

**QUARTERLY REPORT
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2018**

CEQUEL COMMUNICATIONS HOLDINGS I, LLC

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PART I - FINANCIAL INFORMATION

This Quarterly Report includes statements that express our opinions, expectations, beliefs, plans, objectives, assumptions or projections regarding future events or future results and therefore are, or may be deemed to be, “forward-looking statements.” These “forward-looking statements” appear throughout this Quarterly Report and relate to matters such as anticipated future growth in revenues, operating income, cash provided by operating activities and other financial measures. Words such as “expects,” “anticipates,” “believes,” “estimates,” “may,” “will,” “should,” “could,” “seeks,” “potential,” “continue,” “intends,” “plans” and similar words and terms used in the discussion of future operating results, future financial performance and future events identify forward-looking statements. All of these forward-looking statements are based on management’s current expectations and beliefs about future events. As with any projection or forecast, they are susceptible to uncertainty and changes in circumstances.

We operate in a highly competitive, consumer and technology driven and rapidly changing business that is affected by government regulation and economic, strategic, technological, political and social conditions. Various factors could adversely affect our operations, business or financial results in the future and cause our actual results to differ materially from those contained in the forward-looking statements. In addition, important factors that could cause our actual results to differ materially from those in our forward-looking statements include:

- competition for broadband, pay television and telephony customers from existing competitors (such as broadband communications companies, direct broadcast satellite (“DBS”) providers and Internet-based providers) and new competitors entering our footprint;
- changes in consumer preferences, laws and regulations or technology that may cause us to change our operational strategies;
- increased difficulty negotiating programming agreements on favorable terms, if at all, resulting in increased costs to us and/or the loss of popular programming;
- increasing programming costs and delivery expenses related to our products and services;
- our ability to achieve anticipated customer and revenue growth, to successfully introduce new products and services and to implement our growth strategy;
- our ability to complete our capital investment plans on time and on budget, including our plan to build a fiber-to-the-home network, and deploy Altice One, our new home communications hub;
- our ability to develop and deploy mobile voice and data services pursuant to the agreement we entered into with Sprint in the fourth quarter of 2017;
- the effects of economic conditions or other factors which may negatively affect our customers’ demand for our products and services;
- the effects of industry conditions;
- demand for advertising on our cable systems;
- our substantial indebtedness and debt service obligations;
- adverse changes in the credit market;
- changes as a result of any tax reforms that may affect our business;
- financial community and rating agency perceptions of our business, operations, financial condition and the industries in which we operate;
- the restrictions contained in our financing agreements;
- our ability to generate sufficient cash flow to meet our debt service obligations;
- fluctuations in interest rates which may cause our interest expense to vary from quarter to quarter;

- technical failures, equipment defects, physical or electronic break-ins to our services, computer viruses and similar problems;
- the disruption or failure of our network, information systems or technologies as a result of computer hacking, computer viruses, “cyber-attacks,” misappropriation of data, outages, natural disasters and other material events;
- our ability to obtain necessary hardware, software, communications equipment and services and other items from our vendors at reasonable costs;
- our ability to effectively integrate acquisitions and to maximize expected operating efficiencies from our acquisitions or as a result of the transactions, if any;
- significant unanticipated increases in the use of bandwidth-intensive Internet-based services;
- the outcome of litigation, government investigations and other proceedings;
- our ability to successfully operate our business following the completion of the separation of Altice USA, Inc. (“Altice USA”) from Altice N.V., and
- other risks and uncertainties inherent in our cable and other broadband communications businesses and our other businesses, including those listed under the caption “Risk Factors” in our Annual Report for the year ended December 31, 2017.

These factors are not necessarily all of the important factors that could cause our actual results to differ materially from those expressed in any of our forward-looking statements. Other unknown or unpredictable factors could cause our actual results to differ materially from those expressed in any of our forward-looking statements.

Given these uncertainties, you are cautioned not to place undue reliance on such forward-looking statements. The forward-looking statements are made only as of the date this Quarterly Report is posted on our website (www.alticeusa.com). Except to the extent required by law, we do not undertake, and specifically decline any obligation, to update any forward-looking statements or to publicly announce the results of any revisions to any of such statements to reflect future events or developments. Comparisons of results for current and any prior periods are not intended to express any future trends or indications of future performance, unless expressed as such, and should only be viewed as historical data.

You should read this Quarterly Report with the understanding that our actual future results, levels of activity, performance and events and circumstances may be materially different from what we expect. We qualify all forward-looking statements by these cautionary statements.

Certain numerical figures included in this quarterly report have been subject to rounding adjustments. Accordingly, such numerical figures shown as totals in various tables may not be arithmetic aggregations of the figures that precede them.

ITEM 1. FINANCIAL STATEMENTS

Cequel Communications Holdings I, LLC
Condensed Consolidated Balance Sheets
(in thousands)
(Unaudited)

	<u>June 30, 2018</u>	<u>December 31, 2017</u>
ASSETS		
Cash and cash equivalents.....	\$ 128,375	\$ 76,005
Accounts receivable, net of allowances of \$5,392 and \$5,563	81,260	84,895
Prepaid expenses and other assets (including a prepayment to an affiliate of \$8,335 in 2017)	32,158	44,284
Amounts due from affiliates	41,639	18,608
Total current assets	<u>283,432</u>	<u>223,792</u>
Property, plant and equipment, net of accumulated depreciation of \$1,150,366 and \$919,941	1,830,090	1,886,171
Amounts due from affiliates	—	88,496
Other assets	15,023	10,810
Amortizable customer relationships, net of accumulated amortization of \$542,896 and \$453,689.....	532,988	622,195
Other amortizable intangibles, net of accumulated amortization of \$58,093 and \$57,895	2,046	2,244
Indefinite-lived cable television franchises.....	4,906,506	4,906,506
Goodwill	2,138,700	2,153,741
Total assets	<u>\$ 9,708,785</u>	<u>\$ 9,893,955</u>
LIABILITIES AND MEMBER'S EQUITY		
Current Liabilities:		
Accounts payable and accrued expenses.....	290,002	348,395
Amounts due to affiliates	132,440	22,691
Deferred revenue	54,545	51,528
Accrued interest.....	81,221	82,117
Notes payable	36,057	3,465
Capital lease obligations.....	340	403
Credit facility debt.....	12,650	12,650
Total current liabilities.....	<u>607,255</u>	<u>521,249</u>
Deferred revenue	6,643	5,297
Other liabilities	9,655	12,932
Deferred tax liability	1,366,408	1,350,221
Liabilities under derivative contracts	123,470	77,902
Credit facility debt.....	1,231,503	1,237,567
Senior notes and debentures	5,376,873	5,341,243
Capital lease obligations.....	1,122	1,245
Notes payable	299	5,480
Total liabilities	<u>8,723,228</u>	<u>8,553,136</u>
Commitments and contingencies (Note 12)		
Redeemable equity	29,126	34,162
Member's equity:		
Member's equity.....	901,509	889,153
Retained earnings	54,922	417,504
Total member's equity	<u>956,431</u>	<u>1,306,657</u>
Total liabilities and member's equity.....	<u>\$ 9,708,785</u>	<u>\$ 9,893,955</u>

See accompanying notes to condensed consolidated financial statements.

Cequel Communications Holdings I, LLC
Condensed Consolidated Statements of Operations and Comprehensive Income (Loss)
(in thousands)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Revenue (including revenue from affiliates of \$47 for the six months ended 2018) (See Note 11).....	\$ 682,875	\$ 662,836	\$ 1,365,424	\$ 1,323,108
Operating expenses:				
Programming and other direct costs.....	207,303	187,755	409,927	377,796
Other operating expenses (including charges from affiliates of \$45,420, \$2,534, \$87,265 and \$5,097, respectively) (See Note 11).....	167,213	165,808	346,948	324,143
Restructuring and other expense	1,176	1,216	1,680	19,498
Depreciation and amortization (including impairments).....	175,389	164,586	332,730	330,134
	<u>551,081</u>	<u>519,365</u>	<u>1,091,285</u>	<u>1,051,571</u>
Operating income.....	<u>131,794</u>	<u>143,471</u>	<u>274,139</u>	<u>271,537</u>
Other income (expense):				
Interest expense, net (including interest income from affiliates and related parties of \$785, \$1,127, \$2,429 and \$3,069, respectively) (See Note 11)	(106,577)	(100,674)	(207,070)	(204,166)
Gain (loss) on sale of affiliate interest.....	4	—	(2,876)	—
Gain (loss) on interest rate swap contracts.....	(13,151)	9,146	(45,073)	11,488
Loss on extinguishment of debt and write-off of deferred financing costs.....	(36,910)	(28,684)	(36,910)	(28,684)
Other expense, net.....	—	—	(12)	—
Income (loss) before income taxes	<u>(24,840)</u>	<u>23,259</u>	<u>(17,802)</u>	<u>50,175</u>
Income tax benefit (expense)	7,317	(10,175)	5,225	(22,352)
Net income (loss).....	<u>\$ (17,523)</u>	<u>\$ 13,084</u>	<u>\$ (12,577)</u>	<u>\$ 27,823</u>
Comprehensive income (loss).....	<u>\$ (17,523)</u>	<u>\$ 13,084</u>	<u>\$ (12,577)</u>	<u>\$ 27,823</u>

See accompanying notes to condensed consolidated financial statements.

Cequel Communications Holdings I, LLC
Condensed Consolidated Statements of Cash Flows
Six Months Ended June 30, 2018 and 2017
(in thousands)
(Unaudited)

	2018	2017
Cash flows from operating activities:		
Net income (loss)	\$ (12,577)	\$ 27,823
Adjustments to reconcile net income (loss) to cash flows from operating activities:		
Depreciation and amortization (including impairments)	332,730	330,134
Share-based compensation expense	7,320	8,885
Loss on extinguishment of debt and write-off of deferred financing costs.....	36,910	28,684
Loss on sale of affiliate interest.....	2,876	—
Amortization of deferred financing costs and discounts/premiums on indebtedness	17,899	18,598
Deferred income taxes.....	16,187	15,949
Provision for doubtful accounts	13,551	11,676
Changes in assets and liabilities	178,723	(19,010)
Net cash provided by operating activities	593,619	422,739
Cash flows from investing activities:		
Capital expenditures	(161,140)	(138,025)
Proceeds (payments) related to sale of equipment, including costs of disposal	(302)	105
Sale of affiliate interest	(3,537)	—
Net cash used in investing activities	(164,979)	(137,920)
Cash flows from financing activities:		
Proceeds from credit facility debt	—	1,258,675
Repayment of credit facility debt.....	(6,325)	(815,000)
Proceeds from senior notes	1,050,000	—
Redemption of senior notes, including premium and fees	(1,066,737)	(464,345)
Principal payments on capital lease obligations.....	(186)	(372)
Repayment of notes payable	(1,179)	—
Distributions to parent.....	(350,000)	(339,700)
Additions to deferred financing costs.....	(1,843)	(2,658)
Net cash used in financing activities.....	(376,270)	(363,400)
Increase (decrease) in cash and cash equivalents	52,370	(78,581)
Cash and cash equivalents at beginning of period.....	76,005	184,933
Cash and cash equivalents at end of period	\$ 128,375	\$ 106,352

See accompanying notes to condensed consolidated financial statements.

