Corp. issued \$1.4 billion aggregate principal amount of 4.500% senior unsecured notes due 2032 at par. The net proceeds were used to pay related fees and expenses and for general corporate purposes, including repaying certain indebtedness, including repayment of all of CCO Holdings' 5.250% senior notes due September 30, 2022, 5.125% senior notes due February 15, 2023, 5.125% senior notes due May 1, 2023, 5.750% senior notes due September 1, 2023 and 5.750% senior notes due January 15, 2024, as well as funding buybacks of Charter Class A common stock and Charter Holdings common units. The Company recorded a loss on extinguishment of debt of \$63 million during the nine months ended September 30, 2020 related to these transactions.

In July 2020, CCO Holdings and CCO Holdings Capital Corp. jointly issued \$1.5 billion aggregate principal amount of 4.250% senior unsecured notes due 2031 at par and later in July 2020, an additional \$1.5 billion of the same series of notes were issued at a price of 102%. The net proceeds were used to pay related fees and expenses and for general corporate purposes, including repaying certain indebtedness, including repayment of all of CCO Holdings' 5.875% senior notes due April 1, 2024, as well as

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funding buybacks of Charter Class A common stock and Charter Holdings common units. The Company recorded a loss on extinguishment of debt of \$58 million during the three and nine months ended September 30, 2020 related to these transactions.

In October 2020, CCO Holdings and CCO Holdings Capital Corp. jointly issued an additional \$1.5 billion of its 4.500% senior unsecured notes due 2032 at 103.75% of the aggregate principal amount. The net proceeds will be used to pay related fees and expenses and for general corporate purposes, including repaying certain indebtedness, including repayment of all of CCO Holdings' 5.375% senior notes due May 1, 2025, as well as funding potential buybacks of Charter Class A common stock and Charter Holdings common units.

The CCO Holdings notes are senior debt obligations of CCO Holdings and CCO Holdings Capital Corp. and rank equally with all other current and future unsecured, unsubordinated obligations of CCO Holdings and CCO Holdings Capital Corp. They are structurally subordinated to all obligations of subsidiaries of CCO Holdings.

CCO Holdings may redeem some or all of the notes at any time at a premium. Beginning in 2028 and 2029, the optional redemption price declines to 100% of the principal amount, plus accrued and unpaid interest, if any.

In addition, at any time prior to varying dates in 2023, CCO Holdings may redeem up to 40% of the aggregate principal amount of the notes at a premium plus accrued and unpaid interest to the redemption date, with the net cash proceeds of one or more equity offerings (as defined in the indenture); provided that certain conditions are met. In the event of specified change of control events, CCO Holdings must offer to purchase the outstanding notes from the holders at a purchase price equal to 101% of the total principal amount of the notes, plus any accrued and unpaid interest.

In April 2020, Charter Operating and Charter Communications Operating Capital Corp. jointly issued \$1.6 billion aggregate principal amount of 2.800% senior secured notes due April 2031 at a price of 99.561% of the aggregate principal amount and \$1.4 billion aggregate principal amount of 3.700% senior secured notes due April 2051 at a price of 99.217% of the aggregate principal amount. The net proceeds were used to pay related fees and expenses and for general corporate purposes.

In June 2020, Charter Operating and Charter Communications Operating Capital Corp. redeemed all of their 3.579% senior secured notes due July 2020.

The Charter Operating notes are guaranteed by 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.

7. Common Stock

The following represents the Company's purchase of Charter Class A common stock and the effect on the consolidated statements of cash flows during the three and nine months ended September 30, 2020 and 2019.

| | Three Months Ended September 30, | | | | Nine Months Ended September 30, | | | |
|------------------------|----------------------------------|----------|-----------|----------|---------------------------------|----------|------------|----------|
| | 2020 | | 2019 | | 2020 | | 2019 | |
| | Shares | \$ | Shares | \$ | Shares | \$ | Shares | \$ |
| Share buybacks | 5,466,295 | \$ 3,250 | 6,894,762 | \$ 2,748 | 11,947,078 | \$ 6,452 | 11,757,758 | \$ 4,455 |
| Income tax withholding | 186,548 | 111 | 46,691 | 19 | 769,853 | 416 | 324,731 | 113 |
| Exercise cost | 180,824 | | 75,476 | | 611,499 | | 260,646 | |
| | 5,833,667 | \$ 3,361 | 7,016,929 | \$ 2,767 | 13,328,430 | \$ 6,868 | 12,343,135 | \$ 4,568 |

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As of September 30, 2020, Charter had remaining board authority to purchase an additional \$1.6 billion 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 2019, Charter's board of directors approved the retirement of the then currently held treasury stock and those shares were retired as of December 31, 2019. The Company accounts for treasury stock using the cost method and includes treasury stock as a component of total shareholders' equity.

In March 2020, pursuant to the terms of the Amended and Restated Stockholders Agreement with Liberty Broadband Corporation ("Liberty Broadband"), Advance/Newhouse Partnership ("A/N") and Charter, dated May 23, 2015, Charter, Liberty and A/N closed on transactions in which Liberty Broadband and A/N exercised their preemptive right to purchase 35,112 and 20,182 shares, respectively, of Charter Class A common stock for a total purchase price of approximately \$23 million.

8. Noncontrolling Interests

Noncontrolling interests represents consolidated subsidiaries of which the Company owns less than 100%. The Company is a holding company whose principal asset is a controlling equity interest in Charter Holdings, the indirect owner of the Company's cable systems. Noncontrolling interests on the Company's balance sheet consist primarily of A/N's 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%, and was \$81 million and \$186 million for the three and nine months ended September 30, 2020, respectively, and \$43 million and \$103 million for the three and nine months ended September 30, 2019, respectively. Net income of Charter Holdings attributable to A/N's preferred noncontrolling interest for financial reporting purposes is based on the preferred dividend which was \$37 million and \$112 million for each of the three and nine months ended September 30, 2020 and 2019, respectively.

The following table represents Charter Holdings' purchase of Charter Holdings common units from A/N pursuant to the Letter Agreement (see Note 18) and the effect on total shareholders' equity during the three and nine months ended September 30, 2020 and 2019.

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|----------------------------------|-----------|---------------------------------|-----------|
| | 2020 | 2019 | 2020 | 2019 |
| Number of units purchased | 644,806 | 864,826 | 1,720,482 | 1,615,561 |
| Average price per unit | \$ 568.19 | \$ 391.62 | \$ 514.10 | \$ 366.76 |
| Amount of units purchased | \$ 366 | \$ 339 | \$ 884 | \$ 593 |
| Decrease in noncontrolling interest based on carrying value | \$ (163) | \$ (215) | \$ (427) | \$ (400) |
| Decrease in additional paid-in-capital, net of tax | \$ (154) | \$ (93) | \$ (345) | \$ (145) |

Total shareholders' equity was also adjusted during the three and nine months ended September 30, 2020 and 2019 due to the changes in Charter Holdings' ownership as follows.

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|----------------------------------|---------|---------------------------------|----------|
| | 2020 | 2019 | 2020 | 2019 |
| Decrease in noncontrolling interest | \$ (157) | \$ (87) | \$ (318) | \$ (139) |
| Increase in additional paid-in-capital, net of tax | \$ 118 | \$ 65 | \$ 241 | \$ 104 |

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9. 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 April 2019, the Company entered into a collateral holiday agreement for 60% of both the 2031 and 2042 cross-currency swaps, which eliminates the requirement to post collateral for three years, as well as a ten year collateral cap on the remaining 40% of the cross-currency swaps which limits the required collateral posting on that 40% of the cross-currency swaps to \$150 million. The fair value of the Company's cross-currency derivatives was \$454 million and \$224 million and is included in other long-term liabilities on its consolidated balance sheets as of September 30, 2020 and December 31, 2019, respectively.

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

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|---|----------------|--|-----------------|
| | 2020 | 2019 | 2020 | 2019 |
| Gain (Loss) on Financial Instruments, Net: | | | | |
| Change in fair value of cross-currency derivative instruments | \$ 135 | \$ (86) | \$ (230) | \$ (172) |
| Foreign currency remeasurement of Sterling Notes to U.S. dollars | (66) | 52 | 45 | 56 |
| | <u>\$ 69</u> | <u>\$ (34)</u> | <u>\$ (185)</u> | <u>\$ (116)</u> |

10. Fair Value Measurements

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

- Level 1 – inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 – inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 – inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Financial Assets and Liabilities

The Company has estimated the fair value of its financial instruments as of September 30, 2020 and December 31, 2019 using available market information or other appropriate valuation methodologies. Considerable judgment, however, is required in interpreting market data to develop the estimates of fair value. Accordingly, the estimates presented in the accompanying consolidated financial statements are not necessarily indicative of the amounts the Company would realize in a current market exchange.

