
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 10-Q

**Quarterly Report Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934**

For the quarterly period ended September 30, 2019

**Commission File Numbers: 333-72440
333-82124-02**

**Mediacom Broadband LLC
Mediacom Broadband Corporation***

(Exact names of Registrants as specified in their charters)

**Delaware
Delaware**
(State or other jurisdiction of
incorporation or organization)

**06-1615412
06-1630167**
(I.R.S. Employer
Identification Numbers)

**1 Mediacom Way
Mediacom Park, NY 10918**
(Address of principal executive offices)

(845) 443-2600
(Registrants' telephone number)

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

| Title of each class | Trading Symbol(s) | Name of each exchange on which registered |
|---------------------|----------------------|--|
| None | — | — |

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

Note: As voluntary filers, not subject to the filing requirements, the Registrants have filed all reports under Section 13 or 15(d) of the Exchange Act during the preceding 12 months.

Indicate by check mark whether the Registrants have submitted, if any, every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the Registrants were required to submit such files). Yes No

Indicate by check mark whether the Registrants are large accelerated filers, accelerated filers, non-accelerated filers, smaller reporting companies, or emerging growth companies. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

| | | | |
|--------------------------|-------------------------------------|-----------------------------|--------------------------|
| Large accelerated filers | <input type="checkbox"/> | Accelerated filers | <input type="checkbox"/> |
| Non-accelerated filers | <input checked="" type="checkbox"/> | Smaller reporting companies | <input type="checkbox"/> |
| | | Emerging growth companies | <input type="checkbox"/> |

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

Indicate by check mark whether the Registrants are shell companies (as defined in Rule 12b-2 of the Exchange Act). Yes No

Indicate the number of shares outstanding of the Registrants' common stock: Not Applicable

* Mediacom Broadband Corporation meets the conditions set forth in General Instruction H (1) (a) and (b) of Form 10-Q and is therefore filing this form with the reduced disclosure format.

MEDIACOM BROADBAND LLC AND SUBSIDIARIES

**FORM 10-Q
FOR THE PERIOD ENDED SEPTEMBER 30, 2019
TABLE OF CONTENTS**

| | <u>Page</u> |
|---|-------------|
| <u>PART I</u> | |
| Item 1. Financial Statements | 4 |
| Consolidated Balance Sheets (unaudited) September 30, 2019 and December 31, 2018 | 4 |
| Consolidated Statements of Operations (unaudited) Three and Nine Months Ended September 30, 2019 and 2018 | 5 |
| Consolidated Statements of Changes in Member's Equity (unaudited) Nine Months Ended September 30, 2019 and 2018 | 6 |
| Consolidated Statements of Cash Flows (unaudited) Nine Months Ended September 30, 2019 and 2018 | 7 |
| Notes to Consolidated Financial Statements (unaudited) | 8 |
| Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations | 18 |
| Item 3. Quantitative and Qualitative Disclosures about Market Risk | 28 |
| Item 4. Controls and Procedures | 28 |
| <u>PART II</u> | |
| Item 1. Legal Proceedings | 30 |
| Item 1A. Risk Factors | 30 |
| Item 6. Exhibits | 31 |
| Signatures | 31 |

This Quarterly Report on Form 10-Q is for the nine months ended September 30, 2019. Any statement contained in a prior periodic report shall be deemed to be modified or superseded for purposes of this Quarterly Report to the extent that a statement herein modifies or supersedes such statement. The Securities and Exchange Commission allows us to "incorporate by reference" information that we file with them, which means that we can disclose important information by referring you directly to those documents. Information incorporated by reference is considered to be part of this Quarterly Report.

Mediacom Broadband LLC is a Delaware limited liability company and a wholly-owned subsidiary of Mediacom Communications Corporation, a Delaware corporation. Mediacom Broadband Corporation is a Delaware corporation and a wholly-owned subsidiary of Mediacom Broadband LLC. Mediacom Broadband Corporation was formed for the sole purpose of acting as co-issuer with Mediacom Broadband LLC of debt securities and does not conduct operations of its own.

References in this Quarterly Report to "we," "us," or "our" are to Mediacom Broadband LLC and its direct and indirect subsidiaries (including Mediacom Broadband Corporation), unless the context specifies or requires otherwise. References in this Quarterly Report to "Mediacom" or "MCC" are to Mediacom Communications Corporation.

Cautionary Statement Regarding Forward-Looking Statements

You should carefully review the information contained in this Quarterly Report and in other reports or documents that we file from time to time with the SEC.

In this Quarterly Report, we state our beliefs of future events and of our future financial performance. In some cases, you can identify those so-called “forward-looking statements” by words such as “anticipates,” “believes,” “continue,” “could,” “estimates,” “expects,” “intends,” “may,” “plans,” “potential,” “predicts,” “should” or “will,” or the negative of those and other comparable words. These forward-looking statements are not guarantees of future performance or results, and are subject to risks and uncertainties that could cause actual results to differ materially from historical results or those we anticipate as a result of various factors, many of which are beyond our control. Factors that may cause such differences to occur include, but are not limited to:

- increased levels of competition from direct broadcast satellite operators, local phone companies, other cable providers, wireless communications companies, providers of video delivered over the Internet including competitors using over-the-top (“OTT”) delivery and existing licensed content providers, and other services that compete for our customers;
- lower demand for our services from existing and potential residential and business customers that may result from increased competition, weakened economic conditions or other factors;
- continued increases in video programming costs and our ability to fully offset the effects of these higher costs;
- an acceleration in bandwidth consumption by high-speed data customers greater than current expectations, that could require unplanned capital expenditures;
- our ability to continue to grow our business services customer base and associated revenues;
- our ability to successfully adopt new technologies and introduce new products and services, or enhance existing ones, to meet customer demands and preferences;
- our ability to secure hardware, software and operational support for the delivery of products and services to consumers;
- disruptions or failures of our network and information systems, including those caused by “cyber-attacks,” natural disasters or other events outside our control;
- our reliance on certain intellectual property rights, and not infringing on the intellectual property rights of others;
- our ability to generate sufficient cash flows from operations to meet our debt service obligations and make necessary capital investments;
- our ability to comply with all covenants in our indenture and credit facility, the failure to comply with some of which could result in an acceleration of our indebtedness;
- our ability to refinance future debt maturities on favorable terms, if at all;
- changes in assumptions underlying our critical accounting policies;
- changes in legislative and regulatory matters that may cause us to incur additional costs and expenses or increase the level of competition we face; and
- other risks and uncertainties discussed in our Annual Report for the year ended December 31, 2018 and other reports or documents that we file from time to time with the SEC.