Cequel Communications Holdings I, LLC
Notes to Condensed Consolidated Financial Statements
(dollars in thousands, except where otherwise indicated)
(Unaudited)

NOTE 1. DESCRIPTION OF BUSINESS AND RELATED MATTERS

Cequel Communications Holdings I, LLC (“Cequel Holdings I”) through its subsidiaries (together with Cequel Holdings I, the “Company”) provides broadband, pay television, telephony services, and advertising services to residential and business customers. The Company is a wholly owned subsidiary of Cequel Communications Holdings, LLC (“Cequel Holdings”), which is a wholly owned subsidiary of Cequel Corporation, which is a wholly owned subsidiary of Altice USA, Inc. (“Altice USA”). Cequel Capital Corporation (“Cequel Capital”) is a wholly owned subsidiary of the Company (and together with the Company, the “Original Issuers”, and together with Altice US Finance I Corporation, the “Issuers”). Cequel Communications, LLC, doing business as Suddenlink Communications (“Suddenlink”) is an indirect wholly owned subsidiary of the Company. The Company operates and reports financial information in one segment.

The Issuers are holding companies or special purpose finance companies and conduct no operations. Accordingly, the Issuers depend on the cash flow of their subsidiaries, or the Company’s subsidiaries, as applicable, in order to make payments on, or repay or refinance, the Issuers notes outstanding. The terms of the Credit Facilities Agreement (as defined herein) generally restrict Suddenlink and its restricted subsidiaries from making dividends and other distributions to the Issuers subject to satisfaction of certain conditions, including pro forma compliance with a maximum senior secured leverage ratio, and that no event of default has occurred and is continuing, or would be caused by the making of such dividends or other distributions, and based on, among other things, availability under a restricted payment basket.

The accompanying condensed consolidated financial statements include the accounts of the Company and all subsidiaries in which the Company has a controlling interest. All significant inter-company accounts and transactions have been eliminated in consolidation.

The accompanying condensed consolidated operating results for the three and six months ended June 30, 2017 reflect the retrospective adoption of Accounting Standards Update (“ASU”) No. 2014-09, *Revenue from Contracts with Customers*. See Note 2 for further details of the impact on the Company's historical financial statements.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying unaudited condensed consolidated financial statements of the Company have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”). Accordingly, these financial statements do not include all the information and notes required for complete annual financial statements.

The interim condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report for the year ended December 31, 2017.

The financial statements presented in this report are unaudited; however, in the opinion of management, such financial statements include all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of the results for the periods presented.

The results of operations for the interim periods are not necessarily indicative of the results that might be expected for future interim periods or for the full year ending December 31, 2018.

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 liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Recently Adopted Accounting Pronouncements

In May 2017, the FASB issued ASU No. 2017-09, Compensation- Stock Compensation (Topic 718). ASU No. 2017-09 provides clarity and guidance on which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. ASU No. 2017-09 was adopted by the Company on January 1, 2018 and had no impact to the Company's condensed consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-01, Business Combinations (Topic 805), Clarifying the Definition of a Business, which amends Topic 805 to interpret the definition of a business by adding guidance to assist in evaluating

Cequel Communications Holdings I, LLC
Notes to Condensed Consolidated Financial Statements (continued)
(dollars in thousands, except where otherwise indicated)
(Unaudited)

whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The Company adopted the new guidance on January 1, 2018 and it had no impact to the Company's condensed consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments which clarifies how entities should classify certain cash receipts and cash payments on the statement of cash flows. ASU No. 2016-15 also clarifies how the predominance principle should be applied when cash receipts and cash payments have aspects of more than one class of cash flows. The Company adopted the new guidance on January 1, 2018 and it had no impact to the Company's condensed consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers ("ASC 606"), requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. ASC 606 replaced most existing revenue recognition guidance in GAAP and allowed the use of either the retrospective or cumulative effect transition method.

In December 2016, the FASB issued ASU No. 2016-20, Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers, in order to clarify the Codification and to correct any unintended application of the guidance. The amendments in this update affected the guidance in ASC 606. ASC 606 was adopted by the Company on January 1, 2018 on a full retrospective basis, which required the Company to reflect the impact of the updated guidance for all periods presented. The adoption of ASC 606 did not have a material impact on the Company's financial position or results of operations. The adoption of the guidance resulted in a reduction of revenue due to the reclassification of certain third party giveaways and incentives from operating expense. When the Company acts as the agent in providing certain product giveaways or incentives, revenue is recorded net of the costs of the giveaways and incentives. See discussion below.

Installation Services Revenue

Pursuant to ASC 606, the Company's installation services revenue is deferred and recognized over the benefit period. For residential customers, the benefit period is less than one year. For business and wholesale customers, the benefit period is the contract term. Prior to the adoption of ASC 606, the Company recognized installation services revenue for residential and small and medium-sized business ("SMB") customers when installations were completed. As a result of the deferral of installation services revenue for residential and SMB customers, the Company recognized contract liabilities of \$1,051 and recorded a cumulative effect adjustment of \$767 (net of tax of \$284) to retained earnings. The accounting for installation services revenue related to business and wholesale customers has not changed.

Commission Expenses

Pursuant to ASC 606, the Company defers commission expenses related to obtaining a contract with a customer when the expected period of benefit is greater than one year and amortizes these costs over the average contract term. For commission expenses related to customer contracts with a term of one year or less, the Company is utilizing the practical expedient and is recognizing the costs when incurred. Prior to the adoption of ASC 606, the Company recognized commission expenses related to the sale of its services when incurred. As a result of the change in the timing of recognition of these commission expenses, the Company recognized contract assets of \$11,058 and recorded a cumulative effect adjustment of \$8,072 (net of tax of \$2,986) to retained earnings.

Third Party Product Giveaways and Incentives

When the Company acts as the agent in providing certain product giveaways or incentives, revenue is recorded net of the costs of the giveaways and incentives. For the three and six months ended June 30, 2017, costs of \$1,083 and \$1,686 for the giveaways and incentives recorded in other operating expense have been reclassified to revenue.

Bundled Services

The Company provides bundled services at a discounted rate to its customers. Under ASC 606, revenue should be allocated to separate performance obligations within a bundled offering based on the relative stand-alone selling price of each service within the bundle. In connection with the adoption of ASC 606, the Company revised the amounts allocated to each performance obligation within its bundled offerings which reduced previously reported revenue for telephony services and increased previously reported revenue allocated to pay television and broadband services.

Cequel Communications Holdings I, LLC
Notes to Condensed Consolidated Financial Statements (continued)
(dollars in thousands, except where otherwise indicated)
(Unaudited)

The following table summarizes the impact of adopting ASC 606 on the Company's condensed consolidated statement of operations:

	Three Months Ended June 30, 2017		
	As Reported	Impact of ASC 606	As Adjusted
Residential:			
Pay TV	\$ 275,228	\$ (521)	\$ 274,707
Broadband	237,807	(386)	237,421
Telephony	33,060	(122)	32,938
Business services and wholesale	92,731	(54)	92,677
Advertising	18,699	—	18,699
Other	6,394	—	6,394
Total revenue	<u>663,919</u>	<u>(1,083)</u>	<u>662,836</u>
Programming and other direct costs	187,755	—	187,755
Other operating expenses	166,891	(1,083)	165,808
Restructuring and other expense	1,216	—	1,216
Depreciation and amortization	164,586	—	164,586
Operating income	<u>143,471</u>	<u>—</u>	<u>143,471</u>
Other expense, net	<u>(120,212)</u>	<u>—</u>	<u>(120,212)</u>
Income before income taxes	23,259	—	23,259
Income tax expense	<u>(10,175)</u>	<u>—</u>	<u>(10,175)</u>
Net income	<u>\$ 13,084</u>	<u>\$ —</u>	<u>\$ 13,084</u>

	Six Months Ended June 30, 2017		
	As Reported	Impact of ASC 606	As Adjusted
Residential:			
Pay TV	\$ 557,202	\$ (811)	\$ 556,391
Broadband	467,607	(601)	467,006
Telephony	67,532	(190)	67,342
Business services and wholesale	183,637	(84)	183,553
Advertising	36,928	—	36,928
Other	11,888	—	11,888
Total revenue	<u>1,324,794</u>	<u>(1,686)</u>	<u>1,323,108</u>
Programming and other direct costs	377,796	—	377,796
Other operating expenses	325,829	(1,686)	324,143
Restructuring and other expense	19,498	—	19,498
Depreciation and amortization	330,134	—	330,134
Operating income	<u>271,537</u>	<u>—</u>	<u>271,537</u>
Other expense, net	<u>(221,362)</u>	<u>—</u>	<u>(221,362)</u>
Income before income taxes	50,175	—	50,175
Income tax expense	<u>(22,352)</u>	<u>—</u>	<u>(22,352)</u>
Net income	<u>\$ 27,823</u>	<u>\$ —</u>	<u>\$ 27,823</u>

Cequel Communications Holdings I, LLC
Notes to Condensed Consolidated Financial Statements (continued)
(dollars in thousands, except where otherwise indicated)
(Unaudited)

Recently Issued But Not Yet Adopted Accounting Pronouncements

In January 2017, the FASB issued ASU No. 2017-04, Intangibles-Goodwill and Other (Topic 350). ASU No. 2017-04 simplifies the subsequent measurement of goodwill by removing the second step of the two-step impairment test. The amendment requires an entity to perform its annual, or interim goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. ASU No. 2017-04 becomes effective for the Company on January 1, 2020 with early adoption permitted and will be applied prospectively.

In February 2016, the FASB issued ASU No. 2016-02, Leases, which increases transparency and comparability by recognizing a lessee's rights and obligations resulting from leases by recording them on the balance sheet as lease assets and lease liabilities. The new guidance becomes effective for the Company on January 1, 2019. Although the Company has not yet completed the evaluation of the effect that ASU No. 2016-02 will have on its consolidated financial statements, upon adoption, the Company expects to recognize a right of use asset and liability related to substantially all operating lease arrangements on the Company's consolidated balance sheet.

Reclassifications

Certain reclassifications have been made to the 2017 financial statements to conform to the 2018 presentation.

NOTE 3. SUPPLEMENTAL CASH FLOW INFORMATION

The Company considers the balance of its investment in funds that substantially hold securities that mature within three months or less from the date the fund purchases these securities to be cash equivalents. The carrying amount of cash and cash equivalents either approximates fair value due to the short-term maturity of these instruments or are at fair value.

The Company's non-cash investing and financing activities and other supplemental data were as follows:

	Six months ended June 30,	
	2018	2017
<u>Non-Cash Investing and Financing Activities:</u>		
Property and equipment accrued but unpaid	\$ 58,834	\$ 19,518
Notes payable issued to vendor for the purchase of equipment	28,387	—
<u>Supplemental Data:</u>		
Cash interest paid	194,546	199,350
Income taxes refunded, net.....	8,816	14,380

NOTE 4. REVENUE AND CONTRACT ASSETS

Revenue Recognition

Residential Services

The Company derives revenue through monthly charges to residential customers of its pay television, broadband, and telephony services, including installation services. In addition, the Company derives revenue from digital video recorder ("DVR"), video-on-demand ("VOD"), pay-per-view, and home shopping commissions which are reflected in "Residential pay TV" revenues. The Company recognizes pay television, broadband, and telephony revenues as the services are provided to a customer on a monthly basis. Revenue from the sale of bundled services at a discounted rate is allocated to each product based on the standalone selling price of each performance obligation within the bundled offer. The standalone selling price requires judgment and is typically determined based on the current prices at which the separate services are sold by the Company. Installation revenue for the Company's residential services is deferred and recognized over the benefit period, which is estimated to be less than one year. The estimated benefit period takes into account both quantitative and qualitative factors including the significance of average installation fees to total recurring revenue per customer.

Cequel Communications Holdings I, LLC
Notes to Condensed Consolidated Financial Statements (continued)
(dollars in thousands, except where otherwise indicated)
(Unaudited)

The Company is assessed non-income related taxes by governmental authorities, including franchising authorities (generally under multi-year agreements), and collects such taxes from its customers. In instances where the tax is being assessed directly on the Company, amounts paid to the governmental authorities are recorded as programming and other direct costs and amounts received from the customers are recorded as revenue. The amount of franchise fees and certain other taxes and fees included as a component of revenue aggregated \$11,508 and \$23,026 for the three and six months ended June 30, 2018, respectively. For the three and six months ended June 30, 2017, franchise fees reported on a gross basis in revenue amounted to \$11,700 and \$23,722, respectively.