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

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Financial instruments accounted for at fair value on a recurring basis and classified within Level 2 of the valuation hierarchy include the Company's cross-currency derivative instruments and were valued at \$454 million and \$224 million as of September 30, 2020 and December 31, 2019, respectively.

The estimated fair value of the Company's senior notes and debentures as of September 30, 2020 and December 31, 2019 is based on quoted market prices in active markets and is classified within Level 1 of the valuation hierarchy, while the estimated fair value of the Company's credit facilities is based on quoted market prices in inactive markets and is classified within Level 2. The carrying amount of the consolidated variable interest entity's mortgage note liability approximates fair value.

A summary of the carrying value and fair value of debt as of September 30, 2020 and December 31, 2019 is as follows:

| | September 30, 2020 | | December 31, 2019 | |
|-----------------------------|--------------------|------------|-------------------|------------|
| | Carrying Value | Fair Value | Carrying Value | Fair Value |
| Senior notes and debentures | \$ 69,515 | \$ 78,793 | \$ 68,733 | \$ 74,938 |
| Credit facilities | \$ 10,147 | \$ 9,983 | \$ 10,345 | \$ 10,448 |

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. When such impairments are recorded, fair values are generally classified within Level 3 of the valuation hierarchy.

11. Revenues

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---------------------------|----------------------------------|------------------|---------------------------------|------------------|
| | 2020 | 2019 | 2020 | 2019 |
| Internet | \$ 4,722 | \$ 4,195 | \$ 13,659 | \$ 12,322 |
| Video | 4,221 | 4,359 | 13,014 | 13,134 |
| Voice | 449 | 477 | 1,357 | 1,470 |
| Residential revenue | 9,392 | 9,031 | 28,030 | 26,926 |
| Small and medium business | 988 | 974 | 2,967 | 2,882 |
| Enterprise | 617 | 644 | 1,845 | 1,939 |
| Commercial revenue | 1,605 | 1,618 | 4,812 | 4,821 |
| Advertising sales | 460 | 394 | 1,074 | 1,134 |
| Mobile | 368 | 192 | 936 | 490 |
| Other | 214 | 215 | 621 | 632 |
| | <u>\$ 12,039</u> | <u>\$ 11,450</u> | <u>\$ 35,473</u> | <u>\$ 34,003</u> |

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

12. Operating Costs and Expenses

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|-----------------|--|------------------|
| | 2020 | 2019 | 2020 | 2019 |
| Programming | \$ 2,727 | \$ 2,790 | \$ 8,492 | \$ 8,482 |
| Regulatory, connectivity and produced content | 612 | 612 | 1,651 | 1,770 |
| Costs to service customers | 1,902 | 1,894 | 5,598 | 5,483 |
| Marketing | 788 | 793 | 2,273 | 2,296 |
| Mobile | 456 | 337 | 1,243 | 874 |
| Other | 998 | 1,009 | 2,955 | 3,010 |
| | <u>\$ 7,483</u> | <u>\$ 7,435</u> | <u>\$ 22,212</u> | <u>\$ 21,915</u> |

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 Internet, video 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 contract period. Costs to service customers include costs related to field operations, network operations and customer care for the Company's residential and small and medium business customers, including internal and third-party labor for the non-capitalizable portion of installations, service and repairs, maintenance, bad debt expense, billing and collection, occupancy and vehicle costs. Marketing costs represent the costs of marketing to current and potential commercial and residential customers including labor costs. Mobile costs represent costs associated with the Company's mobile service such as device and service costs, marketing, sales and commissions, retail stores, personnel costs and taxes, among others. Other includes corporate overhead, advertising sales expenses, indirect costs associated with the Company's enterprise business customers and regional sports and news networks, property tax and insurance expense and stock compensation expense, among others.

13. Other Operating Expenses, Net

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|------------------------------------|---|--------------|--|--------------|
| | 2020 | 2019 | 2020 | 2019 |
| Special charges, net | \$ 28 | \$ 19 | \$ 50 | \$ 38 |
| (Gain) loss on sale of assets, net | (14) | (5) | (27) | 33 |
| | <u>\$ 14</u> | <u>\$ 14</u> | <u>\$ 23</u> | <u>\$ 71</u> |

Special charges, net

Special charges, net primarily includes employee termination costs and net amounts of litigation settlements.

(Gain) loss on sale of assets, net

(Gain) loss on sale of assets, net represents the net (gain) loss recognized on the sales and disposals of fixed assets and cable systems. The nine months ended September 30, 2019 includes a \$41 million impairment of non-strategic assets.

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14. Stock Compensation Plans

Charter's stock incentive plans provide 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 stock incentive plans.

Charter granted the following equity awards for the periods presented.

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|------------------------|---|-------------|--|-------------|
| | 2020 | 2019 | 2020 | 2019 |
| Stock options | 17,100 | 39,400 | 1,282,400 | 1,821,800 |
| Restricted stock | — | 200 | 6,000 | 8,300 |
| Restricted stock units | 5,000 | 11,300 | 420,900 | 698,200 |

Charter stock options and restricted stock units generally cliff vest three years from the date of 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.

As of September 30, 2020, total unrecognized compensation remaining to be recognized in future periods totaled \$222 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, seven months for restricted stock and two years for restricted stock units.

The Company recorded stock compensation expense of \$83 million and \$263 million for the three and nine months ended September 30, 2020, respectively, and \$71 million and \$238 million for the three and nine months ended September 30, 2019, respectively, which is included in operating costs and expenses.

15. 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 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 \$177 million and \$372 million for the three and nine months ended September 30, 2020, respectively, and \$126 million and \$329 million for the three and nine months ended September 30, 2019, respectively. Income tax expense increased during the three and nine months ended September 30, 2020 compared to the corresponding periods in 2019 primarily as a result of higher pretax income offset by increased recognition of excess tax benefits resulting from share-based compensation during 2020.

On March 18, 2020, the Families First Coronavirus Response Act ("FFCR Act"), and on March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") were each enacted in response to the COVID-19 pandemic. The FFCR Act and the CARES Act contain numerous tax provisions, such as deferring payroll tax payments, establishing a credit for the retention of certain employees, relaxing limitations on the deductibility of interest, and updating the definition of qualified improvement property. This legislation currently has no material impact to income tax expense on the Company's financial statements.

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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 \$265 million and \$230 million, excluding interest and penalties, as of September 30, 2020 and December 31, 2019, respectively. The Company does not currently anticipate that its reserve for uncertain tax positions will significantly increase or decrease during 2020; 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 are currently under examination by the Internal Revenue Service ("IRS") for income tax purposes. Charter's 2016 through 2019 tax years remain open for examination and assessment. Charter's short period return dated May 17, 2016 (prior to the Time Warner Cable Inc. ("TWC") and Bright House Networks, LLC ("Bright House") transactions) and prior years 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 through 2019 tax years remain open for examination and assessment. 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, TWC was included in the consolidated U.S. federal and certain state income tax returns of Time Warner. The IRS has examined Time Warner's 2008 through 2010 income tax returns and the results are under appeal. The Company does not anticipate that these examinations will have a material impact on the Company's consolidated financial position or results of operations. In addition, the Company is also subject to ongoing examinations of the Company's tax returns by state and local tax authorities for various periods. Activity related to these state and local examinations did not have a material impact on the Company's consolidated financial position or results of operations during the three and nine months ended September 30, 2020, nor does the Company anticipate a material impact in the future.

16. 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 26 million for each of the three and nine months ended September 30, 2020, and 28 million and 29 million for the three and nine months ended September 30, 2019, respectively, were not included in the computation of diluted earnings per share as their effect would have been antidilutive.

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The following is the computation of diluted earnings per common share for the three and nine months ended September 30, 2020 and 2019.

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|---|--------------------|--|--------------------|
| | 2020 | 2019 | 2020 | 2019 |
| Numerator: | | | | |
| Net income attributable to Charter shareholders | \$ 814 | \$ 387 | \$ 1,976 | \$ 954 |
| Denominator: | | | | |
| Weighted average common shares outstanding, basic | 202,826,502 | 218,499,213 | 205,468,736 | 221,818,079 |
| Effect of dilutive securities: | | | | |
| Assumed exercise or issuance of shares relating to stock plans | 5,895,627 | 3,856,654 | 5,931,045 | 3,519,905 |
| Weighted average common shares outstanding, diluted | <u>208,722,129</u> | <u>222,355,867</u> | <u>211,399,781</u> | <u>225,337,984</u> |
| Basic earnings per common share attributable to Charter shareholders | \$ 4.01 | \$ 1.77 | \$ 9.62 | \$ 4.30 |
| Diluted earnings per common share attributable to Charter shareholders | \$ 3.90 | \$ 1.74 | \$ 9.35 | \$ 4.23 |

17. Comprehensive Income

Comprehensive income equaled net income attributable to Charter shareholders for each of the three and nine months ended September 30, 2020 and 2019.