Statements included in our Quarterly Report are based upon information known to us as of the date that this Quarterly Report is filed with the SEC, and we assume no obligation to update or alter our forward-looking statements made in our Quarterly Report, whether as a result of new information, future events or otherwise, except as required by applicable federal securities laws.

PART I**ITEM 1. FINANCIAL STATEMENTS**

MEDIACOM BROADBAND LLC AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands)

| | September 30, 2019 (Unaudited) | December 31, 2018 |
|---|--------------------------------------|----------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash | \$ 15,588 | \$ 29,964 |
| Accounts receivable, net of allowance for doubtful accounts of \$3,487 and \$3,554 | 38,583 | 40,252 |
| Prepaid expenses and other current assets | 25,295 | 24,347 |
| Total current assets | 79,466 | 94,563 |
| Property, plant and equipment, net of accumulated depreciation of \$1,791,803 and \$1,730,750 | 859,747 | 850,638 |
| Right-of-use operating assets | 24,417 | — |
| Franchise rights | 1,176,364 | 1,176,364 |
| Goodwill | 195,855 | 195,855 |
| Other assets, net of accumulated amortization of \$6,483 and \$5,761 | 13,349 | 14,312 |
| Total assets | <u>\$ 2,349,198</u> | <u>\$ 2,331,732</u> |
| LIABILITIES, PREFERRED MEMBERS' INTEREST AND MEMBER'S EQUITY | | |
| CURRENT LIABILITIES | | |
| Accounts payable, accrued expenses and other current liabilities | \$ 148,977 | \$ 146,080 |
| Accounts payable - affiliates | 14,327 | 20,104 |
| Deferred revenue - current | 22,503 | 22,345 |
| Current portion of long-term debt | 20,500 | 20,500 |
| Total current liabilities | 206,307 | 209,029 |
| Long-term debt, net (less current portion) | 1,166,590 | 1,190,557 |
| Deferred revenue - non-current | 8,201 | 8,237 |
| Right-of-use operating liabilities - non-current | 19,616 | — |
| Total liabilities | 1,400,714 | 1,407,823 |
| Commitments and contingencies (Note 10) | | |
| PREFERRED MEMBERS' INTEREST (Note 7) | 150,000 | 150,000 |
| MEMBER'S EQUITY | | |
| Capital (distributions) contributions | (43,743) | 99,358 |
| Retained earnings | 842,227 | 674,551 |
| Total member's equity | 798,484 | 773,909 |
| Total liabilities, preferred members' interest and member's equity | <u>\$ 2,349,198</u> | <u>\$ 2,331,732</u> |

The accompanying notes to the unaudited financial statements are an integral part of these statements.

MEDIACOM BROADBAND LLC AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in thousands)

(Unaudited)

| | <u>Three Months Ended</u> <u>September 30,</u> | | <u>Nine Months Ended</u> <u>September 30,</u> | |
|--|---|------------------|--|------------------|
| | <u>2019</u> | <u>2018</u> | <u>2019</u> | <u>2018</u> |
| Revenues | \$284,510 | \$276,394 | \$848,167 | \$820,827 |
| Costs and expenses: | | | | |
| Service costs (exclusive of depreciation and amortization) | 116,634 | 115,781 | 349,446 | 344,090 |
| Selling, general and administrative expenses | 51,257 | 51,768 | 147,489 | 148,578 |
| Management fee expense | 6,900 | 6,325 | 19,500 | 17,675 |
| Depreciation and amortization | 37,529 | 36,933 | 109,823 | 110,848 |
| Operating income | 72,190 | 65,587 | 221,909 | 199,636 |
| Interest expense, net | (13,844) | (13,039) | (41,536) | (43,509) |
| Gain (loss) on derivatives, net | 2,312 | (1,526) | 2,312 | (875) |
| Loss on early extinguishment of debt (Note 6) | — | — | (899) | (12,216) |
| Other (expense) income, net | (67) | 371 | (610) | (211) |
| Net income | \$ 60,591 | \$ 51,393 | \$181,176 | \$142,825 |
| Dividend to preferred members (Note 7) | (4,500) | (4,500) | (13,500) | (13,500) |
| Net income applicable to member | <u>\$ 56,091</u> | <u>\$ 46,893</u> | <u>\$167,676</u> | <u>\$129,325</u> |

The accompanying notes to the unaudited financial statements are an integral part of these statements.

MEDIACOM BROADBAND LLC AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN MEMBER'S EQUITY
(Dollars in thousands)
(Unaudited)

| | <u>Capital (Distributions) Contributions</u> | <u>Retained Earnings</u> | <u>Total Member's Equity</u> |
|---|--|------------------------------|--------------------------------------|
| Balance, December 31, 2017 | \$ (98,268) | \$ 496,096 | \$ 397,828 |
| Net income | — | 142,825 | 142,825 |
| Dividend payments to related party on preferred members' interest | — | (13,500) | (13,500) |
| Capital contributions from parent | 208,000 | — | 208,000 |
| Capital distributions to parent | (9,300) | — | (9,300) |
| Revenue recognition adoption (Note 12) | — | (1,230) | (1,230) |
| Other | 93 | — | 93 |
| Balance, September 30, 2018 | <u>\$ 100,525</u> | <u>\$ 624,191</u> | <u>\$ 724,716</u> |
| Balance, December 31, 2018 | \$ 99,358 | \$ 674,551 | \$ 773,909 |
| Net income | — | 181,176 | 181,176 |
| Dividend payments to related party on preferred members' interest | — | (13,500) | (13,500) |
| Capital contributions from parent | 211,430 | — | 211,430 |
| Capital distributions to parent | (354,600) | — | (354,600) |
| Other | 69 | — | 69 |
| Balance, September 30, 2019 | <u>\$ (43,743)</u> | <u>\$ 842,227</u> | <u>\$ 798,484</u> |

The accompanying notes to the unaudited financial statements are an integral part of these statements.