Business and Wholesale Services

The Company derives revenue from the sale of products and services to both large enterprise and SMB customers, including broadband, telephony, networking, and pay television services reflected in "Business services and wholesale" revenues. The Company's business services also include Ethernet, data transport, and IP-based virtual private networks. The Company also provides managed services to businesses, including hosted telephony services (cloud based SIP-based private branch exchange), managed Wi-Fi, managed desktop and server backup and managed collaboration services including audio and web conferencing. The Company also offers fiber-to-the-tower services to wireless carriers for cell tower backhaul and enable wireline communications service providers to connect to customers that their own networks do not reach. The Company recognizes revenues for these services as the services are provided to a customer on a monthly basis.

Substantially all of our SMB customers are billed monthly and large enterprise customers are billed in accordance with the terms of their contracts which is typically also on a monthly basis. Contracts with large enterprise customers typically range from three to five years. Installation revenue related to our large enterprise customers is deferred and recognized over the average contract term. Installation revenue related to SMB customers is deferred and recognized over the benefit period, which is less than a year. The estimated benefit period for SMB customers takes into account both quantitative and qualitative factors including the significance of average installation fees to total recurring revenue per customer.

Advertising

As part of the agreements under which the Company acquires pay television programming, the Company typically receives an allocation of scheduled advertising time during such programming into which the Company's cable systems can insert commercials. In several of the markets in which the Company operates, it has entered into agreements commonly referred to as interconnects with other cable operators to jointly sell local advertising. In some of these markets, the Company represents the advertising sales efforts of other cable operators; in other markets, other cable operators represent the Company. Advertising revenues are recognized when commercials are aired. Arrangements in which the Company controls the sale of advertising and acts as the principal to the transaction, the Company recognizes revenue earned from the advertising customer on a gross basis and the amount remitted to the distributor as an operating expense. Arrangements in which the Company does not control the sale of advertising and acts as an agent to the transaction, the Company recognizes revenue net of any fee remitted to the distributor.

The Company's advanced advertising businesses provide data-driven, audience-based advertising solutions using advanced analytics tools that provide granular measurement of consumer groups, accurate hyper-local ratings and other insights into target audience behavior not available through traditional sample-based measurement services. Revenue earned from the Company's advanced advertising businesses are recognized when services are provided.

Other

Revenues derived from other sources are recognized when services are provided or events occur.

Contract Assets

Incremental costs incurred in obtaining a contract with a customer are deferred and recorded as a contract asset if the period of benefit is expected to be greater than one year. Sales commissions for enterprise and certain SMB customers are deferred and amortized over the average contract term. For sales commission expenses related to residential and SMB customers with a term of one year or less, the Company is utilizing the practical expedient and is recognizing the costs when incurred. Cost of fulfilling a contract with a customer are deferred and recorded as a contract asset if they

Cequel Communications Holdings I, LLC
Notes to Condensed Consolidated Financial Statements (continued)
(dollars in thousands, except where otherwise indicated)
(Unaudited)

generate or enhance resources of the Company that will be used in satisfying future performance obligations and are expected to be recovered. Installation costs related to residential and SMB customers that are not capitalized as part of the initial deployment of new customer premise equipment are expensed as incurred pursuant to industry-specific guidance.

The following table provides information about contract assets and contract liabilities related to contracts with customers:

	June 30, 2018	December 31, 2017, as adjusted
Contract assets (a)	\$ 10,683	\$ 11,058
Deferred revenue (b)	61,188	56,825

- (a) Contract assets include primarily sales commissions for enterprise customers that are deferred and amortized over the average contract term.
- (b) Deferred revenue represents payments received from customers for services that have yet to be provided and installation revenue which is deferred and recognized over the benefit period. The majority of the Company's deferred revenue represents payments for services for up to one month in advance from residential and SMB customers which is realized within the following month as services are performed.

A significant portion of our revenue is derived from residential and SMB customer contracts which are month-to-month. As such, the amount of revenue related to unsatisfied performance obligations is not necessarily indicative of the future revenue to be recognized from our existing customer base. Contracts with enterprise customers generally range from three to five years, and services may only be terminated in accordance with the contractual terms.

NOTE 5. RESTRUCTURING COSTS

During 2016, the Company commenced its restructuring initiatives (the "2016 Restructuring Plan") that are intended to simplify the Company's organizational structure.

The following table summarizes the activity for the 2016 Restructuring Plan during 2018:

	Severance and Other Employee Related Costs	Facility Realignment and Other Costs	Total
Accrual balance at December 31, 2017	\$ 29,758	\$ 3,086	\$ 32,844
Restructuring charges (credits).....	1,631	(137)	1,494
Payments and other	(16,146)	(871)	(17,017)
Accrual balance at June 30, 2018.....	<u>\$ 15,243</u>	<u>\$ 2,078</u>	<u>\$ 17,321</u>

Cumulative costs through June 30, 2018 relating to the 2016 Restructuring Plan amounted to \$68,696 (\$64,406 associated with the elimination of positions and \$4,290 associated with facility realignment and other costs). Such costs are classified in restructuring and other expense in the Company's condensed consolidated statements of operations.

Cequel Communications Holdings I, LLC
Notes to Condensed Consolidated Financial Statements (continued)
(dollars in thousands, except where otherwise indicated)
(Unaudited)

NOTE 6. DEBT

The following table provides details of the Company's outstanding credit facility debt:

	Maturity Date	Interest Rate	June 30, 2018		December 31, 2017	
			Principal Amount	Carrying Amount (a)	Principal Amount	Carrying Amount (a)
<i>Cequel:</i>						
Revolving Credit Facility (b) ..	\$65,000 on November 30, 2021, and remaining balance on April 5, 2023	—%	\$ —	\$ —	\$ —	\$ —
Term Loan Facility	July 28, 2025	4.34%	1,252,350	1,244,153	1,258,675	1,250,217
			<u>\$ 1,252,350</u>	<u>1,244,153</u>	<u>\$1,258,675</u>	<u>1,250,217</u>
Less: Current portion				12,650		12,650
Long-term debt				<u>\$ 1,231,503</u>		<u>\$ 1,237,567</u>

(a) The carrying amount is net of the unamortized deferred financing costs and/or discounts.

(b) At June 30, 2018, \$7,636 of the revolving credit facility was restricted for certain letters of credit issued on behalf of the Company and \$342,364 of the facility was undrawn and available, subject to covenant limitations.

On March 22, 2018, Altice US Finance I Corporation, an indirect wholly-owned subsidiary of the Company, entered into a Fourth Amendment to Cequel Credit Agreement (Extension Amendment), by and among the borrower, the Revolving Consent Lenders (as defined in the Fourth Amendment) and JPMorgan Chase Bank, N.A., as administrative agent for the lenders (the "Fourth Amendment"). The Fourth Amendment amends and supplements the Borrower's credit agreement, dated as of June 12, 2015, as amended by the first amendment (refinancing amendment), dated as of October 25, 2016, the second amendment (extension amendment), dated as of December 9, 2016, and the third amendment (incremental loan assumption agreement and refinancing amendment), dated as of March 15, 2017, (as so amended and as may be further amended, restated, modified or supplemented from time to time and as further amended by the Fourth Amendment among, inter alios, the borrower, the lenders party thereto and the administrative agent.

The Fourth Amendment extends the maturity date of the revolving loans and/or commitments of the Revolving Consent Lenders to April 5, 2023. The Fourth Amendment and the extended maturity date will not apply to the revolving loans and/or commitments of revolving lenders under the Cequel Credit Agreement that are not Revolving Consent Lenders.

As of June 30, 2018, the Company was in compliance with all of its financial covenants under the Cequel Credit Facilities Agreement.

Cequel Communications Holdings I, LLC
Notes to Condensed Consolidated Financial Statements (continued)
(dollars in thousands, except where otherwise indicated)
(Unaudited)

Senior Secured Notes and Senior Notes

The following table summarizes the Company's senior secured notes and senior notes:

Date Issued	Maturity Date	Interest Rate	June 30, 2018		December 31, 2017		
			Principal Amount	Carrying Amount (a)	Principal Amount	Carrying Amount (a)	
Cequel and Cequel Capital Senior Notes (e):							
Oct. 25, 2012	September 15, 2020	6.375% (b) (c)	\$ —	\$ —	\$ 1,050,000	\$ 1,027,493	
Dec. 28, 2012	2021						
May 16, 2013	December 15, 2021	5.125% (b)	1,250,000	1,151,107	1,250,000	1,138,870	
Sept. 9, 2014							
June 12, 2015	July 15, 2025	7.750% (d)	620,000	605,143	620,000	604,374	
April 5, 2018	April 1, 2028	7.500% (h)	1,050,000	1,048,185	—	—	
Alice US Finance I Corporation Senior Secured Notes (e):							
June 12, 2015	July 15, 2023	5.375% (f)	1,100,000	1,083,846	1,100,000	1,082,482	
April 26, 2016	May 15, 2026	5.500% (g)	1,500,000	1,488,592	1,500,000	1,488,024	
			<u>\$ 5,520,000</u>	<u>5,376,873</u>	<u>\$ 5,520,000</u>	<u>5,341,243</u>	
Less: current portion				—	—	—	
Long-term debt				<u>\$ 5,376,873</u>	<u>\$ 5,341,243</u>		

- (a) The carrying amount is net of the unamortized deferred financing costs and/or discounts/premiums.
- (b) The Company may redeem some or more of all the notes at the redemption price set forth in the relevant indenture, plus accrued and unpaid interest.
- (c) These notes were repaid in April 2018 with the proceeds from the issuance of new senior notes.
- (d) Some or all of these notes may be redeemed at any time on or after July 15, 2020, plus accrued and unpaid interest, if any. Up to 40% of the notes may be redeemed using the proceeds of certain equity offerings before July 15, 2018, at a redemption price equal to 107.750%.
- (e) The issuers of these notes have no ability to service interest or principal on the notes, other than through any contributions/distributions from Cequel Communications, LLC (an indirect subsidiary of the Company and the parent of Alice US Finance I). Cequel Communications, LLC is restricted in certain circumstances, from paying dividends or distributions to the issuers by the terms of the Credit Facilities Agreement.
- (f) Some or all of these notes may be redeemed at any time on or after July 15, 2018, plus accrued and unpaid interest, if any. Up to 40% of the notes may be redeemed using the proceeds of certain equity offerings before July 15, 2018, at a redemption price equal to 105.375%.
- (g) Some or all of these notes may be redeemed at any time on or after May 15, 2021, plus accrued and unpaid interest, if any. Up to 40% of the notes may be redeemed using the proceeds of certain equity offerings before May 15, 2019, at a redemption price equal to 105.500%.
- (h) The 2028 Senior Notes are redeemable at any time prior to April 1, 2023 at a redemption price equal to 100% of the principal amount thereof plus the applicable premium plus accrued and unpaid interest, if any. Up to 40% of the original aggregate principal amount of the 2028 Senior Notes may be redeemed using the proceeds of certain equity offerings before April 1, 2021, at a redemption price equal to 107.50% of the principal amount, plus accrued and unpaid interest. In addition, the 2028 Senior Notes are redeemable at any time on or after April 1, 2023 at the redemption prices set forth in indenture, plus accrued and unpaid interest.

In April 2018, Cequel Communications Holdings I, LLC and Cequel Capital Corporation each an indirect, wholly owned subsidiary of the Company, issued \$1,050,000 aggregate principal amount of 7.50% senior notes due April 1, 2028 (the "2028 Senior Notes"). The proceeds of these notes were used in April 2018 to redeem the \$1,050,000 aggregate principal amount 6.375% senior notes due September 15, 2020. In connection with the redemption of these notes, the Company paid a call premium of approximately \$16,737, which was recorded as a loss on extinguishment of debt and also recorded a write-off of deferred financings costs aggregating \$20,173.