18. 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, 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.

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Dr. John Malone, a director emeritus of Charter and Chairman of the board of directors and holder of 48.8% of voting interest in Liberty Broadband, also serves on the board of directors of Qurate Retail, Inc. ("Qurate"). As reported in Qurate's SEC filings, Dr. Malone owns approximately 1.2 million shares of the Series A common stock and approximately 27.7 million shares of the Series B common stock of Qurate and has a 40.9% voting interest in Qurate for the election of directors. Qurate wholly owns HSN, Inc. ("HSN") and QVC, Inc. ("QVC"). The Company has programming relationships with HSN and QVC. For the three and nine months ended September 30, 2020, the Company recorded revenue in aggregate of approximately \$12 million and \$36 million, respectively, and for three and nine months ended September 30, 2019, the Company recorded revenue in aggregate of approximately \$11 million and \$35 million, respectively, from HSN and QVC as part of channel carriage fees and revenue sharing arrangements for home shopping sales made to customers in the Company's footprint.

Dr. Malone and Mr. Steven Miron, a member of Charter's board of directors, also serve on the board of directors of Discovery, Inc. ("Discovery"). As reported in Discovery's SEC filings, Dr. Malone owns 1.2% of the series A common stock, 93.6% of the series B common stock and 3.6% of the series C common stock of Discovery and has a 27.9% voting interest in Discovery for the election of directors. As reported in Discovery's SEC filings, 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 23.9% voting interest for matters other than the election of directors. A/N PP also has the right to appoint three directors out of a total of twelve directors to Discovery's board. The Company purchases programming from Discovery. Based on publicly available information, the Company does not believe that Discovery would currently be considered a related party. The amount paid in the aggregate to Discovery represents less than 2% of total operating costs and expenses for the three and nine months ended September 30, 2020 and 2019.

Equity Investments

The Company has agreements with certain equity investees pursuant to which the Company has made or received related party transaction payments. The Company recorded payments to equity investees totaling \$50 million and \$167 million during the three and nine months ended September 30, 2020, respectively, and \$78 million and \$245 million during the three and nine months ended September 30, 2019, respectively.

19. Contingencies

In August 2015, a purported stockholder of Charter, Matthew Sciacacchi, filed a lawsuit in the Delaware Court of Chancery, on behalf of a putative class of Charter stockholders, challenging the transactions involving Charter, TWC, A/N, and Liberty Broadband announced by Charter on May 26, 2015. The lawsuit, which named as defendants Charter and its board of directors, alleged that the transactions resulted from breaches of fiduciary duty by Charter's directors and that Liberty Broadband improperly benefited from the challenged transactions at the expense of other Charter stockholders. The lawsuit has proceeded to the discovery phase. Charter denies any liability, believes that it has substantial defenses, and is vigorously defending 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 United States District Court for the District of Kansas alleging that TWC infringed certain U.S. patents purportedly relating to Voice over Internet Protocol ("VoIP") services. At the trial, 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 now paid the verdict, interest and costs in full. The Company continues to pursue indemnity from its vendors and has brought a patent suit against Sprint (TC Tech, LLC v. Sprint) in the United States District Court for the District of Delaware implicating Sprint's LTE technology and a similar suit against T-Mobile USA, Inc. in the Western District of

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Texas. The ultimate outcomes of the pursuit of indemnity against the Company's vendors and the TC Tech litigation cannot be predicted. The Company does not expect the outcome of its indemnity claims nor the outcome of the TC Tech litigation will have a material adverse effect on its operations or financial condition.

Sprint filed a second patent suit against Charter and Bright House Networks, LLC on December 2, 2017 in the United States District Court for the District of Delaware. This suit alleges infringement of 11 patents related to the Company's provision of VoIP services (ten of which were asserted against Legacy TWC in the matter described above).

On February 18, 2020 Sprint filed a lawsuit against Charter, Bright House, and TWC in the District Court for Johnson County, Kansas. Sprint alleges that Charter misappropriated trade secrets from Sprint years ago through employees hired by Bright House. Sprint asserts that the alleged trade secrets relate to the VoIP business of Charter and Bright House. Charter has removed this case to the United States District Court for the District of Kansas.

Sprint filed a third patent suit against Charter on May 17, 2018 in the United States District Court for the Eastern District of Virginia. This suit alleges infringement of two patents related to the Company's video on demand services. The court transferred this case to the United States District Court for the District of Delaware on December 20, 2018 pursuant to an agreement between the parties.

While the Company is vigorously defending these suits and is unable to predict the outcome of the Sprint lawsuits, the Company does not expect that the litigation will have a material 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 intellectual property relating to various aspects of its businesses. Other industry participants are also defendants in certain of these cases or related cases. In the event that a court ultimately determines that the Company infringes on any intellectual property, 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 intellectual property 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.

20. Employee Benefit Plans

The Company sponsors three qualified defined benefit pension plans and one nonqualified defined benefit pension plan that provide pension benefits to a majority of employees who were employed by TWC before the merger with TWC.

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.

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The components of net periodic pension benefit (costs) for the three and nine months ended September 30, 2020 and 2019 are recorded in other pension benefits, net in the consolidated statements of operations and consisted of the following:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--------------------------------|---|-------------|--|--------------|
| | 2020 | 2019 | 2020 | 2019 |
| Interest cost | \$ (29) | \$ (32) | \$ (85) | \$ (96) |
| Expected return on plan assets | 39 | 41 | 116 | 123 |
| Remeasurement loss, net | (125) | — | (125) | — |
| Net periodic pension benefits | <u>\$ (115)</u> | <u>\$ 9</u> | <u>\$ (94)</u> | <u>\$ 27</u> |

During the three and nine months ended September 30, 2020, settlements for lump-sum distributions to pension plan participants exceeded the estimated annual interest cost of the plans. As a result, the pension liability and pension asset values were reassessed as of September 30, 2020 utilizing remeasurement date assumptions in accordance with the Company's mark-to-market pension accounting policy to record gains and losses in the period in which a remeasurement event occurs. The \$125 million remeasurement loss recorded during the three and nine months ended September 30, 2020 was primarily driven by changes in the discount rate as well as net gains to record pension assets to fair value.

The Company made no cash contributions to the qualified pension plans during the three and nine months ended September 30, 2020 and 2019; 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 2020 to the extent benefits are paid.

21. Recently Issued Accounting Standards

Recently Adopted Accounting Standards

ASU No. 2016-13, Measurement of Credit Losses on Financial Instruments ("ASU 2016-13")

In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-13, which requires a financial asset (or a group of financial assets) measured at amortized cost basis to be assessed for impairment under the current expected credit loss model rather than an incurred loss model. The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions and reasonable and supportable forecasts that affect the collectability of the reported amount. The primary financial assets of the Company in scope of ASU 2016-13 include accounts receivables and equipment installment plan notes receivables. The Company adopted ASU 2016-13 on January 1, 2020. The adoption of ASU 2016-13 did not have a material impact to the Company's consolidated financial statements.

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

In August 2018, the FASB issued ASU 2018-15 which requires upfront implementation costs incurred in a cloud computing arrangement (or hosting arrangement) that is a service contract to be amortized to hosting expense over the term of the arrangement, beginning when the module or component of the hosting arrangement is ready for its intended use. The Company adopted ASU 2018-15 on January 1, 2020. The adoption of ASU 2018-15 did not have a material impact to the Company's consolidated financial statements.

ASU No. 2019-02, Improvements to Accounting for Costs of Films and License Agreements for Program Materials ("ASU 2019-02")

In March 2019, the FASB issued ASU 2019-02 which aligns the accounting for production costs of an episodic television series with the accounting for production costs of films regarding cost capitalization, amortization, impairment, presentation and

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disclosure. The Company adopted ASU 2019-02 on January 1, 2020. The adoption of ASU 2019-02 did not have a material impact to the Company's consolidated financial statements.

ASU No. 2019-12, Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes ("ASU 2019-12")

In December 2019, the FASB issued ASU 2019-12 which is intended to simplify various aspects related to accounting for income taxes. ASU 2019-12 removes certain exceptions to the general principles in Topic 740 and also clarifies and amends existing guidance to improve consistent application. ASU 2019-12 will be effective for interim and annual periods beginning after December 15, 2020. Early adoption is permitted. The Company elected to early adopt ASU 2019-12 on January 1, 2020. The adoption of ASU 2019-12 did not have a material impact on the Company's consolidated financial statements.