MEDIACOM BROADBAND LLC AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)
(Unaudited)

| | Nine Months Ended | |
|---|--------------------------|--------------------|
| | September 30, | |
| | 2019 | 2018 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income | \$ 181,176 | \$ 142,825 |
| Adjustments to reconcile net income to net cash flows provided by operating activities: | | |
| Depreciation and amortization | 109,823 | 110,848 |
| Deferred compensation | 612 | — |
| (Gain) loss on derivatives, net | (2,312) | 875 |
| Loss on early extinguishment of debt | 899 | 2,651 |
| Amortization of deferred financing costs | 2,877 | 3,227 |
| Debt extinguishment costs | — | 9,565 |
| Changes in assets and liabilities: | | |
| Accounts receivable, net | 1,669 | (3,059) |
| Prepaid expenses and other assets | 4,311 | 3,744 |
| Accounts payable, accrued expenses and other current liabilities | (685) | (7,483) |
| Accounts payable - affiliates | (5,777) | (2,419) |
| Deferred revenue - current | 158 | 132 |
| Deferred revenue - non-current | (36) | 292 |
| Other non-current liabilities | (2,007) | — |
| Net cash flows provided by operating activities | <u>\$ 290,708</u> | <u>\$ 261,198</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Capital expenditures | \$(119,089) | \$(128,571) |
| Change in accrued property, plant and equipment | (1,726) | 2,582 |
| Proceeds from sale of assets | 342 | 898 |
| Net cash flows used in investing activities | <u>\$(120,473)</u> | <u>\$(125,091)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| New borrowings of bank debt | \$ 558,000 | \$ 427,125 |
| Repayment of bank debt | (435,125) | (443,375) |
| Redemption of senior notes | (150,000) | (300,000) |
| Dividend payments on preferred members' interest (Note 7) | (13,500) | (13,500) |
| Capital contributions from parent (Note 8) | 211,430 | 208,000 |
| Capital distributions to parent (Note 8) | (354,600) | (9,300) |
| Debt extinguishment costs | — | (9,565) |
| Other financing activities | (816) | 4,205 |
| Net cash flows used in financing activities | <u>\$(184,611)</u> | <u>\$(136,410)</u> |
| Net change in cash | (14,376) | (303) |
| CASH, beginning of period | 29,964 | 12,606 |
| CASH, end of period | <u>\$ 15,588</u> | <u>\$ 12,303</u> |

The accompanying notes to the unaudited financial statements are an integral part of these statements.

MEDIACOM BROADBAND LLC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. ORGANIZATION

Basis of Preparation of Unaudited Consolidated Financial Statements

Mediacom Broadband LLC (“Mediacom Broadband,” and collectively with its subsidiaries, “we,” “our” or “us”) is a Delaware limited liability company wholly-owned by Mediacom Communications Corporation (“MCC”). MCC’s business is the operation of cable systems serving smaller cities and towns in the United States, and its cable systems are owned and operated through our operating subsidiaries and those of Mediacom LLC, a New York limited liability company wholly-owned by MCC. As limited liability companies, we and Mediacom LLC are not subject to income taxes and, as such, are included in the consolidated federal and state income tax returns of MCC, a C corporation.

Our principal operating subsidiaries conduct all of our consolidated operations and own substantially all of our consolidated assets. Our operating subsidiaries are separate and distinct legal entities and have no obligation, contingent or otherwise, to make funds available to us. We rely on our parent, MCC, for various services such as corporate and administrative support. Our financial position, results of operations and cash flows could differ from those that would have resulted had we operated autonomously or as an entity independent of MCC. See Notes 8 and 9.

We have prepared these unaudited consolidated financial statements in accordance with the rules and regulations of the Securities and Exchange Commission (the “SEC”). In the opinion of management, such statements include all adjustments, consisting of normal recurring accruals and adjustments, necessary for a fair statement of our consolidated results of operations, financial position, and cash flows for the interim periods presented. The accounting policies followed during such interim periods reported are in conformity with generally accepted accounting principles in the United States of America and are consistent with those applied during annual periods. For a summary of our accounting policies and other information, refer to our Annual Report on Form 10-K for the year ended December 31, 2018. 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, 2019.

Mediacom Broadband Corporation (“Broadband Corporation”), a Delaware corporation wholly-owned by us, co-issued, jointly and severally with us, public debt securities. Broadband Corporation has no operations, revenues or cash flows and has no assets, liabilities or stockholders’ equity on its balance sheet, other than a one-hundred dollar receivable from an affiliate and the same dollar amount of common stock. Therefore, separate financial statements have not been presented for this entity.

Reclassifications

Certain reclassifications have been made to prior year amounts to conform to the current year presentation.

2. RECENT ACCOUNTING PRONOUNCEMENTS

Accounting Pronouncements Adopted January 1, 2019

In February 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update No. 2016-02, *Leases* (“ASU 2016-02”), which requires lessees to recognize leases on-balance sheet and disclose key information about leasing arrangements. The objective of ASU 2016-02 is to address the concerns to increase the transparency around lease obligations. To address these concerns, previously unrecorded off-balance sheet obligations will now be brought more prominently to light by presenting lease liabilities on the face of the balance sheet. Accompanied by enhanced qualitative and quantitative disclosures in the notes to the financial statements, financial statement users will be able to more accurately compare information from one company to another. The new standard establishes a right-of-use (“ROU”) model that requires a lessee to recognize a ROU asset and lease liability on the balance sheet for all leases with a term of longer than 12 months. Leases will be classified as finance or operating, with classification affecting the pattern and classification of expense recognition in the income statement.

We adopted the new standard on its effective date, January 1, 2019, using a modified retrospective transition approach in which prior periods were not restated.

ASU 2016-02 and related guidance had no impact on our statement of operations or cash flows at adoption.

The most significant changes relate to: the recognition of new ROU operating lease assets of \$26.3 million and operating lease liabilities of \$26.5 million on our balance sheet as of January 1, 2019 for office equipment, real estate, and other assets as determined.

[Table of Contents](#)

We elected all of the practical expedients afforded under ASU 2016-02 and related guidance, except for the practical expedient of “Hindsight” and lessee’s accounting of lease and non-lease components. The practical expedients we elected include: “the package” of practical expedients, land easements, lessors ability to combine lease and non-lease components and short-term leases. See Note 13.

Accounting Pronouncements with Future Adoption Dates

In June 2016, the FASB issued ASU 2016-13 – *Financial Instruments — Credit Losses (Topic 326)* (“ASU 2016-13”). The main objective of ASU 2016-13 is to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments. ASU 2016-13 replaces the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. ASU 2016-13 affects entities holding financial assets and net investment in leases that are not accounted for at fair value through net income including loans, debt securities, trade receivables, net investments in leases, and any other financial assets not excluded from the scope that have the contractual right to receive cash. ASU 2016-13 is effective for public business entities for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. We do not expect that ASU 2016-13 will have a material impact on our financial position, operations or cash flows upon adoption.

In January 2017, the FASB issued ASU 2017-04 – *Intangibles – Goodwill and Other* (“ASU 2017-04”). ASU 2017-04 simplifies how an entity is required to test goodwill for impairment by eliminating Step 2 from the goodwill impairment test. A public business entity that is a SEC filer should adopt the amendments in this update for its annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019, with early adoption permitted. We do not expect that ASU 2017-04 will have a material impact on our financial position, operations or cash flows upon adoption.