Cequel Communications Holdings I, LLC
Notes to Condensed Consolidated Financial Statements (continued)
(dollars in thousands, except where otherwise indicated)
(Unaudited)

The indentures under which the senior secured notes and senior notes were issued contain various covenants. The Company was in compliance with all of the financial covenants under these indentures as of June 30, 2018.

Summary of Debt Maturities

The future maturities of debt payable by the Company under its various debt obligations outstanding as of June 30, 2018, including notes payable and capital leases, are as follows:

Year Ending December 31,

2018.....	\$	11,657
2019.....		43,984
2020.....		12,705
2021.....		1,262,715
2022.....		12,726
Thereafter.....		5,466,380
	<u>\$</u>	<u>6,810,167</u>

NOTE 7. DERIVATIVE CONTRACTS

In June 2016, the Company entered into two fixed to floating interest rate swap contracts. One fixed to floating interest rate swap is converting \$750,000 from a fixed rate of 1.6655% to six-month LIBO rate and a second tranche of \$750,000 from a fixed rate of 1.68% to six-month LIBO rate. The objective of these swaps is to adjust the proportion of total debt that is subject to fixed and variable interest rates. As of June 30, 2018 and December 31, 2017, these interest rate swap contracts had an aggregate fair value and carrying value of \$123,470 and \$77,902, respectively, reflected in “liabilities under derivative contracts” in our condensed consolidated balance sheets.

In April 2018, the Company entered into an interest rate swap contract which converts the interest rate on \$1,255,513 of the Cequel Term Loan B from a one-month LIBO rate to a three-month LIBO rate minus 0.225%. The objective of this swap is to potentially pay a lower interest rate than what the Company can elect under the terms of the Cequel Credit Facilities Agreement. As of June 30, 2018, this interest rate swap contract had an aggregate fair value and carrying value of \$147 reflected in “prepaid expenses and other assets” in our condensed consolidated balance sheet.

These interest rate swap contracts were not designated as hedges for accounting purposes. Accordingly, the changes in the fair value of these contracts are recorded through the statements of operations. For the three and six months ended June 30, 2018, the Company recorded a loss on interest rate swap contracts of \$13,151 and \$45,073, respectively.

The Company does not hold or issue derivative instruments for trading or speculative purposes.

See Note 8 for a discussion regarding the fair value of these contracts.

NOTE 8. FAIR VALUE MEASUREMENT

The fair value hierarchy is based on inputs to valuation techniques that are used to measure fair value that are either observable or unobservable. Observable inputs reflect assumptions market participants would use in pricing an asset or liability based on market data obtained from independent sources while unobservable inputs reflect a reporting entity's pricing based upon their own market assumptions. The fair value hierarchy consists of the following three levels:

- Level I - Quoted prices for identical instruments in active markets.
- Level II - Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable.
- Level III - Instruments whose significant value drivers are unobservable.

Financial Assets and Liabilities

The Company has estimated the fair value of its financial instruments as of June 30, 2018 and December 31, 2017 using available market information or other appropriate valuation methodologies. Considerable judgment, however, is required

Cequel Communications Holdings I, LLC
Notes to Condensed Consolidated Financial Statements (continued)
(dollars in thousands, except where otherwise indicated)
(Unaudited)

in interpreting market data to develop the estimates of fair value. Accordingly, the estimates presented in the accompanying condensed consolidated financial statements are not necessarily indicative of the amounts the Company would realize in a current market exchange.

Receivables, payables and other current assets and liabilities approximate fair value because of the short maturity of those instruments.

The following table presents the Company's interest rate swap contracts, their aggregate fair value, and their classification under the fair value hierarchy:

	Fair Value Hierarchy	June 30, 2018	December 31, 2017
Interest rate swap contracts, in an asset position.....	Level II	\$ 147	\$ —
Interest rate swap contracts, in a liability position.....	Level II	123,470	77,902

The Company's interest rate swap contracts are valued using market-based inputs to valuation models. These valuation models require a variety of inputs, including contractual terms, market prices, yield curves, and measures of volatility. When appropriate, valuations are adjusted for various factors such as liquidity, bid/offer spreads and credit risk considerations. Such adjustments are generally based on available market evidence. Since model inputs can generally be verified and do not involve significant management judgment, the Company has concluded that these instruments should be classified within Level II of the fair value hierarchy.

Fair Value of Financial Instruments

The following methods and assumptions were used to estimate fair value of each class of financial instruments for which it is practicable to estimate:

Credit Facility Debt, Senior Secured Notes, Senior Notes and Debentures, and Notes Payable

The fair values of each of the Company's debt instruments are based on quoted market prices for the same or similar issues or on the current rates offered to the Company for instruments of the same remaining maturities. The fair value of notes payable is based primarily on the present value of the remaining payments discounted at the borrowing cost.

The carrying values, estimated fair values, and classification under the fair value hierarchy of the Company's financial instruments, excluding those that are carried at fair value in the accompanying condensed consolidated balance sheets, are summarized as follows:

	Fair Value Hierarchy	June 30, 2018		December 31, 2017	
		Carrying Amount (a)	Estimated Fair Value	Carrying Amount (a)	Estimated Fair Value
Credit facility	Level II	\$ 1,244,153	\$ 1,252,350	\$ 1,250,217	\$ 1,258,675
Senior secured notes.....	Level II	2,572,438	2,535,500	2,570,506	2,658,930
Senior notes.....	Level II	2,804,435	2,942,800	2,770,737	2,983,615
Notes payable.....	Level II	36,356	36,356	8,945	8,945
		<u>\$ 6,657,382</u>	<u>\$ 6,767,006</u>	<u>\$ 6,600,405</u>	<u>\$ 6,910,165</u>

(a) Amounts are net of unamortized deferred financing costs and discounts/premiums.

The fair value estimates related to the Company's debt instruments presented above are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgments and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Cequel Communications Holdings I, LLC
Notes to Condensed Consolidated Financial Statements (continued)
(dollars in thousands, except where otherwise indicated)
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Non-financial Assets and Liabilities

The Company's non-financial assets such as franchises, subscriber relationships, property, plant and equipment, and other intangible assets are not measured at fair value on a recurring basis; however, they are subject to fair value adjustments in certain circumstances, such as when there is evidence that an impairment may exist. No impairments were recorded for the three and six months ended June 30, 2018 and 2017.

NOTE 9. INCOME TAXES

Cequel is a single member limited liability company wholly-owned by Cequel Corporation, and therefore is disregarded for income tax purposes. Cequel Corporation is included in the federal consolidated and certain state combined income tax returns of Altice USA subsequent to the contribution of the common stock of Cequel Corporation to Altice USA on June 9, 2016. In the fourth quarter of 2016, Cequel, Cequel Corporation and Altice USA entered into an income tax sharing agreement under which Cequel will have an obligation to Cequel Corporation for current income taxes on a stand-alone basis.

In general, the Company is required to use an estimated annual effective tax rate ("AETR") to measure the income tax expense or benefit recognized on a year to date basis in an interim period. In addition, certain items included in income tax expense as well as the tax impact of certain items included in pretax income must be treated as discrete items. The income tax expense or benefit associated with these discrete items is fully recognized in the interim period in which the items occur.

Cequel recorded income tax benefit of \$7,317 and \$5,225 for the three and six months ended June 30, 2018, reflecting an effective tax rate of approximately 29%, which has declined compared to previous years primarily as a result of the enactment of the Tax Cuts & Jobs Act in December 2017 which lowered the corporate federal income tax rate from 35% to 21%.

Cequel recorded income tax expense of \$10,175 and \$22,352 for the three and six months ended June 30, 2017, reflecting an effective tax rate of 44% and 45%, respectively. Nondeductible share-based compensation resulted in tax expense of \$2,447 and \$3,554. Absent this item, the effective tax rate for the three and six months ended June 30, 2017 would have been 33% and 37%, respectively.

As of June 30, 2018, the Company's federal net operating losses ("NOLs") were approximately \$773,000 on a standalone basis. The NOLs are subject to limitations arising from ownership changes under Internal Revenue Code section 382. The Company does not expect the limitations to impact the ability to utilize the NOLs prior to their expiration.

NOTE 10. SHARE-BASED COMPENSATION

Certain employees of the Company and its affiliates received awards of units in a carry unit plan of Neptune Management LP, an entity which has an ownership interest in the Company's parent, Altice USA. The awards generally vest as follows: 50% on the second anniversary of December 21, 2015 ("Base Date"), 25% on the third anniversary of the Base Date, and 25% on the fourth anniversary of the Base Date. Neptune Holding US GP LLC, the general partner of Neptune Management LP, has the right to repurchase (or to assign to an affiliate, including the Company, the right to repurchase) vested awards held by employees for sixty days following their termination. For performance-based awards under the plan, vesting occurs upon achievement or satisfaction of a specified performance condition. The Company considered the probability of achieving the established performance targets in determining the share-based compensation with respect to these awards at the end of each reporting period.

Beginning on the fourth anniversary of the Base Date, the holders of carry units have an annual opportunity (a sixty day period determined by the administrator of the plan) to sell their units back to Neptune Holding US GP LLC (or affiliate, including the Company, designated by Neptune Holding US GP LLC). Accordingly, the carry units are presented as temporary equity on the condensed consolidated balance sheets at fair value. Adjustments to fair value at each reporting period are recorded in member's equity.

The right of Neptune Holding US GP LLC to assign to an affiliate, including the Company, the right to repurchase an employee's vested units during the sixty-day period following termination, or to satisfy its obligation to repurchase an employee's vested units during annual 60 day periods following the fourth anniversary of the Base Date, may be exercised by Neptune Holding US GP LLC in its discretion at the time a repurchase right or obligation arises. The carry unit plan

Cequel Communications Holdings I, LLC
Notes to Condensed Consolidated Financial Statements (continued)
(dollars in thousands, except where otherwise indicated)
(Unaudited)

requires the purchase price payable to the employee or former employee, as the case may be, to be paid in cash, a promissory note (with a term of not more than 3 years and bearing interest at the long-term applicable federal rate under Section 1274(d) of the Internal Revenue Code) or combination thereof, in each case as determined by Neptune Holding US GP LLC in its discretion at the time of the repurchase. Neptune Holding US GP LLC expects that vested units will be redeemed for shares of Altice USA's Class A common stock upon vesting.

The following table summarizes activity relating to carry units held by the Company's employees:

	Number of Time Vesting Awards	Weighted Average Grant Date Fair Value
Balance, December 31, 2017	13,850,001	\$ 0.37
Vested.....	(750,000)	0.37
Forfeited.....	(1,375,001)	0.37
Transfers to affiliate	(3,000,000)	0.37
Balance, June 30, 2018.....	<u>8,725,000</u>	0.37

The weighted average fair value per unit was \$2.51 and \$2.79 as of June 30, 2018 and December 31, 2017, respectively. For the three and six months ended June 30, 2018, the Company recognized an expense of \$678 and \$4,975, respectively, related to the push down of share-based compensation related to the carry unit plan. For the three and six months ended June 30, 2017, the Company recognized an expense of \$6,118 and \$8,885, respectively, related to the push down of share-based compensation related to the carry unit plan.

In addition, the Company receives an allocation of share-based compensation from Altice USA related to option awards granted to employees of the Company, as well as employees of Cablevision who provide services to the Company. For the three and six months ended June 30, 2018, such allocation amounted to \$1,191 and \$2,345, respectively and is included in other operating expense in the accompanying condensed consolidated statements of operations.