Amendments to the financial disclosures requirements for guarantors and issuers of guaranteed securities under SEC Regulation S-X

In March 2020, the SEC adopted amendments to the financial disclosure requirements of Regulation S-X for guarantors and issuers of guaranteed securities. The final rule streamlines disclosure obligations under the existing rules, including replacing condensed consolidating financial information with summarized financial information for the "obligor group" of issuers and guarantors to the extent material, no longer requiring subsidiary issuer and guarantor cash flow information, and no longer requiring financial information for non-guarantor subsidiaries. It also permits presentation of the required disclosures to be included in the Management's Discussion and Analysis ("MD&A") section of quarterly and annual reports rather than the notes to the Company's consolidated financial statements. The Company is voluntarily complying with the new disclosure requirements beginning with its Quarterly Report on Form 10-Q for the quarter ended September 30, 2020 and has concluded that amended Rule 3-10 and new Rule 13-01 of Regulation S-X do not apply to Charter because Charter does not guarantee the debt securities of CCO Holdings or any of its subsidiaries.

Accounting Standards Not Yet Adopted

ASU No. 2020-06, Accounting for Convertible Instruments and Contracts in an Entity's Own Equity ("ASU 2020-06")

In August 2020, the FASB issued ASU 2020-06, which reduces the number of accounting models for convertible instruments, amends diluted earnings per share calculations for convertible instruments and allows more contracts to qualify for equity classification. ASU 2020-06 will be effective for interim and annual periods beginning after December 15, 2021. Early adoption is permitted. The Company is currently evaluating the impact the adoption of ASU 2020-06 will have on its consolidated financial statements.

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 a leading broadband connectivity company and cable operator serving more than 30 million customers in 41 states through its Spectrum brand. Over an advanced communications network, we offer a full range of state-of-the-art residential and business services including Spectrum Internet, TV, Mobile and Voice. For small and medium-sized companies, Spectrum Business[®] delivers the same suite of broadband products and services coupled with special features and applications to enhance productivity, while for larger businesses and government entities, Spectrum Enterprise provides highly customized, fiber-based solutions. Spectrum Reach[®] delivers tailored advertising and production for the modern media landscape. We also distribute award-winning news coverage, sports and high-quality original programming to our customers through Spectrum Networks and Spectrum Originals.

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.

Overview

As the COVID-19 pandemic continues to significantly impact the United States, we have continued to deliver services uninterrupted by the pandemic. Because we have invested significantly in our network and through normal course capacity increases, we have been able to respond to the significant increase in network activity from the private and public response to COVID-19 as we do our part as a major provider of Internet services in the United States by, among other things, enabling social distancing through telecommuting and e-learning across our footprint of 41 states. We have invested significantly in our self-service infrastructure, and customers have accelerated the adoption of our self-installation and digital self-service capabilities. Increased demand for our connectivity and the positive response to our Remote Education Offer ("REO") pursuant to which new customers with students or educators in the household were eligible to receive our Internet service for free for 60 days, and the Keep Americans Connected ("KAC") Pledge which paused collection efforts and related disconnects for residential and small and medium business ("SMB") customers with COVID-19 related payment challenges through June 30, 2020, have positively impacted our results for the nine months ended September 30, 2020 with retention rates for these customers similar to our average customer base.

During the three and nine months ended September 30, 2020, our results were negatively impacted by COVID-19, including recording \$218 million of estimated customer credits to be provided to video customers offset by \$173 million in-period recognition of estimated rebates from sports programming networks as a result of canceled sporting events and related costs. The difference between the \$218 million estimated credit to customers which lowered video revenue and the \$163 million reduction in programming expense and \$10 million reduction in regulatory, connectivity and produced content costs relates to an expected reduction in sports rights content costs which is being amortized over the life of the contract, consistent with the deferral of expense in the three months ended June 30, 2020 when games were canceled. We intend to provide a credit on our customers' invoices for all of the rebates provided by the sports programming networks when details are finalized with these networks.

We have also seen declines in advertising revenues as a result of COVID-19 and lower revenues from seasonal plans offered to SMB and Enterprise hospitality customers that have requested a reduced level of service due to temporary business closure or because these customers have reduced their service offering to their own customers ("Seasonal Plan"). In addition, in an effort to assist COVID-19 impacted customers with overdue balances at the end of the KAC program, we waived approximately \$85 million of receivables which was recorded as a reduction of revenue in the second quarter of 2020.

We cannot predict the ultimate impact of COVID-19 on our business, including the depth and duration of the economic impact to household formation and growth and our residential and business customers' ability to pay for our products and services including the impact of extended unemployment benefits and other stimulus packages. We expect that some of the COVID-19 programs discussed above may result in incremental churn and bad debt during the remainder of the year and into 2021. In addition, there is uncertainty regarding the impact of government emergency declarations, the ability of our suppliers and vendors to provide products and services to us, the pace of new housing construction, changes in business spend in our local and national ad sales business, the effects to our employees' health and safety and resulting reorientation of our work activities, and the risk of limitations on the deployment and maintenance of our services (including by limiting our customer support and on-site service repairs and installations).

Although the ultimate impact of the COVID-19 pandemic cannot be predicted, we remain focused on driving customer relationship growth by deploying superior products and services packaged with attractive pricing. Further, we expect to continue to drive customer relationship growth through sales of bundled services and improving customer retention despite the expectation for continued losses of video and wireline voice customers.

Our Spectrum Mobile service is offered to customers subscribing to our Internet service and runs on Verizon's mobile network combined with Spectrum WiFi. In March 2020, we launched 5G service offerings and we expect that, along with broader availability of our Spectrum Mobile bring-your-own-device program, to contribute to the growth of our mobile business. We also continue to explore ways to drive even more mobile traffic to our network. We plan to use our WiFi network in conjunction with additional unlicensed, and potentially licensed, spectrum to improve network performance and expand capacity to offer consumers a superior mobile service at a lower total cost to us. In October 2020, we purchased approximately \$464 million of Citizens Broadband Radio Service ("CBRS") licenses from the Federal Communications Commission ("FCC") in our effort to support our wireless network. Further, we have experimental wireless licenses from the FCC that we are utilizing to test next generation mobile services in several service areas around the country.

We believe Spectrum-branded mobile services will drive higher sales of our core products, create longer customer lives and increase profitability and cash flow over time. As a result of growth costs associated with our new mobile product line, we cannot be certain that we will be able to grow revenues or maintain our margins at recent historical rates. During the three and nine months ended September 30, 2020, our mobile product line increased revenues by \$368 million and \$936 million, respectively, reduced Adjusted EBITDA by approximately \$88 million and \$307 million, respectively, and reduced free cash flow by approximately \$265 million and \$758 million, respectively. During the three and nine months ended September 30, 2019, our mobile product line increased revenues by \$192 million and \$490 million, respectively, reduced Adjusted EBITDA by approximately \$145 million and \$384 million, respectively, and reduced free cash flow by approximately \$256 million and \$844 million, respectively. As we continue to grow our mobile service and scale the business, we expect continued negative impacts to Adjusted EBITDA, as well as negative working capital impacts from the timing of device-related cash flows when we sell the handset or tablet to customers pursuant to equipment installment plans.

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 September 30, | | | Nine Months Ended September 30, | | |
|------------------------|----------------------------------|-----------|----------|---------------------------------|-----------|----------|
| | 2020 | 2019 | % Change | 2020 | 2019 | % Change |
| Revenues | \$ 12,039 | \$ 11,450 | 5.1 % | \$ 35,473 | \$ 34,003 | 4.3 % |
| Adjusted EBITDA | \$ 4,639 | \$ 4,086 | 13.6 % | \$ 13,524 | \$ 12,326 | 9.7 % |
| Income from operations | \$ 2,172 | \$ 1,586 | 36.9 % | \$ 5,943 | \$ 4,552 | 30.6 % |

Adjusted EBITDA is defined as net income attributable to Charter shareholders plus net income attributable to noncontrolling interest, net interest expense, income taxes, depreciation and amortization, stock compensation expense, loss on extinguishment of debt, (gain) loss on financial instruments, net, other pension (benefits) costs, net, other (income) expense, net and other operating (income) expenses, net, such as 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 for the three and nine months ended September 30, 2020 compared to the corresponding prior periods was primarily due to growth in our residential Internet and mobile customers. Adjusted EBITDA and income from operations growth was impacted by growth in revenue and increases in operating costs and expenses, primarily mobile, and for the nine months ended September 30, 2020, increases in costs to service customers offset by lower regulatory, connectivity and produced content costs. Income from operations was also affected by a decrease in depreciation and amortization expense and other operating expenses, net.