In August 2018, the FASB issued ASU 2018-15 — *Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract* (“ASU 2018-15”). The amendments in ASU 2018-15 align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by the amendments in ASU 2018-15. The amendments in ASU 2018-15 are effective for us for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption of the amendments is permitted, including adoption in any interim period, for all entities. ASU 2018-15 can be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. We expect to adopt ASU 2018-15 on a prospective basis. We do not expect that ASU 2018-15 will have a material impact on our financial position, operations or cash flows upon adoption.

3. FAIR VALUE

Our financial assets and liabilities are measured at fair value on a recurring basis using a market-based approach. Our financial assets and liabilities, all of which represent interest rate exchange agreements (which we refer to as “interest rate swaps”), have been categorized according to the three-level fair value hierarchy established by Accounting Standards Codification (“ASC”) No. 820 — *Fair Value Measurement*, which prioritizes the inputs used in measuring fair value, as follows (dollars in thousands):

- Level 1 — Quoted market prices in active markets for identical assets or liabilities.
- Level 2 — Observable market based inputs or unobservable inputs that are corroborated by market data.
- Level 3 — Unobservable inputs that are not corroborated by market data.

[Table of Contents](#)

| | Fair Value as of September 30, 2019 | | | |
|-----------------------------------|-------------------------------------|----------|---------|----------|
| | Level 1 | Level 2 | Level 3 | Total |
| Assets | | | | |
| Interest rate exchange agreements | \$ — | \$ 2,312 | \$ — | \$ 2,312 |
| Liabilities | | | | |
| Interest rate exchange agreements | \$ — | \$ — | \$ — | \$ — |
| | | | | |
| | Fair Value as of December 31, 2018 | | | |
| | Level 1 | Level 2 | Level 3 | Total |
| Assets | | | | |
| Interest rate exchange agreements | \$ — | \$ — | \$ — | \$ — |
| Liabilities | | | | |
| Interest rate exchange agreements | \$ — | \$ — | \$ — | \$ — |

The fair value of our interest rate swaps represents the estimated amount that we would receive or pay to terminate such agreements, taking into account projected interest rates, based on quoted London Interbank Offered Rate (“LIBOR”) futures and the remaining time to maturity. While our interest rate swaps are subject to contractual terms that provide for the net settlement of transactions with counterparties, we do not offset assets and liabilities under these agreements for financial statement presentation purposes, and assets and liabilities are reported on a gross basis.

As of September 30, 2019, we recorded a current asset of \$1.5 million and a long-term asset of \$0.8 million, and no current or long-term liability. As of December 31, 2018, we had no interest rate swaps.

As a result of the changes in the mark-to-market valuations on our interest rate swaps, we recorded a net gain on derivatives of \$2.3 million and a net loss on derivatives of \$1.5 million for the three months ended September 30, 2019 and 2018, respectively, and a net gain on derivatives of \$2.3 million and a net loss on derivatives of \$0.9 million for the nine months ended September 30, 2019 and 2018, respectively.

4. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consisted of the following (dollars in thousands):

| | September 30, 2019 | December 31, 2018 |
|---|-----------------------|----------------------|
| Cable systems, equipment and customer devices | \$ 2,542,361 | \$ 2,467,534 |
| Vehicles | 43,809 | 49,784 |
| Buildings and leasehold improvements | 39,503 | 38,366 |
| Furniture, fixtures and office equipment | 18,093 | 17,919 |
| Land and land improvements | 7,784 | 7,785 |
| Property, plant and equipment, gross | \$ 2,651,550 | \$ 2,581,388 |
| Accumulated depreciation | (1,791,803) | (1,730,750) |
| Property, plant and equipment, net | <u>\$ 859,747</u> | <u>\$ 850,638</u> |

5. ACCOUNTS PAYABLE, ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accounts payable, accrued expenses and other current liabilities consisted of the following (dollars in thousands):

| | September 30, 2019 | December 31, 2018 |
|--|-----------------------|----------------------|
| Accrued programming costs | \$ 37,375 | \$ 33,335 |
| Accounts payable - trade | 28,604 | 32,237 |
| Accrued taxes and fees | 18,306 | 17,761 |
| Accrued payroll and benefits | 15,634 | 15,412 |
| Accrued service costs | 11,668 | 5,624 |
| Advance customer payments | 8,429 | 8,689 |
| Accrued property, plant and equipment | 8,406 | 10,132 |
| Bank overdrafts (1) | 7,251 | 8,067 |
| Accrued marketing costs | 5,356 | 3,694 |
| Accrued administrative costs | 4,703 | 5,568 |
| Accrued interest | 1,476 | 2,809 |
| Accrued telecommunications costs | 1,083 | 1,036 |
| Other accrued expenses | 686 | 1,716 |
| Accounts payable, accrued expenses and other current liabilities | <u>\$ 148,977</u> | <u>\$ 146,080</u> |

- (1) Bank overdrafts represent outstanding checks in excess of funds on deposit at our disbursement accounts. We transfer funds from our depository accounts to our disbursement accounts upon daily notification of checks presented for payment. Changes in bank overdrafts are reported in "other financing activities" in our Consolidated Statements of Cash Flows.

6. DEBT

Outstanding debt consisted of the following (dollars in thousands):

| | September 30, 2019 | December 31, 2018 |
|--|-----------------------|----------------------|
| Bank credit facility | \$ 1,147,250 | \$ 1,024,375 |
| 5½% senior notes due 2021 | 50,000 | 200,000 |
| Total debt | \$ 1,197,250 | \$ 1,224,375 |
| Less: current portion | 20,500 | 20,500 |
| Total long-term debt, gross (less current portion) | \$ 1,176,750 | \$ 1,203,875 |
| Less: deferred financing costs, net | 10,160 | 13,318 |
| Total long-term debt, net (less current portion) | <u>\$ 1,166,590</u> | <u>\$ 1,190,557</u> |

2019 Financing Activity

On March 15, 2019, we called for the irrevocable redemption of \$150.0 million principal amount outstanding of our 5½% senior notes due March 2021 (the “5½% Notes”) and, on April 15, 2019, we redeemed \$150.0 million of principal amount outstanding of the 5½% Notes at a redemption price of 100.0% for each \$1,000 principal amount redeemed or approximately \$150.0 million. Such redemption was funded with \$117.9 million of available cash and \$32.1 million of borrowings under our revolving credit facility. Upon completion of the partial redemption, \$50.0 million principal amount of the 5½% Notes remained outstanding. As a result of the partial redemption of the 5½% Notes, we recorded a loss on early extinguishment of debt of \$0.9 million for the nine months ended September 30, 2019, which represented the write-off of unamortized financing costs.