NOTE 11. RELATED PARTY TRANSACTIONS

Altice USA, Inc. (the indirect parent of the Company) is controlled by Patrick Drahi who is also the controlling stockholder of Altice N.V. and its subsidiaries.

As the transactions discussed below were conducted between entities under common control by Mr. Drahi, amounts charged for certain services may not have represented amounts that might have been received or incurred if the transactions were based upon arm's length negotiations.

Altice Technical Services US Corp. ("ATS")

ATS was formed to provide network construction and maintenance services and commercial and residential installations, disconnections, and maintenance, including for the construction of our new fiber-to-the home network. A substantial portion of the Company's technical workforce became employees of ATS in December 2017. In the first quarter of 2018, Cablevision (an entity under common control) became the owner of 100% of the equity interests in ATS.

Cequel Communications Holdings I, LLC
Notes to Condensed Consolidated Financial Statements (continued)
(dollars in thousands, except where otherwise indicated)
(Unaudited)

The following table summarizes the amounts related to services provided to or received from subsidiaries of Altice USA or Altice N.V.:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Revenue	\$ —	\$ —	\$ 47	\$ —
Other operating expenses, net (a)	(45,420)	(2,534)	(87,265)	(5,097)
Interest income (b)	785	1,127	2,429	3,069
Capital Expenditures.....	—	3,151	—	3,361

(a) Other operating expenses include charges of \$38,759 and \$74,071 from ATS for the three and six months ended June 30, 2018, respectively. For the three and six months ended June, 2018, other operating expenses also includes charges for services provided by other subsidiaries of Altice N.V. aggregating \$4,807 and \$8,840, respectively. Approximately \$1,854 and \$4,354 for the three and six months ended June 30, 2018, respectively, and \$2,500 and \$5,000 for the three and six months ended June 30, 2017, respectively, related to certain executive services, as well as consulting, advisory and other services, including, prior to the Altice USA IPO, CEO, CFO and COO services, provided to the Company by a subsidiary of Altice N.V. As of June 20, 2017, the CEO, CFO and COO became employees of Altice USA and the agreement was assigned to Altice N.V. by a subsidiary of Altice N.V. This agreement was terminated upon the completion of the separation of Altice USA from Altice N.V. in June 2018.

(b) Represents interest income on the intercompany loan made to Altice USA. See table below.

Aggregate amounts that were due from and due to related parties are summarized below:

	June 30, 2018	December 31, 2017
Due from:		
Altice USA (a)	\$ —	\$ 90,005
Cequel Corporation (b)	41,639	17,099
	<u>\$ 41,639</u>	<u>\$ 107,104</u>
Due to:		
Cablevision (c)	130,670	19,482
Other Altice N.V. subsidiaries (b)	1,770	3,209
	<u>\$ 132,440</u>	<u>\$ 22,691</u>

(a) Includes an \$87,675 principal amount intercompany loan made to Altice USA. In May 2018, Altice USA repaid this loan and the related interest.

(b) Represents amounts paid by the Company on behalf of the respective related party and/or amounts due for services provided by the related party.

(c) Amounts due to Cablevision in 2018 primarily relate to services provided to the Company by ATS, equipment purchases made by Cablevision on the Company's behalf and certain general and administrative services provided by Cablevision. Amounts due to Cablevision in 2017 include \$14,511 for assets that were transferred to the Company.

NOTE 12. COMMITMENTS AND CONTINGENCIES

The Company receives notices from third parties and, in some cases, is named as a defendant in certain lawsuits claiming infringement of various patents relating to various aspects of the Company's businesses. In certain of these cases other industry participants are also defendants. In certain of these cases the Company expects that any potential liability would be the responsibility of the Company's equipment vendors pursuant to applicable contractual indemnification provisions.

Cequel Communications Holdings I, LLC
Notes to Condensed Consolidated Financial Statements (continued)
(dollars in thousands, except where otherwise indicated)
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The Company believes that the claims are without merit, but is unable to predict the outcome of these matters or reasonably estimate a range of possible loss.

From time to time, the Company is involved in other litigation and regulatory proceedings arising in the ordinary course of conducting its business. Although the ultimate outcome of these other proceedings cannot be predicted, the Company believes that it is not currently a party to any other legal or regulatory proceedings, the adverse outcome of which, individually or in the aggregate, would materially adversely affect its business, financial position, 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 harm its reputation.

NOTE 13. SUBSEQUENT EVENTS

The Company has updated its review of subsequent events as of August 14, 2018 (the date available for issuance) noting no events that require disclosure.

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

Overview

All dollar amounts, except per customer and per share data, included in the following discussion, are presented in thousands.

Our Business

We deliver broadband, pay television, telephony services, and advertising services to approximately 1.8 million residential and business customers. Our footprint extends across 17 states through a fiber-rich broadband network with approximately 3.5 million homes passed as of June 30, 2018. We provide broadband, pay television and telephony services to residential and business customers in the south-central United States, with the majority of our customers located in the ten states of Texas, West Virginia, Louisiana, Arkansas, North Carolina, Oklahoma, Arizona, California, Missouri and Ohio.

Key Factors Impacting Operating Results and Financial Condition

Our future performance is dependent, to a large extent, on the impact of direct competition, general economic conditions (including capital and credit market conditions), our ability to manage our businesses effectively, and our relative strength and leverage in the marketplace, both with suppliers and customers. For more information see “Risk Factors,” and “Business-Competition” included in our Annual Report for the year ended December 31, 2017.

We derive revenue principally through monthly charges to residential customers of our pay television, broadband, and telephony services. We also derive revenue from, DVR, VOD, pay-per-view, installation and home shopping commissions. Our residential pay television, broadband, and telephony services accounted for approximately 39%, 38% and 4%, respectively, of our consolidated revenue for the six months ended June 30, 2018. We also derive revenue from the sale of a wide and growing variety of products and services to both large enterprise and small and medium-sized business (“SMB”) customers, including broadband, telephony, networking and pay television services. For the six months ended June 30, 2018, 15% of our consolidated revenue was derived from these business services and wholesale. In addition, we derive revenues from the sale of advertising time available on the programming carried on our cable television systems, which accounted for approximately 3% of our consolidated revenue for the six months ended June 30, 2018. Our other revenue accounted for approximately 1% of our consolidated revenue for the six months ended June 30, 2018.

Revenue is impacted by rate increases, changes in the number of customers to our services, including additional services sold to our existing customers, programming package changes by our pay television customers, speed tier changes by our broadband customers, and acquisitions of cable systems that result in the addition of new subscribers.

Our ability to increase the number of customers to our services is significantly related to our penetration rates.

We operate in a highly competitive consumer-driven industry and we compete against a variety of broadband, pay television and telephony providers and delivery systems, including broadband communications companies, wireless data and telephony providers, satellite-delivered video signals, Internet-delivered video content and broadcast television signals available to residential and business customers in our service areas. Our competitors include AT&T and its DirecTV subsidiary, CenturyLink, DISH Network, and Frontier. Consumers’ selection of an alternate source of service, whether due to economic constraints, technological advances or preference, negatively impacts the demand for our services. For more information on our competitive landscape, see “Risk Factors,” and “Business-Competition” included in our Annual Report for the year ended December 31, 2017.

Our programming costs, which are the most significant component of our operating expenses, have increased and are expected to continue to increase primarily as a result of contractual rate increases and new channel launches. See “- Results of Operations” below for more information regarding our key factors impacting our revenues and operating expenses.

Historically, we have made substantial investments in our network and the development of new and innovative products and other service offerings for our customers as a way of differentiating ourselves from our competitors and may continue to do so in the future. We have commenced construction on a fiber-to-the home network, which will enable

us to deliver more than 10 Gbps broadband speeds across part of our footprint. We may incur greater than anticipated capital expenditures in connection with this initiative, fail to realize anticipated benefits, experience delays and business disruptions or encounter other challenges to executing it as planned. See “-Liquidity and Capital Resources-Capital Expenditures” for additional information regarding our capital expenditures.

Non-GAAP Financial Measures

We define Adjusted EBITDA, which is a non-GAAP financial measure, as net income (loss) excluding income taxes, other non-operating income or expenses, loss on extinguishment of debt and write-off of deferred financing costs, gain (loss) on interest rate swap contracts, interest expense (including cash interest expense), interest income, depreciation and amortization (including impairments), share-based compensation expense or benefit, restructuring expense or credits and transaction expenses. We believe Adjusted EBITDA is an appropriate measure for evaluating the operating performance of the Company. Adjusted EBITDA and similar measures with similar titles are common performance measures used by investors, analysts and peers to compare performance in our industry. Internally, we use revenue and Adjusted EBITDA measures as important indicators of our business performance, and evaluate management’s effectiveness with specific reference to these indicators. We believe Adjusted EBITDA provides management and investors a useful measure for period-to-period comparisons of our core business and operating results by excluding items that are not comparable across reporting periods or that do not otherwise relate to the Company’s ongoing operating results. Adjusted EBITDA should be viewed as a supplement to and not a substitute for operating income (loss), net income (loss), and other measures of performance presented in accordance with GAAP. Since Adjusted EBITDA is not a measure of performance calculated in accordance with GAAP, this measure may not be comparable to similar measures with similar titles used by other companies.

RESULTS OF OPERATIONS

	Cequel Holdings			
	Three Months Ended		2018 to 2017 Favorable (Unfavorable)	% Change 2018 to 2017
	June 30, 2018	June 30, 2017		
(dollars in thousands)				
Revenue:				
Residential:				
Pay TV	\$ 268,147	\$ 274,707	\$ (6,560)	(2)%
Broadband	262,776	237,421	25,355	11 %
Telephony	29,864	32,938	(3,074)	(9)%
Business Services	100,625	92,677	7,948	9 %
Advertising	18,366	18,699	(333)	(2)%
Other	3,097	6,394	(3,297)	(52)%
Total revenue	<u>682,875</u>	<u>662,836</u>	<u>20,039</u>	<u>3 %</u>
Operating expenses:				
Programming and other direct costs	207,303	187,755	(19,548)	(10)%
Other operating expenses	167,213	165,808	(1,405)	(1)%
Restructuring and other expense	1,176	1,216	40	3 %
Depreciation and amortization	175,389	164,586	(10,803)	(7)%
Operating income	<u>131,794</u>	<u>143,471</u>	<u>(11,677)</u>	<u>(8)%</u>
Other income (expense):				
Interest expense, net	(106,577)	(100,674)		
Gain on sale of affiliate interest	4	—		
Gain (loss) on interest rate swap contracts	(13,151)	9,146		
Loss on extinguishment of debt	(36,910)	(28,684)		
Income (loss) before income taxes	<u>(24,840)</u>	<u>23,259</u>		
Income tax expense (benefit)	7,317	(10,175)		
Net income (loss)	<u>\$ (17,523)</u>	<u>\$ 13,084</u>		

The following is a reconciliation of net income (loss) to Adjusted EBITDA:

	Three Months Ended		2018 to 2017 Favorable (Unfavorable)	% change 2018 to 2017
	June 30, 2018	June 30, 2017		
Net income (loss)	\$ (17,523)	\$ 13,084	\$ (30,607)	(234)%
Income tax expense (benefit)	(7,317)	10,175	(17,492)	(172)%
Loss (gain) on interest rate swap contracts	13,151	(9,146)	22,297	244 %
Gain on sale of affiliate interest	(4)	—	(4)	100 %
Loss on extinguishment of debt	36,910	28,684	8,226	29 %
Interest expense, net	106,577	100,674	5,903	6 %
Depreciation and amortization	175,389	164,586	10,803	7 %
Restructuring and other expense	1,176	1,216	(40)	(3)%
Share-based compensation	1,869	6,118	(4,249)	(69)%
Adjusted EBITDA	<u>\$ 310,228</u>	<u>\$ 315,391</u>	<u>\$ (5,163)</u>	<u>(2)%</u>