The following table summarizes our customer statistics for Internet, video, mobile and voice as of September 30, 2020 and 2019 (in thousands except per customer data and footnotes).

| | Approximate as of September 30, | |
|---|------------------------------------|---------------------|
| | 2020 ^(a) | 2019 ^(a) |
| Customer Relationships ^(b) | | |
| Residential | 28,912 | 27,037 |
| SMB | 2,021 | 1,930 |
| Total Customer Relationships | 30,933 | 28,967 |
| Monthly Residential Revenue per Residential Customer ^(c) | \$ 109.03 | \$ 112.00 |
| Monthly SMB Revenue per SMB Customer ^(d) | \$ 164.77 | \$ 169.44 |
| Internet | | |
| Residential | 26,807 | 24,595 |
| SMB | 1,826 | 1,730 |
| Total Internet Customers | 28,633 | 26,325 |
| Video | | |
| Residential | 15,705 | 15,725 |
| SMB | 530 | 520 |
| Total Video Customers | 16,235 | 16,245 |
| Voice | | |
| Residential | 9,335 | 9,595 |
| SMB | 1,207 | 1,120 |
| Total Voice Customers | 10,542 | 10,715 |
| Mobile Lines | | |
| Residential | 2,020 | 793 |
| SMB | 40 | 1 |
| Total Mobile Lines | 2,060 | 794 |
| Enterprise Primary Service Units ("PSUs") ^(e) | 272 | 264 |

(a) We calculate the aging of customer accounts based on the monthly billing cycle for each account. On that basis, as of September 30, 2020 and 2019, customers include approximately 181,700 and 148,000 customers, respectively, whose accounts were over 60 days past due, approximately 52,300 and 16,400 customers, respectively, whose accounts were over 90 days past due and approximately 26,000 and 14,100 customers, respectively, whose accounts were over 120 days past due. Included in the September 30, 2020 aging statistics are approximately 60,200 customers that would have been disconnected under our normal collection policies, but were not due to certain state mandates in place.

(b) Customer relationships include the number of customers that receive one or more levels of service, encompassing Internet, video 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 exclude enterprise and mobile-only customer relationships.

(c) Monthly residential revenue per residential customer is calculated as total residential quarterly revenue divided by three divided by average residential customer relationships during the respective quarter and excludes mobile revenue and customers.

(d) Monthly SMB revenue per SMB customer is calculated as total SMB quarterly revenue divided by three divided by average SMB customer relationships during the respective quarter and excludes mobile revenue and customers.

(e) Enterprise PSUs represent the aggregate number of fiber service offerings counting each separate service offering at each customer location 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 2019 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

The following table sets forth the consolidated statements of operations for the periods presented (dollars in millions, except per share data):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|----------------------------------|-------------|---------------------------------|-------------|
| | 2020 | 2019 | 2020 | 2019 |
| Revenues | \$ 12,039 | \$ 11,450 | \$ 35,473 | \$ 34,003 |
| Costs and Expenses: | | | | |
| Operating costs and expenses (exclusive of items shown separately below) | 7,483 | 7,435 | 22,212 | 21,915 |
| Depreciation and amortization | 2,370 | 2,415 | 7,295 | 7,465 |
| Other operating expenses, net | 14 | 14 | 23 | 71 |
| | 9,867 | 9,864 | 29,530 | 29,451 |
| Income from operations | 2,172 | 1,586 | 5,943 | 4,552 |
| Other Income (Expenses): | | | | |
| Interest expense, net | (946) | (963) | (2,883) | (2,833) |
| Loss on extinguishment of debt | (58) | — | (121) | — |
| Gain (loss) on financial instruments, net | 69 | (34) | (185) | (116) |
| Other pension benefits (costs), net | (115) | 9 | (94) | 27 |
| Other expense, net | (13) | (5) | (13) | (131) |
| | (1,063) | (993) | (3,296) | (3,053) |
| Income before income taxes | 1,109 | 593 | 2,647 | 1,499 |
| Income tax expense | (177) | (126) | (372) | (329) |
| Consolidated net income | 932 | 467 | 2,275 | 1,170 |
| Less: Net income attributable to noncontrolling interests | (118) | (80) | (299) | (216) |
| Net income attributable to Charter shareholders | \$ 814 | \$ 387 | \$ 1,976 | \$ 954 |
| EARNINGS PER COMMON SHARE ATTRIBUTABLE TO CHARTER SHAREHOLDERS: | | | | |
| Basic | \$ 4.01 | \$ 1.77 | \$ 9.62 | \$ 4.30 |
| Diluted | \$ 3.90 | \$ 1.74 | \$ 9.35 | \$ 4.23 |
| Weighted average common shares outstanding, basic | 202,826,502 | 218,499,213 | 205,468,736 | 221,818,079 |
| Weighted average common shares outstanding, diluted | 208,722,129 | 222,355,867 | 211,399,781 | 225,337,984 |

Revenues. Total revenues grew \$589 million and \$1.5 billion for the three and nine months ended September 30, 2020, respectively, compared to the corresponding periods in 2019 primarily due to increases in the number of residential Internet and mobile customers, price adjustments and during the three months ended September 30, 2020, advertising sales offset by a decrease in video customers and \$218 million of estimated customer credits to be issued to our video customers due to canceled sporting events. For the nine months ended September 30, 2020, total revenues also decreased as compared to the corresponding prior period due to \$85 million of waived receivables related to the KAC program.

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 September 30, | | | Nine Months Ended September 30, | | |
|---------------------------|----------------------------------|------------------|--------------|---------------------------------|------------------|--------------|
| | 2020 | 2019 | % Change | 2020 | 2019 | % Change |
| Internet | \$ 4,722 | \$ 4,195 | 12.5 % | \$ 13,659 | \$ 12,322 | 10.8 % |
| Video | 4,221 | 4,359 | (3.2) % | 13,014 | 13,134 | (0.9) % |
| Voice | 449 | 477 | (5.8) % | 1,357 | 1,470 | (7.7) % |
| Residential revenue | 9,392 | 9,031 | 4.0 % | 28,030 | 26,926 | 4.1 % |
| Small and medium business | 988 | 974 | 1.5 % | 2,967 | 2,882 | 2.9 % |
| Enterprise | 617 | 644 | (4.3) % | 1,845 | 1,939 | (4.9) % |
| Commercial revenue | 1,605 | 1,618 | (0.8) % | 4,812 | 4,821 | (0.2) % |
| Advertising sales | 460 | 394 | 16.8 % | 1,074 | 1,134 | (5.3) % |
| Mobile | 368 | 192 | 91.8 % | 936 | 490 | 91.3 % |
| Other | 214 | 215 | (0.7) % | 621 | 632 | (1.8) % |
| | <u>\$ 12,039</u> | <u>\$ 11,450</u> | <u>5.1 %</u> | <u>\$ 35,473</u> | <u>\$ 34,003</u> | <u>4.3 %</u> |

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

| | Three months ended September 30, 2020 compared to three months ended September 30, 2019 Increase / (Decrease) | Nine months ended September 30, 2020 compared to nine months ended September 30, 2019 Increase / (Decrease) |
|--|--|--|
| Increase in average residential Internet customers | \$ 373 | \$ 895 |
| Increase related to rate, product mix and allocation changes | 154 | 442 |
| | <u>\$ 527</u> | <u>\$ 1,337</u> |

Residential Internet customers grew by 2,212,000 customers from September 30, 2019 to September 30, 2020 due to higher demand for our services. The increase related to rate, product mix and allocation changes was primarily due to price adjustments including promotional roll-off. The increase during the nine months ended September 30, 2020 as compared to the corresponding prior period was also impacted by a \$29 million reduction related to the KAC program credits.

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

| | Three months ended September 30, 2020 compared to three months ended September 30, 2019 Increase / (Decrease) | Nine months ended September 30, 2020 compared to nine months ended September 30, 2019 Increase / (Decrease) |
|--|--|--|
| Estimated customer credits due to COVID-19 | \$ (218) | \$ (262) |
| Decrease in average residential video customers | (20) | (224) |
| Decrease in video on demand and pay-per-view | (18) | (26) |
| Increase related to rate, product mix and allocation changes | 118 | 392 |
| | <u>\$ (138)</u> | <u>\$ (120)</u> |

We recorded \$218 million of estimated customer credits related to canceled sporting events during the three and nine months ended September 30, 2020 and \$44 million of customer credits related to KAC program during the nine months ended September 30, 2020. The increase related to rate, product mix and allocation changes was primarily due to price adjustments including annual increases and promotional roll-off, partly offset by a higher mix of lower cost video packages within our video customer base. Residential video customers decreased by 20,000 from September 30, 2019 to September 30, 2020.

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

| | Three months ended September 30, 2020 compared to three months ended September 30, 2019 Increase / (Decrease) | Nine months ended September 30, 2020 compared to nine months ended September 30, 2019 Increase / (Decrease) |
|--|--|--|
| Decrease in average residential voice customers | \$ (16) | \$ (77) |
| Decrease related to rate, product mix and allocation changes | (12) | (36) |
| | <u>\$ (28)</u> | <u>\$ (113)</u> |

Residential wireline voice customers decreased by 260,000 customers from September 30, 2019 to September 30, 2020. The decrease related to rate, product mix and allocation changes was primarily due to value-based pricing. The decrease during the nine months ended September 30, 2020 as compared to the corresponding prior period was also impacted by a \$3 million reduction related to the KAC program credits.