Bank Credit Facility

As of September 30, 2019, we maintained a \$1.384 billion credit facility (the “credit facility”), comprising:

- \$375.0 million of revolving credit commitments, which expire on November 2, 2022;
- \$225.0 million of outstanding borrowings under Term Loan A-1, which mature on November 2, 2022;
- \$784.0 million of outstanding borrowings under Term Loan M, which mature on January 15, 2025;

As of September 30, 2019, we had approximately \$227.4 million of unused revolving credit commitments, all of which were available to be borrowed and used for general corporate purposes, after giving effect to \$138.3 million of outstanding loans and \$9.4 million of letters of credit issued thereunder to various parties as collateral.

The credit facility is collateralized by our ownership interests in our operating subsidiaries and is guaranteed by us on a limited recourse basis to the extent of such ownership interests. As of September 30, 2019, the credit agreement governing the credit facility (the “credit agreement”) required our operating subsidiaries to maintain a total leverage ratio (as defined in the credit agreement) of no more than 5.0 to 1.0 and an interest coverage ratio (as defined in the credit agreement) of no less than 2.0 to 1.0. For all periods through September 30, 2019, our operating subsidiaries were in compliance with all covenants under the credit agreement. As of the same date, the credit agreement allowed for the full or partial repayment of any outstanding debt under the credit facility at par value any time prior to maturity.

Interest Rate Swaps

We periodically enter into interest rate swaps with various banks to fix the variable rate on a portion of our borrowings under the credit facility to reduce the potential volatility in our interest expense that could result from changes in market interest rates. Our interest rate swaps have not been designated as hedges for accounting purposes and have been accounted for on a mark-to-market basis for the three and nine months ended September 30, 2019.

As of September 30, 2019, we had interest rate swaps that fixed the variable portion of \$200 million of borrowings at a weighted average rate of 1.3%, all of which were scheduled to expire during 2022. As of the same date, we also had forward starting interest rate swaps that will fix the variable portion of an additional \$200 million of borrowings at a rate of 1.1% for a three-year period commencing in October 2019, all of which were scheduled to expire during 2022.

As of September 30, 2019, the weighted average interest rate on outstanding borrowings under the credit facility, including the effect of our interest rate swaps, was 3.8%.

Senior Notes

As of September 30, 2019, we had \$50.0 million of outstanding senior notes, all of which comprised our 5½% Notes.

Our senior notes are unsecured obligations, and the indenture governing the 5½% Notes (the “indenture”) limits the incurrence of additional indebtedness based upon a maximum debt to operating cash flow ratio (as defined in the indenture) of 8.5 to 1.0. For all periods through September 30, 2019, we were in compliance with all covenants under the indenture. As of the same date, the indenture allowed for the full or partial repayment of any of our senior notes at par value at any time prior to maturity.

Debt Ratings

MCC’s corporate credit ratings are currently Ba1 by Moody’s and BB+ by Standard and Poor’s (“S&P”), both with stable outlooks, and our senior unsecured ratings are currently Ba2 by Moody’s and BB- by S&P, both with stable outlooks. There are no covenants, events of default, borrowing conditions or other terms in the credit agreement or indenture that are based on changes in our credit rating assigned by any rating agency.

Fair Value

The fair values of our senior notes and outstanding debt under the credit facility (which were calculated based upon unobservable inputs that are corroborated by market data that we determine to be Level 2), were as follows (dollars in thousands):

| | September 30, 2019 | December 31, 2018 |
|---------------------------|-----------------------|----------------------|
| 5½% senior notes due 2021 | \$ 50,375 | \$ 200,500 |
| Total senior notes | \$ 50,375 | \$ 200,500 |
| Bank credit facility | \$ 1,153,620 | \$ 992,775 |

7. PREFERRED MEMBERS’ INTEREST

In July 2001, we received a \$150.0 million preferred membership investment (“PMI”) from the operating subsidiaries of Mediacom LLC, which has a 12% annual dividend, payable quarterly in cash. We may voluntarily repay the PMI any time at par, and the operating subsidiaries of Mediacom LLC have the option to call for the redemption of the PMI upon the repayment of all of our outstanding senior notes. We paid \$4.5 million in cash dividends on the PMI during each of the three months ended September 30, 2019 and 2018, and \$13.5 million in cash dividends on the PMI during each of the nine months ended September 30, 2019 and 2018.

8. MEMBER’S EQUITY

As a wholly-owned subsidiary of MCC, our business affairs, including our financing decisions, are directed by MCC. See Note 9.

Capital contributions from parent and capital distributions to parent are reported on a gross basis in the Consolidated Statements of Cash Flows. We received capital contributions from parent in cash of \$211.4 million and \$208.0 million during the nine months ended September 30, 2019 and 2018, respectively. We made capital distributions to parent in cash of \$354.6 million and \$9.3 million during the nine months ended September 30, 2019 and 2018, respectively.

9. RELATED PARTY TRANSACTIONS

MCC manages us pursuant to management agreements with our operating subsidiaries. Under such agreements, MCC has full and exclusive authority to manage our day-to-day operations and conduct our business. We remain responsible for all expenses and liabilities relating to the construction, development, operation, maintenance, repair and ownership of our systems.

As compensation for the performance of its services, subject to certain restrictions, MCC is entitled under each management agreement to receive management fees in an amount not to exceed 4.0% of the annual gross operating revenues of our operating subsidiaries. MCC is also entitled to the reimbursement of all expenses necessarily incurred in its capacity as manager. MCC charged us management fees of \$6.9 million and \$6.3 million for the three months ended September 30, 2019 and 2018, respectively and \$19.5 million and \$17.7 million for the nine months ended September 30, 2019 and 2018, respectively.

Mediacom LLC is a preferred equity investor in us. See Notes 7 and 8.

10. COMMITMENTS AND CONTINGENCIES

Legal Proceedings

We are involved in various legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters is not expected to have a material adverse effect on our consolidated financial position, results of operations, cash flows or business.

11. GOODWILL AND OTHER INTANGIBLE ASSETS

In accordance with the FASB's ASC No. 350 — *Intangibles — Goodwill and Other* ("ASC 350"), the amortization of goodwill and indefinite-lived intangible assets is prohibited and requires such assets to be tested annually for impairment, or more frequently if impairment indicators arise. We have determined that our goodwill and franchise rights are indefinite-lived assets and therefore not amortizable.

We last evaluated the factors surrounding our Mediacom Broadband reporting unit as of October 1, 2018 and did not believe that it was "more likely than not" that a goodwill impairment existed at that time. As such, we did not perform Step 2 of the goodwill impairment test. We last evaluated our other intangible assets as of October 1, 2018 and did not believe that it was "more likely than not" that an impairment existed at that time.

Because we believe there has not been a meaningful change in the long-term fundamentals of our business during the first nine months of 2019, we determined that there has been no triggering event under ASC 350 and, as such, no interim impairment test was required for our goodwill and other intangible assets as of September 30, 2019.