Cequel Holdings				
Six Months Ended				
	June 30, 2018	June 30, 2017	2018 to 2017 Favorable (Unfavorable)	% Change 2018 to 2017
(dollars in thousands)				
Revenue:				
Residential:				
Pay TV	\$ 538,135	\$ 556,391	\$ (18,256)	(3)%
Broadband.....	524,046	467,006	57,040	12 %
Telephony	60,317	67,342	(7,025)	(10)%
Business Services	199,543	183,553	15,990	9 %
Advertising	35,434	36,928	(1,494)	(4)%
Other	7,949	11,888	(3,939)	(33)%
Total revenue	1,365,424	1,323,108	42,316	3 %
Operating expenses:				
Programming and other direct costs.....	409,927	377,796	(32,131)	(9)%
Other operating expenses	346,948	324,143	(22,805)	(7)%
Restructuring and other expense	1,680	19,498	17,818	91 %
Depreciation and amortization	332,730	330,134	(2,596)	(1)%
Operating income	274,139	271,537	2,602	1 %
Other income (expense):				
Interest expense, net	(207,070)	(204,166)		
Loss on sale of affiliate interest.....	(2,876)	—		
Gain (loss) on interest rate swap contracts.....	(45,073)	11,488		
Loss on extinguishment of debt and write-off of deferred financing costs.....	(36,910)	(28,684)		
Other expense	(12)	—		
Income (loss) before income taxes	(17,802)	50,175		
Income tax benefit (expense)	5,225	(22,352)		
Net income (loss)	\$ (12,577)	\$ 27,823		

The following is a reconciliation of net income (loss) to Adjusted EBITDA:

Six Months Ended				
	June 30, 2018	June 30, 2017	2018 to 2017 Favorable (Unfavorable)	% change 2018 to 2017
Net income (loss)	\$ (12,577)	\$ 27,823	\$ (40,400)	(145)%
Income tax expense (benefit)	(5,225)	22,352	(27,577)	(123)%
Loss (gain) on interest rate swap contracts	45,073	(11,488)	56,561	492 %
Loss on sale of affiliate interest	2,876	—	2,876	100 %
Loss on extinguishment of debt	36,910	28,684	8,226	29 %
Other expense.....	12	—	12	100 %
Interest expense, net.....	207,070	204,166	2,904	1 %
Depreciation and amortization	332,730	330,134	2,596	1 %
Restructuring and other expense	1,680	19,498	(17,818)	(91)%
Share-based compensation	7,320	8,885	(1,565)	(18)%
Adjusted EBITDA	\$ 615,869	\$ 630,054	\$ (14,185)	(2)%

The following table sets forth certain customer metrics:

	June 30, 2018	March 31, 2018	June 30, 2017
	(in thousands, except per customer amounts)		
Homes passed(a)	3,483.7	3,468.0	3,430.4
Total customer relationships (b)(c)	1,761.6	1,765.4	1,753.3
Residential.....	1,650.1	1,655.5	1,647.8
SMB.....	111.5	109.9	105.5
Residential customers:			
Pay TV.....	1,023.6	1,035.0	1,061.8
Broadband.....	1,400.8	1,399.2	1,358.4
Telephony.....	596.1	596.2	589.5
Residential triple product customer penetration(d):	25.8%	25.7%	25.3%
Penetration of homes passed(e):	50.6%	50.9%	51.1%
ARPU(f)	\$ 113.10	\$ 113.58	\$ 109.81

- (a) Represents the estimated number of single residence homes, apartments and condominium units passed by the cable distribution network in areas serviceable without further extending the transmission lines. In addition, it includes commercial establishments that have connected to our cable distribution network. For Cequel, broadband services were not available to approximately 100 homes passed and telephony services were not available to approximately 500 homes passed.
- (b) Represents number of households/businesses that receive at least one of the Company's services.
- (c) Customers represent each customer account (set up and segregated by customer name and address), weighted equally and counted as one customer, regardless of size, revenue generated, or number of boxes, units, or outlets. In calculating the number of customers, we count all customers other than inactive/disconnected customers. Free accounts are included in the customer counts along with all active accounts, but they are limited to a prescribed group. Most of these accounts are also not entirely free, as they typically generate revenue through pay-per-view or other pay services and certain equipment fees. Free status is not granted to regular customers as a promotion. In counting bulk residential customers, such as an apartment building, we count each subscribing family unit within the building as one customer, but do not count the master account for the entire building as a customer. We count a bulk commercial customer, such as a hotel, as one customer, and do not count individual room units at that hotel.
- (d) Represents the number of customers that subscribe to three of our services divided by total residential customer relationships.
- (e) Represents the number of total customer relationships divided by homes passed.
- (f) Calculated by dividing the average monthly revenue for the respective quarter (fourth quarter for annual periods) derived from the sale of broadband, pay television and telephony services to residential customers for the respective quarter by the average number of total residential customers for the same period.

Pay Television Revenue

Pay television revenue is derived principally through monthly charges to residential customers of our pay television services. Revenue is impacted by rate increases, changes in the number of customers, including additional services sold to our existing customers, and changes in programming packages.

Pay television revenue decreased \$6,560 (2%) and \$18,256 (3%), respectively, for the three and six months ended June 30, 2018 as compared to the same periods in the prior year. The decreases were due primarily to a decline in the number of pay television customers, partially offset by an increase in average revenue per pay television customer.

We believe our pay television customer declines noted in the table above are largely attributable to competition from DBS providers and from companies that deliver video content over the Internet directly to customers. Competition is expected to continue to impact our ability to maintain or increase our existing customers and revenue in the future.

Broadband Revenue

Broadband revenue is derived principally through monthly charges to residential subscribers of our broadband services. Revenue is impacted by rate increases, changes in the number of customers, including additional services sold to our existing subscribers, and changes in speed tiers.

Broadband revenue increased \$25,355 (11%) and \$57,040 (12%) for the three and six months ended June 30, 2018, respectively, as compared to the same periods in the prior year. The increases were due primarily to higher average recurring broadband revenue per broadband customer, primarily driven by certain rate increases and service level changes, and an increase in broadband customers.

Telephony Revenue

Telephony revenue is derived principally through monthly charges to residential customers of our telephony services. Revenue is impacted by changes in rates for services, changes in the number of customers, and additional services sold to our existing customers.

Telephony revenue decreased \$3,074 (9%) and \$7,025 (10%) for the three and six months ended June 30, 2018 compared to the three and six months ended June 30, 2017, respectively. The decreases were due primarily to lower average revenue per telephony customer.

Business Services and Wholesale Revenue

Business services and wholesale revenue is derived primarily from the sale of fiber based telecommunications services to the business market, and the sale of broadband, pay television and telephony services to small and medium sized business ("SMB") customers.

Business services and wholesale revenue increased \$7,948 (9%) and \$15,990 (9%) for the three and six months ended June 30, 2018 as compared to the three and six months ended June 30, 2017, respectively. The increases were primarily due to higher commercial rates and customers for broadband services and increases in wholesale data and telephony services.

Advertising Revenue

Advertising revenue is primarily derived from the sale of advertising time available on the programming carried on our cable television systems. Advertising revenue decreased \$333 (2%) and \$1,494 (4%) for the three and six months ended June 30, 2018 as compared to the three and six months ended June 30, 2017, respectively.

Other Revenue

Other revenue decreased \$3,297 (52%) and \$3,939 (33%) for the three and six months ended June 30, 2018, as compared to the same periods in the prior year. Other revenue includes other miscellaneous revenue streams.

Programming and Other Direct Costs

Programming and other direct costs include cable programming costs, which are costs paid to programmers (net of amortization of any incentives received from programmers for carriage) for cable content (including costs of VOD and pay-per-view) and are generally paid on a per-customer basis. These costs typically rise due to increases in contractual rates and new channel launches and are also impacted by changes in the number of customers receiving certain programming services. These costs also include interconnection, call completion, circuit and transport fees paid to other telecommunication companies for the transport and termination of voice and data services, which typically vary based on rate changes and the level of usage by our customers. These costs also include franchise fees which are payable to the state governments and local municipalities where we operate and are primarily based on a percentage of certain categories of revenue derived from the provision of pay television service over our cable systems, which vary by state and municipality. These costs change in relation to changes in such categories of revenues or rate changes.

Programming and other direct costs increased \$19,548 and \$32,131 for the three and six months ended June 30, 2018, respectively, as compared to the same periods in the prior year. The net increases are attributable to the following:

	Three Months	Six Months
	Ended June 30, 2018	
Increase in programming costs due primarily to contractual rate increases and new channel launches, partially offset by lower pay television customers and lower video-on-demand and pay-per-view costs	\$ 18,503	\$ 30,222
Other net increases	1,045	1,909
	<u>\$ 19,548</u>	<u>\$ 32,131</u>

Programming costs aggregated \$168,877 and \$332,955 for the three and six months ended June 30, 2018, respectively, and \$150,374 and \$302,733 for the three and six months ended June 30, 2017, respectively. Our programming costs in 2018 will continue to be impacted by changes in programming rates, which we expect to increase by high single digits, and by changes in the number of pay television customers.

Other Operating Expenses

Other operating expenses include staff costs and employee benefits including salaries of company employees and related taxes, benefits and other employee related expenses, as well as third party labor costs. Other operating expenses also include network management and field service costs, which represent costs associated with the maintenance of our broadband network, including costs of certain customer connections and other costs associated with providing and maintaining services to our customers.

Customer installation and repair and maintenance costs may fluctuate as a result of changes in the level of activities and the utilization of contractors as compared to employees. Also, customer installation costs fluctuate as the portion of our expenses that we are able to capitalize changes. Costs associated with the initial deployment of new customer premise equipment necessary to provide broadband, pay television and telephony services are capitalized (asset-based). Network repair and maintenance and utility costs also fluctuate as capitalizable network upgrade and enhancement activity changes.

Other operating expenses also include costs related to the operation and maintenance of our call center facilities that handle customer inquiries and billing and collection activities and sales and marketing costs, which include advertising production and placement costs associated with acquiring and retaining customers. These costs vary period to period and certain of these costs, such as sales and marketing, may increase with intense competition. Additionally, other operating expenses include various other administrative costs, including legal fees, and product development costs.

Other operating expenses increased \$1,405 (1%) and \$22,805 (7%) for the three and six months ended June 30, 2018, as compared to the same periods in the prior year. The net increases are attributable to the following:

	Three Months	Six Months
	Ended June 30, 2018	
Decrease in share-based compensation and long-term incentive plan expense.....	\$ (5,099)	\$ (3,445)
Decrease primarily in labor costs, partially offset by lower capitalizable activity	(2,623)	(3,729)
Increase in marketing costs	12,093	16,708
Increase in professional fees	2,407	2,371
Increase in repairs and maintenance costs relating to our operations	944	5,240
Other net increase (decrease), including a decrease in the allocation of certain general and administrative costs from Cablevision in the three month period	(6,317)	5,660
	<u>\$ 1,405</u>	<u>\$ 22,805</u>

Restructuring and Other Expense

Restructuring and other expense for the three and six months ended June 30, 2018 amounted to \$1,176 and \$1,680, respectively, and for the three and six months ended June 30, 2017 amounted to \$1,216 and \$19,498, respectively. Restructuring and other expense for all periods primarily relates to costs incurred in connection with severance and other employee related costs resulting from headcount reductions related to initiatives commenced in 2016 that are intended to simplify the Company's organizational structure. We currently anticipate that additional restructuring expenses will be recognized as we continue to analyze our organizational structure.

Depreciation and Amortization

Depreciation and amortization increased \$10,803 (7%) and \$2,596 (1%) for the three and six months ended June 30, 2018 as compared to the three and six months ended June 30, 2017, respectively. The increases are due primarily to depreciation of new asset additions.