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

| | Three months ended September 30, 2020 compared to three months ended September 30, 2019 Increase / (Decrease) | Nine months ended September 30, 2020 compared to nine months ended September 30, 2019 Increase / (Decrease) |
|--|--|--|
| Increase in small and medium business customers | \$ 42 | \$ 150 |
| Decrease related to rate and product mix changes | (28) | (65) |
| | <u>\$ 14</u> | <u>\$ 85</u> |

Small and medium business customers grew by 91,000 from September 30, 2019 to September 30, 2020. The decrease related to rate and product mix changes during the three and nine months ended September 30, 2020 as compared to the corresponding prior periods included reductions of \$11 million and \$28 million, respectively, related to COVID-19 programs.

Enterprise revenues decreased \$27 million and \$94 million during the three and nine months ended September 30, 2020, respectively, compared to the corresponding periods in 2019 primarily due to the sale of non-strategic assets in the third quarter of 2019. The decrease during the nine months ended September 30, 2020 as compared to the corresponding prior period was also impacted by a revenue reduction of \$18 million related to the COVID-19 Enterprise hospitality seasonal program. Enterprise PSUs increased 8,000 from September 30, 2019 to September 30, 2020.

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 \$66 million during the three months ended September 30, 2020 as compared to the corresponding period in 2019 primarily due to an increase in political revenue, partially offset by a decrease in local ad revenues due to COVID-19. Advertising sales revenues decreased \$60 million during the nine months ended September 30, 2020 as compared to the corresponding period in 2019 due to lower local and national ad revenues due to COVID-19, partially offset by an increase in political revenue.

During the three and nine months ended September 30, 2020, mobile revenues represented approximately \$172 million and \$461 million of device revenues, respectively, and approximately \$196 million and \$475 million of service revenues, respectively. During the three and nine months ended September 30, 2019, mobile revenues represented approximately \$123 million and \$348 million of device revenues, respectively, and approximately \$69 million and \$142 million of service revenues,

respectively. The revenue increases are attributable to an increase in mobile lines from 794,000 as of September 30, 2019 to 2,060,000 mobile lines as of September 30, 2020.

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 remained unchanged during the three months ended September 30, 2020 compared to the corresponding period in 2019 and decreased \$11 million during the nine months ended September 30, 2020 compared to the corresponding period in 2019 primarily due to a decrease in late payment fees and home security revenue offset by an increase in the sale of video devices and regional sports and news revenue.

Operating costs and expenses. The increase 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 September 30, 2020 compared to three months ended September 30, 2019 Increase / (Decrease) | Nine months ended September 30, 2020 compared to nine months ended September 30, 2019 Increase / (Decrease) |
|---|--|--|
| Programming | \$ (63) | \$ 10 |
| Regulatory, connectivity and produced content | — | (119) |
| Costs to service customers | 8 | 115 |
| Marketing | (5) | (23) |
| Mobile | 119 | 369 |
| Other | (11) | (55) |
| | <u>\$ 48</u> | <u>\$ 297</u> |

Programming costs were approximately \$2.7 billion and \$8.5 billion for the three and nine months ended September 30, 2020, respectively, representing 36% and 38% of total operating costs and expenses, respectively, and \$2.8 billion and \$8.5 billion for the three and nine months ended September 30, 2019, respectively, representing 38% and 39% of total operating costs and expenses, respectively. Programming costs consist primarily of costs paid to programmers for basic, digital, premium, video on demand, and pay-per-view programming. Programming costs during the three and nine months ended September 30, 2020 were reduced by \$163 million of estimated rebates from sports programming networks as a result of canceled sporting events due to COVID-19 and further benefited from a higher mix of lower cost video packages within our video customer base and lower video customers. The decrease was offset by contractual rate adjustments, including renewals and increases in amounts paid for retransmission consent. We expect programming rates 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 and do not expect to be able to do so in the future without a potential loss of customers.

Regulatory, connectivity and produced content remained constant and decreased \$119 million during the three and nine months ended September 30, 2020, respectively, compared to the corresponding periods in 2019 primarily due to deferred sports rights costs associated with the shortened baseball season resulting from COVID-19.

Costs to service customers increased \$8 million and \$115 million during the three and nine months ended September 30, 2020, respectively, compared to the corresponding periods in 2019 primarily due to higher labor costs resulting from COVID-19 related wage increases and flex time benefits along with 6.8% customer growth offset by a decrease in bad debt expense given the revenue write-off associated with the KAC program and better collections enhanced by government stimulus benefits.

Marketing costs decreased \$5 million and \$23 million during the three and nine months ended September 30, 2020, respectively, compared to the corresponding periods in 2019 primarily due to timing of media spend and, during the nine months ended September 30, 2020, a payroll tax credit.

Mobile costs of \$456 million and \$1.2 billion for the three and nine months ended September 30, 2020, respectively, and \$337 million and \$874 million for the three and nine months ended 2019, respectively, were comprised of mobile device costs and

mobile service, customer acquisition and operating costs. The increases are attributable to increases in the number of mobile lines.

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

| | Three months ended September 30, 2020 compared to three months ended September 30, 2019 Increase / (Decrease) | Nine months ended September 30, 2020 compared to nine months ended September 30, 2019 Increase / (Decrease) |
|----------------------------|--|--|
| Enterprise | \$ (16) | \$ (66) |
| Property tax and insurance | (12) | (32) |
| Advertising sales expense | 9 | (26) |
| Corporate costs | (5) | 27 |
| Stock compensation expense | 12 | 25 |
| Other | 1 | 17 |
| | <u>\$ (11)</u> | <u>\$ (55)</u> |

Enterprise costs decreased primarily due to the sale of non-strategic assets in the third quarter of 2019. Advertising sales expense decreased during the nine months ended September 30, 2020 compared to the corresponding prior period due to lower cost of sales fees driven by lower revenue.

Depreciation and amortization. Depreciation and amortization expense decreased by \$45 million and \$170 million during the three and nine months ended September 30, 2020, respectively, compared to the corresponding periods in 2019 primarily due to a decrease in depreciation and amortization as certain assets acquired in acquisitions become fully depreciated offset by an increase in depreciation as a result of more recent capital expenditures.

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

| | Three months ended September 30, 2020 compared to three months ended September 30, 2019 Increase / (Decrease) | Nine months ended September 30, 2020 compared to nine months ended September 30, 2019 Increase / (Decrease) |
|------------------------------------|--|--|
| Special charges, net | \$ 9 | \$ 12 |
| (Gain) loss on sale of assets, net | (9) | (60) |
| | <u>\$ —</u> | <u>\$ (48)</u> |

See Note 13 to the accompanying consolidated financial statements contained in “Item 1. Financial Statements” for more information.

Interest expense, net. Net interest expense decreased by \$17 million and increased by \$50 million for the three and nine months ended September 30, 2020, respectively, compared to the corresponding periods in 2019. Changes in net interest expense is the result of reductions in weighted average interest rates as well as increases in weighted average debt outstanding which was approximately \$5.6 billion and \$5.7 billion during the three and nine months ended September 30, 2020, respectively, compared to the corresponding periods in 2019. The increases in weighted average debt outstanding is primarily due to the issuance of notes throughout 2019 and 2020 for general corporate purposes including stock buybacks and debt repayments.

Loss on extinguishment of debt. Loss on extinguishment of debt of \$58 million and \$121 million for the three and nine months ended September 30, 2020, respectively, represents losses recognized as a result of the redemption of CCO Holdings notes. For more information, see Note 6 to the accompanying consolidated financial statements contained in “Item 1. Financial Statements.”

Gain (loss) on financial instruments, net. We recorded gains on financial instruments of \$69 million and losses on financial instruments of \$185 million during the three and nine months ended September 30, 2020, respectively, and losses on financial instruments of \$34 million and \$116 million during the three and nine months ended September 30, 2019, 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 9 to the accompanying consolidated financial statements contained in “Item I. Financial Statements.”

Other pension benefits (costs), net. Net other pension benefits (costs) increased by \$124 million and \$121 million during the three and nine months ended September 30, 2020, respectively, compared to the corresponding periods in 2019. The increase during the three and nine months ended September 30, 2020 compared to the corresponding prior periods was primarily due to a \$125 million remeasurement loss in the third quarter of 2020 as a result of significant lump sum settlement payments to participants. For more information, see Note 20 to the accompanying consolidated financial statements contained in “Item I. Financial Statements.”

Other expense, net. Other expense, net primarily represents equity losses on our equity investments. Other expense, net also includes an impairment on equity investments of approximately \$121 million during the nine months ended September 30, 2019.