12. REVENUE RECOGNITION

We adopted the new accounting guidance for revenue recognition (i.e. ASU 2014-09) as of January 1, 2018.

We disaggregate revenue from contracts with customers by type of services. We have determined that disaggregating revenue into these categories depicts how the nature, amount, timing, and uncertainty of revenue and cash flows are affected by economic factors in our one reporting segment.

Nature of Services

Our primary revenue streams are subscription-based and comprise video service, high-speed data service and phone services. These services have base-level offerings and can be upgraded to premium level services. Residential customers can cancel them at any time with no penalty. Small-to-medium business customers and large enterprise-class customers (collectively, "business customers") are generally subject to fixed-term contracts with penalties imposed for early cancellation. We recognize revenue as services are provided on a monthly basis in an amount that reflects the consideration to which we expect to be entitled in exchange for those services. Billing for all services (regardless of customer type) typically occurs in advance of services being delivered and paid by customers on a monthly basis.

We also generate revenue from installation services and customer premise equipment rental associated with our subscription-based services. After installation occurs, equipment is rented to the customer over the service period to allow the customer to use the various subscription services noted above. Fees for installation services are viewed as advance payments for future services and are recognized over the period of benefit which is estimated to be the life of the customer relationship (approximately three years for residential customers and 1-10 years for all other customers). Customer premise equipment rentals are not separate performance obligations as they are considered to be highly interdependent on the underlying video, high-speed data and/or telephone service. Revenue for equipment rental is recognized when control of the underlying services is transferred to our customers over time.

Advertising sales represent another revenue stream and involve the insertion of commercials into various video and/or Internet platforms for an advertising customer. The performance obligation for these contracts is satisfied as the commercials are displayed. There are no agent relationships included in our delivery of our advertising services. Our obligation for returns and/or refunds is deemed insignificant. Revenue is recognized at a point in time as commercials are displayed by us and viewed by the public.

A significant portion of our revenue streams are derived from customers who may cancel their subscriptions at any time without penalty. As such, the amount of revenue related to unsatisfied, remaining performance obligations is not necessarily indicative of the future revenue to be recognized from our existing customer base. Revenue from customers with a contract containing a specified contract term and non-cancelable service period will be recognized over the term of such contracts, which is generally 1-10 years.

[Table of Contents](#)

Franchise fees imposed by local governmental authorities are collected on a monthly basis from our customers and are periodically remitted to the local governmental authorities. Because franchise fees are our obligation, we present them on a gross basis within revenues with a corresponding operating expense. Franchise fees reported on a gross basis amounted to \$5.2 million and \$5.4 for the three months ended September 30, 2019 and 2018, respectively and \$15.8 million and \$16.2 million for the nine months ended September 30, 2019 and 2018, respectively.

Our revenues by type of service are as follows (dollars in thousands):

| Type of service | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|-------------------|-------------------------------------|------------------|------------------------------------|------------------|
| | 2019 | 2018 | 2019 | 2018 |
| HSD | \$ 115,238 | \$ 102,834 | \$ 338,005 | \$ 300,358 |
| Video | 99,538 | 104,679 | 305,362 | 320,163 |
| Phone | 16,150 | 15,540 | 48,240 | 45,960 |
| Business services | 43,878 | 41,951 | 129,719 | 123,786 |
| Advertising | 9,706 | 11,390 | 26,841 | 30,560 |
| Total revenues | <u>\$284,510</u> | <u>\$276,394</u> | <u>\$848,167</u> | <u>\$820,827</u> |

Virtually all of our revenue streams, including subscription services and equipment rental, are recognized over time. We recognize revenue at a point in time for services such as pay-per-view, video on demand, advertising and miscellaneous fees.

13. LEASES

We maintain leases for real estate, office buildings, fiber and office equipment. Our leases have remaining terms ranging from 1 – 20 years, some of which include options to extend the leases.

We determine if an arrangement is a lease at inception. Operating lease assets on our Consolidated Balance Sheet represent our right to use an underlying asset for the operating lease term. Operating lease liabilities on our Consolidated Balance Sheet represent our obligation to make lease payments arising from the operating lease.

Operating lease assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. In determining the present value of lease payments, we use our incremental borrowing rate, based on the information available at commencement date (since the implicit rate of our leases is not easily determinable). We determine the incremental borrowing rate as if we were to borrow an amount equal to the lease payments, on a collateralized basis, over a similar term. Management uses LIBOR and risk-adjusts that rate to approximate a collateralized rate for us, which will be updated on a quarterly basis for measurement of new lease liabilities. We apply the incremental borrowing rate on a portfolio basis to all asset classes.

The operating lease asset also includes any lease payments made and is adjusted for lease incentives. Our lease terms may include options to extend or terminate the lease when it is reasonably certain that we will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

We account for variable lease payments, such as those amounts that are impacted by the consumer price index, as a separate component from lease expense in the subsequent period in which it applies. We account for lease and non-lease components within an operating lease arrangement as separate components. However, in instances where our customer premise equipment would qualify as a lease, we apply the practical expedient to combine the operating lease and the subscription service revenue as a single performance obligation in accordance with revenue recognition accounting guidance. We have determined that the subscription service is the predominant component.

The components of lease expense were as follows (dollars in thousands):

| | Three Months Ended September 30, 2019 | Nine Months Ended September 30, 2019 |
|------------------------|--|---|
| Operating lease costs | \$ 1,460 | \$ 4,496 |
| Short-term lease costs | 919 | 2,855 |
| Variable lease costs | 112 | 370 |
| Total lease expense | <u>\$ 2,491</u> | <u>\$ 7,721</u> |

Sub-lease income was not material.