Adjusted EBITDA

Adjusted EBITDA is a non-GAAP measure that is defined as net income (loss) excluding income taxes, non-operating income or expenses, loss on extinguishment of debt and write-off of deferred financing costs, gain (loss) on interest rate swap contracts, interest expense (including cash interest expense), interest income, depreciation and amortization (including impairments), share-based compensation expense or benefit, restructuring expense or credits and transaction expenses. See reconciliation of net loss to adjusted EBITDA above.

Adjusted EBITDA decreased \$5,163 (2%) and \$14,185 (2%) for the three and six months ended June 30, 2018, as compared to the same periods in the prior year. The decreases in adjusted EBITDA were due primarily to an increase in operating expenses (excluding depreciation and amortization expense, restructuring expense, share-based compensation and transaction expenses), partially offset by an increase in revenue as discussed above.

Interest Expense, net

Interest expense, net increased \$5,903 (6%) and \$2,904 (1%) for the three and six months ended June 30, 2018, respectively, as compared to the same periods in the prior year. The net increases are attributable to the following:

	<u>Three Months</u>	<u>Six Months</u>
	<u>Ended June 30, 2018</u>	
Decrease in weighted average debt outstanding	\$ (158)	\$ (260)
Change in effective interest rate	8,115	5,194
Decrease in amortization of debt issuance costs, discounts and deferred financing fees, net	(818)	(738)
Increase in interest income.....	(1,236)	(1,292)
	<u>\$ 5,903</u>	<u>\$ 2,904</u>

Gain (loss) on interest rate swap contracts

Gain (loss) on interest rate swap contracts amounted to \$(13,151) and \$(45,073) for the three and six months ended June 30, 2018, respectively and \$9,146 and \$11,488 for the three and six months ended June 30, 2017, respectively. These amounts represent the increase or decrease in fair value of interest rate swaps. These swap contracts are not designated as hedges for accounting purposes.

Gain (Loss) on sale of affiliate interest

The gain (loss) on sale of affiliate interest of \$4 and \$(2,876) during the three and six months ended June 30, 2018 relates to the sale of our ownership interest in a subsidiary of the Company.

Loss on Extinguishment of Debt and Write-off of Deferred Financing Costs

Loss on extinguishment of debt and write-off of deferred financing costs amounted to \$36,910 for the three and six months ended June 30, 2018 and includes the write-off of unamortized discount and the premium paid in connection with early redemption of the \$1,050,000 6.375% senior notes that were due in September 2020.

Loss on extinguishment of debt and write-off of deferred financing costs amounted to \$28,684 for the three and six months ended June 30, 2017 and related to the credit facility extension amendment and the redemption of senior notes.

Income tax expense

Cequel recorded income tax benefit of \$7,317 and \$5,225 for the three and six months ended June 30, 2018, reflecting an effective tax rate of approximately 29%, which has declined compared to previous years primarily as a result of the enactment of the Tax Cuts & Jobs Act in December 2017 which lowered the corporate federal income tax rate from 35% to 21%.

Cequel recorded income tax expense of \$10,175 and \$22,352 for the three and six months ended June 30, 2017, reflecting an effective tax rate of 44% and 45%, respectively. Nondeductible share-based compensation resulted in tax expense of \$2,447 and \$3,554. Absent this item, the effective tax rate for the three and six months ended June 30, 2017 would have been 33% and 37%, respectively.

As of June 30, 2018, the Company's federal net operating losses ("NOLs") were approximately \$773,000 on a standalone basis. The NOLs are subject to limitations arising from ownership changes under Internal Revenue Code section 382. The Company does not expect the limitations to impact the ability to utilize the NOLs prior to their expiration.

Liquidity and Capital Resources

General

The Company is a holding company and has no operations independent of its subsidiaries. Accordingly, the Company will depend on the cash flow of its subsidiaries in order to make payments on, or repay or refinance, its outstanding indebtedness. Funding for our subsidiaries has generally been provided by cash flow from their respective operations, cash on hand and borrowings under a revolving credit facility and the proceeds from the issuance of securities and borrowings under syndicated term loans in the capital markets. Our decision as to the use of cash generated from operating activities, cash on hand, borrowings under the revolving credit facility or accessing the capital markets has been based upon an ongoing review of the funding needs of the business, the optimal allocation of cash resources, the timing of cash flow generation and the cost of borrowing under the revolving credit facility, debt securities and syndicated term loans.

We expect to utilize free cash flow and availability under the revolving credit facility, as well as future refinancing transactions, to further extend the maturities of, or reduce the principal on, our debt obligations. The timing and terms of any refinancing transactions will be subject to, among other factors, market conditions. Additionally, we may, from time to time, depending on market conditions and other factors, use cash on hand and the proceeds from other borrowings to repay the outstanding debt securities through open market purchases, privately negotiated purchases, tender offers, or redemptions.

We believe existing cash balances, operating cash flows and availability under our revolving credit facility will provide adequate funds to support our current operating plan, make planned capital expenditures and fulfill our debt service requirements for the next twelve months. However, our ability to fund our operations, make planned capital expenditures, make scheduled payments on our indebtedness and repay our indebtedness depends on our future operating performance and cash flows and our ability to access the capital markets, which, in turn, are subject to prevailing economic conditions and to financial, business and other factors, some of which are beyond our control. However, competition, market disruptions or a deterioration in economic conditions could lead to lower demand for our products, as well as lower levels of advertising, and increased incidence of customers' inability to pay for the services we provide. These events would adversely impact our results of operations, cash flows and financial position. Although we currently believe that amounts available under the revolving credit facility will be available when, and if, needed, we can provide no assurance that access to such funds will not be impacted by adverse conditions in the financial markets or other conditions. The obligations of the financial institutions under the revolving credit facility are several and not joint and, as a result, a funding default by one or more institutions does not need to be made up by the others.

The terms of our credit facilities generally restrict Cequel Communications, LLC (doing business as Suddenlink) and its restricted subsidiaries from making dividends and other distributions to the Company except under certain circumstances. The credit facilities permit Suddenlink to make dividends and distributions to the Company subject to satisfaction of certain conditions and that no event of default has occurred and is continuing, or would be caused by the making of such dividends or other distributions, and based on, among other things, a restricted payment basket. In addition, the credit facilities permit Suddenlink to make dividends and distributions to the Company for payment of regularly scheduled interest payments through maturity on indebtedness.

In the longer term, we do not expect to be able to generate sufficient cash from operations to fund anticipated capital expenditures, meet all existing future contractual payment obligations and repay our debt at maturity. As a result, we will be dependent upon our continued access to the capital and credit markets to issue additional debt or equity or refinance existing debt obligations. We intend to raise significant amounts of funding over the next several years to fund capital expenditures, repay existing obligations and meet other obligations, and the failure to do so successfully could adversely affect our business. If we are unable to do so, we will need to take other actions including deferring capital expenditures, selling assets, seeking strategic investments from third parties or reducing or eliminating discretionary uses of cash.

The following table provides details of the Company's outstanding credit facility debt as of June 30, 2018:

	Maturity Date	Interest Rate	Principal Amount	Carrying Amount (a)
Revolving Credit Facility (b)	\$65,000 on November 30, 2021, and remaining balance on April 5, 2023	—%	\$ —	\$ —
Term Loan Facility	July 28, 2025	4.34%	1,252,350	1,244,153
			<u>\$ 1,252,350</u>	<u>1,244,153</u>
Less: Current portion				12,650
Long-term debt				<u>\$ 1,231,503</u>

- (a) The carrying amount is net of the unamortized deferred financing costs and/or discounts.
- (b) At June 30, 2018, \$7,636 of the revolving credit facility was restricted for certain letters of credit issued on behalf of the Company and \$342,364 of the facility was undrawn and available, subject to covenant limitations.

Senior Secured Notes and Senior Notes

The following table summarizes the Company's senior secured notes and senior notes:

Date Issued	Maturity Date	Interest Rate	June 30, 2018	
			Principal Amount	Carrying Amount (a)
Cequel and Cequel Capital Senior Notes (e):				
Oct. 25, 2012	September 15, 2020	6.375% (b) (c)	\$ —	\$ —
Dec. 28, 2012	2020			
May 16, 2013	December 15, 2021	5.125% (b)	1,250,000	1,151,107
Sept. 9, 2014	2021			
June 12, 2015	July 15, 2025	7.750% (d)	620,000	605,143
April 5, 2018	April 1, 2028	7.500% (h)	1,050,000	1,048,185
Altice US Finance I Corporation Senior Secured Notes (e):				
June 12, 2015	July 15, 2023	5.375% (f)	1,100,000	1,083,846
April 26, 2016	May 15, 2026	5.500% (g)	1,500,000	1,488,592
			<u>\$ 5,520,000</u>	<u>5,376,873</u>
Less: current portion				—
Long-term debt				<u>\$ 5,376,873</u>

- (a) The carrying amount is net of the unamortized deferred financing costs and/or discounts/premiums.
- (b) The Company may redeem some or more of all the notes at the redemption price set forth in the relevant indenture, plus accrued and unpaid interest.
- (c) These notes were repaid in April 2018 with the proceeds from the issuance of new senior notes.
- (d) Some or all of these notes may be redeemed at any time on or after July 15, 2020, plus accrued and unpaid interest, if any. Up to 40% of the notes may be redeemed using the proceeds of certain equity offerings before July 15, 2018, at a redemption price equal to 107.750%.
- (e) The issuers of these notes have no ability to service interest or principal on the notes, other than through any contributions/distributions from Cequel Communications, LLC (an indirect subsidiary of the Company and the parent of Altice US Finance I). Cequel Communications, LLC is restricted in certain circumstances, from paying dividends or distributions to the issuers by the terms of the Credit Facilities Agreement.

- (f) Some or all of these notes may be redeemed at any time on or after July 15, 2018, plus accrued and unpaid interest, if any. Up to 40% of the notes may be redeemed using the proceeds of certain equity offerings before July 15, 2018, at a redemption price equal to 105.375%.
- (g) Some or all of these notes may be redeemed at any time on or after May 15, 2021, plus accrued and unpaid interest, if any. Up to 40% of the notes may be redeemed using the proceeds of certain equity offerings before May 15, 2019, at a redemption price equal to 105.500%.
- (h) The 2028 Senior Notes are redeemable at any time prior to April 1, 2023 at a redemption price equal to 100% of the principal amount thereof plus the applicable premium plus accrued and unpaid interest, if any. Up to 40% of the original aggregate principal amount of the 2028 Senior Notes may be redeemed using the proceeds of certain equity offerings before April 1, 2021, at a redemption price equal to 107.50% of the principal amount, plus accrued and unpaid interest. In addition, the 2028 Senior Notes are redeemable at any time on or after April 1, 2023 at the redemption prices set forth in indenture, plus accrued and unpaid interest.

The indentures under which the senior secured notes and senior notes were issued contain various covenants. The Company was in compliance with all of the financial covenants under these indentures as of June 30, 2018.

Payment Obligations Related to Debt

As of June 30, 2018, total amounts payable by us in connection with our outstanding obligations, including related interest, as well as capital lease obligations, and notes payable are as follows:

2018	\$ 212,559
2019	446,075
2020	412,665
2021	1,661,856
2022	347,236
Thereafter.....	6,571,125
Total	<u>\$ 9,651,516</u>

Credit Facilities

On June 12, 2015, Altice US Finance I Corporation, a wholly-owned subsidiary of Cequel, entered into a senior secured credit facility which currently provides U.S. dollar term loans in an aggregate principal amount of \$1,265,000 (\$1,252,350 outstanding at June 30, 2018) (the “Cequel Term Loan Facility” and the term loans extended under the Cequel Term Loan Facility, the “Cequel Term Loans”) and U.S. dollar revolving loan commitments in an aggregate principal amount of \$350,000 (the “Cequel Revolving Credit Facility” and, together with the Cequel Term Loan Facility, the “Cequel Credit Facilities”) which are governed by a credit facilities agreement entered into by, inter alios, Altice US Finance I Corporation, certain lenders party thereto and JPMorgan Chase Bank, N.A. as administrative agent and security agent (as amended, restated, supplemented or otherwise modified on October 25, 2016, December 9, 2016, March 15, 2017, and March 22, 2018 and as further amended, restated, supplemented or modified from time to time, the “Cequel Credit Facilities Agreement”).