Income tax expense. We recognized income tax expense of \$177 million and \$372 million for the three and nine months ended September 30, 2020, respectively, and \$126 million and \$329 million for the three and nine months ended September 30, 2019, respectively. Income tax expense increased during the three and nine months ended September 30, 2020 compared to the corresponding periods in 2019 primarily as a result of higher pretax income offset by increased recognition of excess tax benefits resulting from share-based compensation during 2020. For more information, see Note 15 to the accompanying consolidated financial statements contained in “Item I. 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 \$112 million for each of the three and nine months ended September 30, 2020 and 2019, respectively. For more information, see Note 8 to the accompanying consolidated financial statements contained in “Item I. Financial Statements.”

Net income attributable to Charter shareholders. Net income attributable to Charter shareholders increased from \$387 million and \$954 million for the three and nine months ended September 30, 2019, respectively, to \$814 million and \$2.0 billion for the three and nine months ended September 30, 2020, respectively, 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 U.S. generally accepted accounting principles (“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, net income attributable to Charter shareholders 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 net income attributable to Charter shareholders 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 \$308 million and \$927 million for the three and nine months ended September 30, 2020, respectively, and \$317 million and \$916 million for the three and nine months ended September 30, 2019, respectively.

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|----------------------------------|-----------------|---------------------------------|------------------|
| | 2020 | 2019 | 2020 | 2019 |
| Net income attributable to Charter shareholders | \$ 814 | \$ 387 | \$ 1,976 | \$ 954 |
| Plus: Net income attributable to noncontrolling interest | 118 | 80 | 299 | 216 |
| Interest expense, net | 946 | 963 | 2,883 | 2,833 |
| Income tax expense | 177 | 126 | 372 | 329 |
| Depreciation and amortization | 2,370 | 2,415 | 7,295 | 7,465 |
| Stock compensation expense | 83 | 71 | 263 | 238 |
| Loss on extinguishment of debt | 58 | — | 121 | — |
| (Gain) loss on financial instruments, net | (69) | 34 | 185 | 116 |
| Other pension (benefits) costs, net | 115 | (9) | 94 | (27) |
| Other, net | 27 | 19 | 36 | 202 |
| Adjusted EBITDA | <u>\$ 4,639</u> | <u>\$ 4,086</u> | <u>\$ 13,524</u> | <u>\$ 12,326</u> |
| Net cash flows from operating activities | \$ 3,664 | \$ 2,943 | \$ 10,413 | \$ 8,390 |
| Less: Purchases of property, plant and equipment | (2,014) | (1,651) | (5,352) | (4,913) |
| Change in accrued expenses related to capital expenditures | 104 | (21) | (70) | (449) |
| Free cash flow | <u>\$ 1,754</u> | <u>\$ 1,271</u> | <u>\$ 4,991</u> | <u>\$ 3,028</u> |

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 February 2020, CCO Holdings and CCO Holdings Capital Corp. jointly issued \$1.65 billion aggregate principal amount of 4.500% senior unsecured notes due 2030 at par and in March 2020, an additional \$1.1 billion of the same series of notes were issued at a price of 102.5% of the aggregate principal amount. Also in March 2020, CCO Holdings and CCO Holdings Capital Corp. issued \$1.4 billion aggregate principal amount of 4.500% senior unsecured notes due 2032 at par. The net proceeds were used to pay related fees and expenses and for general corporate purposes, including repaying certain indebtedness, including repayment of all of CCO Holdings' 5.250% senior notes due September 30, 2022, 5.125% senior notes due February 15, 2023, 5.125% senior notes due May 1, 2023, 5.750% senior notes due September 1, 2023 and 5.750% senior notes due January 15, 2024, as well as funding buybacks of Charter Class A common stock and Charter Holdings common units.

In April 2020, Charter Operating and Charter Communications Operating Capital Corp. jointly issued \$1.6 billion aggregate principal amount of 2.800% senior secured notes due April 2031 at a price of 99.561% of the aggregate principal amount and \$1.4 billion aggregate principal amount of 3.700% senior secured notes due April 2051 at a price of 99.217% of the aggregate principal amount. The net proceeds were used to pay related fees and expenses and for general corporate purposes.

In June 2020, Charter Operating and Charter Communications Operating Capital Corp. redeemed all of their 3.579% senior secured notes due July 2020.

In July 2020, CCO Holdings and CCO Holdings Capital Corp. jointly issued \$1.5 billion aggregate principal amount of 4.250% senior unsecured notes due 2031 at par and later in July 2020, an additional \$1.5 billion of the same series of notes were issued at a price of 102%. The net proceeds were used to pay related fees and expenses and for general corporate purposes, including repaying certain indebtedness, including repayment of all of CCO Holdings' 5.875% senior notes due April 1, 2024, as well as funding buybacks of Charter Class A common stock and Charter Holdings common units.

In October 2020, CCO Holdings and CCO Holdings Capital Corp. jointly issued an additional \$1.5 billion of its 4.500% senior unsecured notes due 2032 at 103.75% of the aggregate principal amount. The net proceeds will be used to pay related fees and expenses and for general corporate purposes, including repaying certain indebtedness, including repayment of all of CCO Holdings' 5.375% senior notes due May 1, 2025, as well as funding potential buybacks of Charter Class A common stock and 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 September 30, 2020 was \$79.1 billion, consisting of \$10.2 billion of credit facility debt, \$45.3 billion of investment grade senior secured notes and \$23.5 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 continue to grow our 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 sell the handset or tablet to customers pursuant to equipment installment plans. Free cash flow was \$1.8 billion and \$5.0 billion for the three and nine months ended September 30, 2020, respectively, and \$1.3 billion and \$3.0 billion for the three and nine months ended September 30, 2019, respectively. See table below for factors impacting free cash flow during the three and nine months ended September 30, 2020 compared to the corresponding prior periods. As of September 30, 2020, the amount available under our credit facilities was approximately \$4.7 billion and cash on hand was approximately \$1.3 billion. 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 of net debt to the last twelve months Adjusted EBITDA remains at 4 to 4.5 times Adjusted EBITDA, and up to 3.5 times Adjusted EBITDA at the Charter Operating level. Our leverage ratio was 4.3 times Adjusted EBITDA as of September 30, 2020. As Adjusted EBITDA grows, we expect to increase the total amount of our indebtedness to maintain leverage within Charter's target leverage range. During the three and nine months ended September 30, 2020, Charter purchased approximately 5.5 million and 11.9 million of Charter Class A common stock for approximately \$3.3 billion and \$6.5 billion, respectively, and during the three and nine months ended September 30, 2019, Charter purchased approximately 6.9 million and 11.8 million shares, respectively, of Charter Class A common stock for approximately \$2.7 billion and \$4.5 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. Charter Holdings purchased from A/N 0.6 million and 1.7 million Charter Holdings common units at an average price per unit of \$568.19 and \$514.10, or \$366 million and \$884 million, during the three and nine months ended September 30, 2020, respectively, and 0.9 million and 1.6 million Charter Holdings common units at an average price per unit of \$391.62 and \$366.76, or \$339 million and \$593 million, during the three and nine months ended September 30, 2019, respectively.

As of September 30, 2020, Charter had remaining board authority to purchase an additional \$1.6 billion of Charter's Class A common stock and/or Charter Holdings common units. Although Charter expects to continue to buy back its common stock consistent with its leverage target range, 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 increased \$483 million and \$2.0 billion during the three and nine months ended September 30, 2020 compared to the corresponding prior periods in 2019 due to the following (dollars in millions).

| | Three months ended September 30, 2020 compared to three months ended September 30, 2019 Increase / (Decrease) | Nine months ended September 30, 2020 compared to nine months ended September 30, 2019 Increase / (Decrease) |
|--|--|--|
| Changes in working capital, excluding change in accrued interest | \$ 318 | \$ 1,220 |
| Increase in Adjusted EBITDA | 553 | 1,198 |
| Decrease in cash paid for interest, net | 6 | 34 |
| Increase in capital expenditures | (363) | (439) |
| Other, net | (31) | (50) |
| | <u>\$ 483</u> | <u>\$ 1,963</u> |

Free cash flow was reduced by \$265 million and \$758 million during the three and nine months ended September 30, 2020, respectively, and \$256 million and \$844 million during the three and nine months ended September 30, 2019, respectively, due to mobile with impacts negatively affecting working capital, capital expenditures and Adjusted EBITDA.

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 September 30, 2020, there was no default under any of these indentures or credit facilities, and each subsidiary met its applicable leverage ratio tests based on September 30, 2020 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, Cash Equivalents and Restricted Cash. We held \$1.3 billion and \$3.5 billion in cash and cash equivalents as of September 30, 2020 and December 31, 2019, respectively. We also held \$3 million and \$66 million in restricted cash as of September 30, 2020 and December 31, 2019, respectively, representing escrowed funds of a consolidated variable interest

entity. See Note 3 to the accompanying consolidated financial statements contained in “Item 1. Financial Statements.”