[Table of Contents](#)

Supplemental cash flow information related to leases were as follows (dollars in thousands):

| | Nine Months Ended September 30, 2019 |
|---|---|
| Cash paid for amounts included in the measurement of lease liabilities: | |
| Operating cash flows from operating leases | \$ 8,601 |
| Right-of-use assets obtained in exchange for lease obligations (non-cash) | \$ 28,885 |
| Weighted Average Remaining Lease Term: | |
| Operating leases | 7.0 years |
| Weighted Average Discount Rate: | |
| Operating leases | 4.6% |

Our future minimum annual rental payments of our operating leases as of September 30, 2019 are listed as follows (dollars in thousands):

| For the year ended | Future maturities |
|--------------------------------------|--------------------------|
| Three months ended December 31, 2019 | \$ 1,403 |
| 2020 | 5,418 |
| 2021 | 5,199 |
| 2022 | 4,361 |
| 2023 | 2,893 |
| Thereafter | 9,285 |
| Total lease payments | \$ 28,559 |
| Imputed interest | 4,350 |
| Total operating lease liabilities | <u>\$ 24,209</u> |

Under various lease and rental agreements for offices, warehouses and computer terminals, we had rental expense of \$4.0 million, for the year ended December 31, 2018. Future minimum annual rental payments of our operating leases as of December 31, 2018 were as follows (dollars in thousands):

| For the year ended December 31, | Amount |
|--|-----------------|
| 2019 | \$ 2,289 |
| 2020 | 1,831 |
| 2021 | 1,683 |
| 2022 | 1,454 |
| 2023 | 985 |
| Thereafter | 2,398 |
| Total lease payments | <u>\$10,640</u> |

14. SUPPLEMENTAL CASH FLOW INFORMATION

| | Nine Months Ended September 30, | |
|---|------------------------------------|-----------|
| | 2019 | 2018 |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION: | | |
| Cash paid during the period for interest, net of amounts capitalized | \$ 46,992 | \$ 43,312 |
| Non-cash items: | | |
| Accounts receivable/deferred revenue - adjustment | \$ — | \$ 32,848 |
| Prepaid expenses and other current assets/deferred revenue - adjustment | \$ — | \$ 15,756 |
| Prepaid expenses and other current assets - reclassification | \$ — | \$ 7,371 |
| Deferred revenue - current/non-current - reclassification | \$ — | \$ 7,962 |
| Accounts payable/deferred revenue current - reclassification | \$ — | \$ 6,507 |
| Right-of-use assets/Right-of-use liabilities - capitalization | \$ 28,885 | \$ — |

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with our unaudited consolidated financial statements as of, and for the three and nine months ended September 30, 2019 and 2018, and with our Annual Report on Form 10-K for the year ended December 31, 2018.

Overview

Mediacom Communications Corporation

We are a wholly-owned subsidiary of Mediacom Communications Corporation ("MCC"), the nation's fifth largest cable company based on the number of customers who purchase one or more video services, or video customers. MCC is the leading gigabit broadband provider to smaller markets primarily in the Midwest and Southeast. Through its fiber-rich network, MCC provides high-speed data ("HSD"), video, and phone services to households and businesses across 22 states. Through Mediacom Business, MCC delivers scalable broadband solutions to commercial and institutional customers of all sizes, and sells advertising and production services under the OnMedia brand.

MCC's cable systems are owned and operated through our operating subsidiaries and those of Mediacom LLC, another wholly-owned subsidiary of MCC. As of September 30, 2019, MCC's cable systems passed an estimated 2.9 million homes and served approximately 1,316,000 HSD customers, 729,000 video customers and 616,000 phone customers, aggregating 2,661,000 primary service units ("PSUs"). As of the same date, MCC had 1,367,000 residential and business customer relationships.

The following discussion of financial condition and results of operations relates only to Mediacom Broadband LLC and not to the consolidated financial condition and results of operations of MCC.

Mediacom Broadband LLC

As of September 30, 2019, we served approximately 726,000 HSD customers, 400,000 video customers and 340,000 phone customers, aggregating 1,466,000 PSUs. As of the same date, we served 757,000 residential and business customer relationships.

We offer HSD, video and phone services individually and in bundled packages to residential and small- to medium-sized business ("SMB") customers over our hybrid fiber and coaxial cable ("HFC") network, and provide fiber-based network and transport services to medium- and large-sized businesses, governments and educational institutions. We also sell advertising to local, regional and national advertisers on video and digital platforms. Our services are typically offered on a subscription basis, with installation fees, monthly rates and related charges that vary according to the equipment and features customers choose. We generally offer discounted packages for new customers and those who take multiple services, and market bundled packages under the Xstream brand that includes HSD with a wireless gateway, video with digital video recorder ("DVR") service and set-tops with the TiVo guide, and phone service.

Over the past several years, revenues from residential services have increased mainly due to residential HSD customer growth. We expect to continue to grow such revenues through HSD customer growth and increased revenue per customer relationship as more customers take faster HSD tiers and advanced video services, including DVR. Our business services revenues have grown at a faster rate than our residential revenues as we have rapidly grown our business customer relationships. Through significant capital investments, we continue to extend our network to new commercial locations that contain multiple businesses representing potential customers, in an effort to sustain or accelerate our rate of growth in business services revenues.

Our residential HSD service competes primarily with digital subscriber line ("DSL") services offered by local phone companies and wireless services offered by cellular phone companies. We have continued to grow our HSD customer base at a meaningful rate over the last several years. We believe our HSD service offers greater capacity and reliability than DSL and wireless offerings in our service areas, and our minimum downstream speed of up to 60 megabits per second ("Mbps") is faster than the highest speed offered by substantially all our competitors. As consumers' bandwidth consumption has dramatically risen in recent years, we have dedicated increasing levels of capital expenditures to allow for faster speeds and greater consumption. We recently completed the transition of our network to DOCSIS 3.1 technology and offer 1 gigabit ("Gbps") downstream HSD service throughout substantially all of our footprint. We offer modems that function as a phone adapter and wireless gateway, ensuring performance of multiple personal devices used at the same time, and our WiFi360 service provides additional access points and extends the range of the wireless network in the customer's home. We also offer home security and automation services to residential HSD customers. We expect to continue to grow HSD revenues as we increase our customer base and our HSD customers choose higher speed tiers.

Our residential video service principally competes with direct broadcast satellite ("DBS") providers that offer video programming substantially similar to ours and a variety of over-the-top ("OTT") video services. In the past, we experienced meaningful video customer

losses, largely to DBS competitors, which contributed to video revenue declines. More recently, significant competition from an increasing number of OTT video service providers has impacted our ability to attract new video customers. We have also implemented price increases on our video services to combat the rise in video programming costs (see below) and minimize the erosion of our gross video margin, which has put pressure on our ability to attract and retain video customers. In response, we have placed a greater emphasis on higher quality residential customer relationships, and we have generally eliminated or reduced tactical discounts for video customers who do not purchase two or more services. To appeal to such higher-quality consumers, we have deployed a next-generation Internet Protocol (“IP”) set-top that offers a cloud-based, graphically-rich TiVo guide with access and integrated search functionality to certain OTT video services, including Netflix, Hulu, and YouTube, along with a multi-room DVR service and the ability to download certain content to personal devices. We also offer a lower-cost IP set-top that offers the TiVo guide and OTT video services, but without the required equipment for DVR service. Our voice-controlled remote allows our customers to use voice commands to change channels, search for shows and discover content through recommendations. However, despite our strategic initiatives, we do not expect to fully offset video customer losses through higher average unit pricing and greater penetration of our advanced video services, so we will likely continue to experience declines in annual video revenues.