The Company was in compliance with all of its financial covenants under the Credit Facilities Agreement as of June 30, 2018.

See Note 9 to our consolidated financial statements in our Annual Report for the year ended December 31, 2017 for further information regarding the Cequel Credit Facilities Agreement.

Cequel Notes

Cequel Senior Secured Notes

On June 12, 2015, Altice US Finance I Corporation issued \$1,100,000 aggregate principal amount of its 5 3/8% Senior Secured Notes due 2023. On April 26, 2016, Altice US Finance I Corporation issued \$1,500,000 aggregate principal amount of its 5 1/2% Senior Secured Notes due 2026.

As of June 30, 2018, Cequel was in compliance with all of its financial covenants under the indentures under which the Cequel senior secured notes were issued.

Ceque! Senior Notes

On October 25, 2012, Cequel Capital Corporation and Cequel Communications Holdings I, LLC (collectively, the "Cequel Senior Notes Co-Issuers") issued \$500,000 aggregate principal amount of their 6 3/8% Senior Notes due 2020 (the "Cequel 2020 Senior Notes"). On December 28, 2012, the Cequel Senior Notes Issuers issued an additional \$1,000,000 aggregate principal amount of their Cequel 2020 Senior Notes. In April 2017, the Company redeemed \$450,000 of the Cequel 2020 Senior Notes from proceeds of the Cequel Term Loan pursuant to the March 15, 2017 amendment.

On May 16, 2013, the Cequel Senior Notes Co-Issuers issued \$750,000 aggregate principal amount of their 5 1/8% Senior Notes due 2021. On September 9, 2014, the Cequel Senior Notes Co-Issuers issued \$500,000 aggregate principal amount of their 5 1/8% Senior Notes due 2021.

On June 12, 2015, Altice US Finance II Corporation issued \$300,000 aggregate principal amount of its 7 3/4% Senior Notes due 2025 (the "Cequel 2025 Senior Notes"). Following the Cequel Acquisition, Altice US Finance II Corporation was merged into Cequel and the Cequel 2025 Senior Notes became the obligation of the Cequel Senior Notes Co-Issuers.

Also on June 12, 2015, Altice US Finance S.A., an indirect subsidiary of Altice, issued \$320,000 principal amount of 7 3/4% Senior Notes due 2025 (the "Cequel Holdco Notes"), the proceeds from which were placed in escrow, to finance a portion of the purchase price for the Cequel Acquisition. The Cequel Holdco Notes were automatically exchanged into an equal aggregate principal amount of Cequel 2025 Senior Notes during the second quarter of 2016.

As of June 30, 2018, Cequel was in compliance with all of its financial covenants under the indentures under which the Cequel senior notes were issued.

In April 2018, Cequel Communications Holdings I, LLC and Cequel Capital Corporation each an indirect, wholly owned subsidiary of the Company, issued \$1,050,000, aggregate principal amount of 7 1/2% senior notes due April 1, 2028. The proceeds of these notes were used in April 2018 to redeem the \$1,050,000 aggregate principal amount 6 3/8% senior notes due September 15, 2020.

Commitments and Contingencies

As of June 30, 2018, the Company's commitments and contingencies not reflected in the Company's condensed consolidated balance sheets decreased to approximately \$1,826,000 as compared to approximately \$2,283,000 at December 31, 2017. This decrease relates primarily to payments made pursuant to programming commitments during the six months ended June 30, 2018, partially offset by renewed multi-year programming agreements entered into during the period.

Distributions to Parent

The Cequel Credit Facilities Agreement and the Indentures permit in certain instances distributions to holders of equity interests in Cequel Holdings and Cequel Corporation.

Capital Expenditures

The following table provides details of the Company's capital expenditures:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Customer premise equipment.....	\$ 23,160	\$ 24,054	\$ 41,581	\$ 52,333
Network infrastructure	23,320	19,956	61,444	45,984
Support and other	11,200	13,618	32,453	22,072
Business services.....	12,646	7,369	25,662	17,636
Capital purchases (cash basis)	<u>\$ 70,326</u>	<u>\$ 64,997</u>	<u>\$161,140</u>	<u>\$138,025</u>
Capital purchases (including accrued not paid).....	<u>\$ 92,267</u>	<u>\$ 73,250</u>	<u>\$173,174</u>	<u>\$120,574</u>

Customer premise equipment includes expenditures for set-top boxes, cable modems, routers and other equipment that is placed in a customer's home, as well as installation costs for placing the assets into service. Network infrastructure includes: (i) scalable infrastructure, such as headend equipment, (ii) line extensions, such as fiber/coaxial cable, amplifiers, electronic equipment, make-ready and design engineering, and (iii) upgrade and rebuild, including costs to modify or replace existing fiber/coaxial cable networks, including enhancements. Support and other capital expenditures includes costs associated with the replacement or enhancement of non-network assets, such as office equipment, buildings and vehicles. Business services capital expenditures include primarily equipment, installation, support, and other costs related to our fiber based telecommunications business.

Cash Flow Discussion

Operating Activities

Net cash provided by operating activities amounted to \$593,619 for the six months ended June 30, 2018 compared to \$422,739 for the six months ended June 30, 2017. The 2018 cash provided by operating activities resulted from \$414,896 of income before depreciation and amortization and non-cash items. In addition, cash increased as a result of an increase of \$134,760 in accounts payable and other liabilities and an increase of \$45,421 in interest rate swap liabilities, partially offset by a decrease of \$1,458 in current assets and other assets.

The 2017 cash provided by operating activities resulted from \$357,957 of income before depreciation and amortization and \$83,792 of non-cash items, partially offset by an \$8,500 decrease in liability related to interest rate swaps, \$6,424 resulting from decreases in accounts payable, accrued expenses, accrued interest and amounts due from and due to affiliates, net, and \$4,086 resulting from an increase in current assets and other assets.

Investing Activities

Net cash used in investing activities for the six months ended June 30, 2018 was \$164,979 compared to \$137,920 for the six months ended June 30, 2017. The 2018 investing activities consisted of capital expenditures of \$161,140, cash used in connection with the sale of an affiliate interest of \$3,537, and the sale of equipment of \$302. The 2017 investing activities consisted of \$138,025 of capital expenditures, partially offset by net proceeds from the disposal of assets of \$105.

Financing Activities

Net cash used in financing activities amounted to \$376,270 for the six months ended June 30, 2018 compared to \$363,400 for the six months ended June 30, 2017. In 2018, the Company's financing activities consisted primarily of the redemption and repurchase of senior notes, including premiums and fees of \$1,066,737, distributions to parent of \$350,000, the repayment of credit facility debt of \$6,325, additions to deferred financing costs of \$1,843, repayments of notes payable of \$1,179 and principal payments on capital lease obligations of \$186, partially offset by proceeds from senior notes of \$1,050,000.

In 2017, the Company's financing activities consisted of repayments of credit facility debt of \$815,000, repayments of senior notes of \$464,345, distributions to parent of \$339,700, additions to deferred financing costs of \$2,658 and principal payments on capital lease obligations of \$372, partially offset by proceeds from credit facility debt of \$1,258,675.

Recently Issued But Not Yet Adopted Accounting Pronouncements

In January 2017, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2017-04, Intangibles-Goodwill and Other (Topic 350). ASU No. 2017-04 simplifies the subsequent measurement of goodwill by removing the second step of the two-step impairment test. The amendment requires an entity to perform its annual, or interim goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. ASU No. 2017-04 becomes effective for the Company on January 1, 2020 with early adoption permitted and will be applied prospectively.

In February 2016, the FASB issued ASU No. 2016-02, Leases, which increases transparency and comparability by recognizing a lessee's rights and obligations resulting from leases by recording them on the balance sheet as lease assets and lease liabilities. The new guidance becomes effective for the Company on January 1, 2019 with early adoption permitted and will be applied using the modified retrospective method. Although, the Company has not yet completed the evaluation of the effect that ASU No. 2016-02 will have on its consolidated financial statements, upon adoption, the Company expects to recognize a right of use asset and liability related to substantially all operating lease arrangements on the Company's consolidated balance sheet.

ITEM 3 QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

All dollar amounts included in the following discussion under this Item 3 are presented in thousands.

Fair Value of Debt

At June 30, 2018, the fair value of our fixed rate debt of \$5,514,656 was higher than its carrying value of \$5,413,229 by \$101,427. The fair value of these financial instruments is estimated based on reference to quoted market prices for these or comparable securities. Our floating rate borrowings bear interest in reference to current LIBOR-based market rates and thus their principal values approximate fair value. The effect of a hypothetical 100 basis point decrease in interest rates prevailing at June 30, 2018 would increase the estimated fair value of our fixed rate debt by \$235,770 to \$5,750,426. This estimate is based on the assumption of an immediate and parallel shift in interest rates across all maturities.

Interest Rate Risk

In June 2016, the Company entered into two fixed to floating interest rate swap contracts. One fixed to floating interest rate swap is converting \$750,000 from a fixed rate of 1.6655% to six-month LIBO rate and a second tranche of \$750,000 from a fixed rate of 1.68% to six-month LIBO rate. The objective of these swaps is to adjust the proportion of total debt that is subject to fixed and variable interest rates. As of June 30, 2018 and December 31, 2017, these interest rate swap contracts had an aggregate fair value and carrying value of \$123,470 and \$77,902, respectively, reflected in "liabilities under derivative contracts" in our condensed consolidated balance sheets.

In April 2018, the Company entered into an interest rate swap contract which converts the interest rate on \$1,255,513 of the Cequel Term Loan B from a one-month LIBO rate to a three-month LIBO rate minus 0.225%. The objective of this swap is to potentially pay a lower interest rate than what the Company can elect under the terms of the Cequel Credit Facilities Agreement. As of June 30, 2018, this interest rate swap contract had an aggregate fair value and carrying value of \$147 reflected in "prepaid expenses and other assets" in our condensed consolidated balance sheet.

These interest rate swap contracts were not designated as hedges for accounting purposes. Accordingly, the changes in the fair value of these contracts are recorded through the statements of operations. For the three and six months ended June 30, 2018, the Company recorded a loss on interest rate swap contracts of \$13,151 and \$45,073, respectively.

The Company does not hold or issue derivative instruments for trading or speculative purposes.

ITEM 4. CONTROLS AND PROCEDURES

Pursuant to the Indentures, no certifications or attestations concerning our financial statements or disclosure controls and procedures or internal controls that would otherwise be required pursuant to the Sarbanes-Oxley Act of 2002, as amended, or the Securities Act, are required to be included in or to accompany this Quarterly Report.

The Company plans to migrate its customer billing system to the Cablevision billing system platform in 2018. Additionally, the Company plans to implement and upgrade certain other customer billing systems.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Refer to Note 12 to our condensed consolidated financial statements included in this Quarterly Report for a discussion of our legal proceedings.

SIGNATURE

Cequel has duly caused this Quarterly Report to be signed on its behalf by the undersigned, thereunto duly authorized.

CEQUEL COMMUNICATIONS HOLDINGS I, LLC

Date: August 14, 2018

/s/ Charles Stewart

By: Charles Stewart as Co-President and Chief Financial Officer
(Duly Authorized Officer and Principal Financial Officer) of
Cequel Communications Holdings I, LLC