Operating Activities. Net cash provided by operating activities increased \$2.0 billion during the nine months ended September 30, 2020 compared to the nine months ended September 30, 2019, primarily due to an increase in Adjusted EBITDA of \$1.2 billion and changes in working capital, excluding the change in accrued interest and accrued expenses related to capital expenditures, that used \$841 million less cash.

Investing Activities. Net cash used in investing activities was \$5.6 billion and \$5.5 billion for the nine months ended September 30, 2020 and 2019, respectively. The increase in cash used was primarily due to an increase in capital expenditures.

Financing Activities. Net cash used in financing activities was \$7.1 billion and \$3.1 billion for the nine months ended September 30, 2020 and 2019, respectively. The increase in cash used was primarily due to an increase in the purchase of treasury stock and noncontrolling interest and a decrease in the amount by which borrowings of long-term debt exceeded repayments.

Capital Expenditures

We have significant ongoing capital expenditure requirements. Capital expenditures were \$2.0 billion and \$5.4 billion for the three and nine months ended September 30, 2020, respectively, and \$1.7 billion and \$4.9 billion for the three and nine months ended September 30, 2019, respectively. The increase was primarily due to higher support capital as a result of facility improvements and investments in back office systems and mobile store build-outs, higher line extensions driven by continued network expansion, including to rural areas and higher scalable infrastructure as a result of core network enhancements and node splits given growing customers and traffic and during the three months ended September 30, 2020, higher Internet customer premise equipment. See the table below for more details.

We currently expect 2020 cable capital expenditures to be consistent and possibly lower as a percentage of cable revenue versus 2019, despite the significant acceleration in customer growth and network utilization during COVID-19. The actual amount of our capital expenditures in 2020 will depend on a number of factors including 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 \$70 million and \$449 million for the nine months ended September 30, 2020 and 2019, 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 nine months ended September 30, 2020 and 2019. 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 September 30, | | Nine Months Ended September 30, | |
|--|----------------------------------|-----------------|---------------------------------|-----------------|
| | 2020 | 2019 | 2020 | 2019 |
| Customer premise equipment (a) | \$ 520 | \$ 470 | \$ 1,501 | \$ 1,527 |
| Scalable infrastructure (b) | 424 | 320 | 979 | 840 |
| Line extensions (c) | 439 | 370 | 1,204 | 1,054 |
| Upgrade/rebuild (d) | 175 | 165 | 459 | 451 |
| Support capital (e) | 456 | 326 | 1,209 | 1,041 |
| Total capital expenditures | <u>\$ 2,014</u> | <u>\$ 1,651</u> | <u>\$ 5,352</u> | <u>\$ 4,913</u> |
| Capital expenditures included in total related to: | | | | |
| Mobile | \$ 139 | \$ 100 | \$ 351 | \$ 281 |
| Commercial services | \$ 358 | \$ 327 | \$ 942 | \$ 956 |

(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 21 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 April 2019, we entered into a collateral holiday agreement for 60% of both the 2031 and 2042 cross-currency swaps, which eliminates the requirement to post collateral for three years, as well as a ten year collateral cap on the remaining 40% of the cross-currency swaps which limits the required collateral posting on that 40% of the cross-currency swaps to \$150 million. For more information, see Note 9 to the accompanying consolidated financial statements contained in “Item 1. Financial Statements.”

As of September 30, 2020 and December 31, 2019, the weighted average interest rate on credit facility debt was approximately 1.7% and 3.3%, respectively, and the weighted average interest rate on the senior notes was approximately 5.2% and 5.4%, respectively, resulting in a blended weighted average interest rate of 4.7% and 5.1%, respectively. The interest rate on approximately 86% of the total principal amount of our debt was effectively fixed as of September 30, 2020 and December 31, 2019.

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 September 30, 2020 (dollars in millions).

| | 2020 | 2021 | 2022 | 2023 | 2024 | Thereafter | Total | Fair Value |
|-----------------------|--------|----------|----------|----------|----------|------------|-----------|------------|
| Debt: | | | | | | | | |
| Fixed-Rate | \$ — | \$ 1,700 | \$ 3,000 | \$ 1,500 | \$ 1,100 | \$ 60,645 | \$ 67,945 | \$ 77,872 |
| Average Interest Rate | — % | 4.05 % | 4.46 % | 6.92 % | 4.50 % | 5.28 % | 5.24 % | |
| Variable Rate | \$ 69 | \$ 277 | \$ 277 | \$ 436 | \$ 1,165 | \$ 8,895 | \$ 11,119 | \$ 10,904 |
| Average Interest Rate | 1.52 % | 1.50 % | 1.51 % | 1.61 % | 1.93 % | 2.25 % | 2.15 % | |

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 September 30, 2020 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 September 30, 2020, 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. OTHER INFORMATION

Item 1. Legal Proceedings.

See Note 19 to the accompanying consolidated financial statements contained in "Item 1. Financial Statements" for Legal Proceedings.

Item 1A. Risk Factors.

Our Annual Report on Form 10-K for the year ended December 31, 2019 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 except as indicated below.

The ongoing COVID-19 pandemic could materially affect our financial condition and results of operations.

The ongoing COVID-19 pandemic has significantly increased economic and demand uncertainty. The current pandemic and continued spread of COVID-19 has caused a significant economic recession. At this time, we cannot predict the duration of any business disruption and the ultimate impact of COVID-19 on our business, including the depth and duration of the economic impact to household formation and growth and our residential and business customers' ability to pay for our products and services including the impact of extended unemployment benefits and other stimulus packages. We expect that some of the COVID-19 programs may result in incremental churn and bad debt during the remainder of the year and into 2021. In addition, there is uncertainty regarding the impact of government emergency declarations, the ability of our suppliers and vendors to provide products and services to us, the pace of new housing construction, changes in business spend in our local and national ad sales business, the effects to our employees' health and safety and resulting reorientation of our work activities, and the risk of limitations on the deployment and maintenance of our services (including by limiting our customer support and on-site service repairs and installations). The degree to which COVID-19 impacts our results will depend on future developments, which are highly uncertain and cannot be predicted, including, but not limited to, the duration and spread of the outbreak, its severity, the actions to contain the virus or treat its impact, and how quickly and to what extent normal economic and operating conditions can resume.

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

Purchases of Equity Securities by the Issuer

The following table presents Charter's purchases of equity securities completed during the third quarter of 2020 (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⁾ |
|------------------------|---|------------------------------|---|---|
| July 1 - 31, 2020 | 1,375,567 | \$537.54 | 1,188,061 | \$4,404 |
| August 1 - 31, 2020 | 2,027,469 | \$607.06 | 1,915,988 | \$3,190 |
| September 1 - 30, 2020 | 2,430,631 | \$615.83 | 2,362,246 | \$1,649 |

(1) Includes 187,506, 111,481 and 68,385 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 July, August and September 2020, respectively.

(2) During the three months ended September 30, 2020, Charter purchased approximately 5.5 million shares of its Class A common stock for approximately \$3.3 billion. Charter Holdings purchased 0.6 million Charter Holdings common units from A/N at an average price per unit of \$568.19, or \$366 million, during the three months ended September 30, 2020. As of September 30, 2020, Charter had remaining board authority to purchase an additional \$1.6 billion 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

Executive Vice President, Chief Accounting Officer and Controller

Date: October 30, 2020

Exhibit Index

| Exhibit | Description |
|---------|---|
| 10.1 | <u>Exchange and Registration Rights Agreement, dated October 12, 2020, relating to the 4.500% Senior Notes due 2032, among CCO Holdings, LLC, CCO Holdings Capital Corp. and Deutsche Bank Securities Inc., as representative of the several Purchasers (as defined therein) (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed by Charter Communications, Inc. on October 16, 2020).</u> |
| 31.1 | <u>Certificate of Chief Executive Officer pursuant to Rule 13a-14(a)/Rule 15d-14(a) under the under the Securities Exchange Act of 1934.</u> |
| 31.2 | <u>Certificate of Chief Financial Officer pursuant to Rule 13a-14(a)/Rule 15d-14(a) under the Securities Exchange Act of 1934.</u> |
| 32.1 | <u>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).</u> |
| 32.2 | <u>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).</u> |
| 101 | The following financial information from Charter Communications, Inc.'s Quarterly Report on Form 10-Q for the three and nine months ended September 30, 2020, filed with the Securities and Exchange Commission on October 30, 2020, formatted in iXBRL (inline eXtensible Business Reporting Language) includes: (i) the Consolidated Balance Sheets; (ii) the Consolidated Statements of Operations; (iii) the Consolidated Statements of Changes in Shareholders' Equity; (iv) the Consolidated Statements of Cash Flows; and (vi) the Notes to the Consolidated Financial Statements. |
| 104 | Cover Page, formatted in iXBRL and contained in Exhibit 101. |