Our residential phone service mainly competes with substantially comparable phone services offered by local phone companies and cellular phone services offered by national wireless providers. Our ability to continue to grow phone revenues may be negatively impacted by unit pricing pressure and, to a lesser extent, potential future declines in residential phone customers, likely due to wireless substitution.

Our business services primarily compete for SMB customers with local phone companies, many of which have had a historical advantage given long-term relationships with such customers, a broader footprint that allows them to more effectively serve multiple locations, and existing networks built in certain commercial areas that we do not currently serve. Our enterprise-level services, including cell tower backhaul, also face competition from these local phone companies along with other carriers, including metro and regional fiber-based carriers. In recent years, we have aggressively marketed our business services and have increasingly made capital investments to expand our network into additional commercial areas. We believe these tactics have allowed us to gain market share, resulting in sustained business services revenue growth over the past several years, which we believe will continue.

We sell advertising and production services to local, regional and national customers under the OnMedia brand. Our advertising revenues are determined, in part, by the number of video customers served and are impacted by overall advertising competition in our markets, including local broadcast stations, national cable and broadcast networks, radio, newspapers, magazines, outdoor display and Internet companies. In recent years, our advertising revenues have trended lower as competition elevated, substantially a result of digital marketing capturing a greater share of overall advertising spending, along with a declining video customer base. While these secular declines have been periodically offset by increased levels of political advertising during national elections and other significant political events, we believe annual advertising revenues will likely continue to decline.

Video programming has been our single largest expense and, on a per-video customer basis, has continually increased at a higher rate than our ability to offset such increases with rate increases to our customers, particularly due to sports programming and retransmission consent fees. Media industry consolidation has resulted in the formation of large media conglomerates and large independent broadcast groups, who own or control a family of popular cable networks and a significant number of local broadcast stations across the country and, in some cases, own, control or otherwise represent multiple stations in the same market. Many of those powerful owners of programming require us to purchase their networks and stations in bundles and effectively dictate how we offer them to our customers, which has materially diminished our ability to selectively negotiate for the carriage or tier placement of individual networks or stations and to slow the rate of growth of our programming costs and the video rates our customers ultimately pay. Our inability to fully recover the programming cost increases has adversely impacted, and continues to adversely impact, our video service margins and related cash flows.

2019 Developments

2019 Financing Activity

On March 15, 2019, we called for the redemption of \$150.0 million principal amount outstanding of our 5½% senior notes due March 2021 (the “5½% Notes”). On April 15, 2019, we completed the redemption of \$150.0 million principal amount outstanding of the 5½% Notes. Upon completion of the partial redemption, \$50.0 million principal amount of the 5½% Notes remained outstanding.

See “Liquidity and Capital Resources — Capital Structure — 2019 Financing Activity” and Note 6 in our Notes to Consolidated Financial Statements.

[Table of Contents](#)

Revenues

HSD

HSD revenues primarily represent monthly subscription fees charged to residential customers, which vary according to the level of service and type of equipment taken.

Video

Video revenues primarily represent monthly subscription fees charged to residential customers, which vary according to the level of service and the type and amount of equipment taken. Video revenues also include the sale of VOD content and pay-per-view events, installation, reconnection and wire maintenance fees, franchise and late payment fees, and other ancillary revenues.

Phone

Phone revenues primarily represent monthly subscription and equipment fees charged to residential customers for our phone service.

Business Services

Business services revenues primarily represent monthly fees charged to SMBs for HSD, video and phone services, which vary according to the level of service taken, and fees charged to large businesses, including revenues from cell tower backhaul and enterprise class services.

Advertising

Advertising revenues primarily represent revenues received from selling advertising time we receive under programming license agreements to local, regional and national advertisers for the placement of commercials on channels offered on our video services.

Costs and Expenses

Service Costs

Service costs consist of the costs related to providing and maintaining services to our customers. Significant service costs comprise: video programming; HSD service, including bandwidth connectivity; phone service, including leased circuits and long distance; our enterprise networks business, including leased access; technical personnel who maintain the cable network, perform customer installation activities and provide technical support; network operations center; utilities, including pole rental; and field operations, including outside contractors, vehicle fuel and maintenance and leased fiber for regional connectivity.

Video programming costs, which are generally paid on a per-video customer basis, have historically represented our single largest expense. In recent years, we have experienced substantial increases in the per-unit cost of programming, which we believe will continue to grow due to the increasing contractual rates and retransmission consent fees demanded by large programmers and independent broadcasters. Our HSD costs fluctuate depending on customers' bandwidth consumption, customer growth and our equipment maintenance service agreements. Phone service costs are mainly determined by network configuration, customers' long-distance usage and net termination payments to other carriers. Our other service costs generally rise as a result of customer growth and inflationary cost increases for personnel, outside vendors and other expenses. Personnel and related support costs may increase as the percentage of expenses that we capitalize declines due to lower levels of new service installations. We anticipate that service costs, with the exception of programming costs, will remain fairly consistent as a percentage of our revenues.

Selling, General and Administrative Expenses

Significant selling, general and administrative expenses comprise: call center, customer service, marketing, business services, support and administrative personnel; franchise fees and other taxes; bad debt; billing; marketing; advertising; and general office administration. These expenses generally rise due to customer growth and inflationary cost increases for personnel, outside vendors and other expenses. We anticipate that selling, general and administrative expenses will remain fairly consistent as a percentage of our revenues.

Service costs and selling, general and administrative expenses exclude depreciation and amortization, which we present separately.

Management Fee Expense

Management fee expense reflects compensation paid to MCC for the performance of services it provides our operating subsidiaries in accordance with management agreements between MCC and our operating subsidiaries.

Capital Expenditures

Capital expenditures are categorized in accordance with the National Cable and Telecommunications Association (“NCTA”) disclosure guidelines, which are intended to provide more consistency in the reporting of capital expenditures among peer companies in the cable industry. These disclosure guidelines are not required under GAAP, nor do they impact our accounting for capital expenditures under GAAP. Our capital expenditures comprise:

- Customer premise equipment, which include equipment and labor costs incurred in the purchase and installation of equipment that resides at a residential or commercial customer’s premise;
- Enterprise networks, which include costs associated with furnishing custom fiber solutions for medium- to large-sized business customers, including for cell tower backhaul;
- Scalable infrastructure, which include costs incurred in the purchase and installation of equipment at our facilities associated with network-wide distribution of services;
- Line extensions, which include costs associated with the extension of our network into new service areas;
- Upgrade / rebuild, which include costs to modify or replace existing components of our network; and
- Support capital, which include vehicles and all other capital purchases required to support our customers and general business operations.

Use of Non-GAAP Financial Measures

“Adjusted OIBDA” is not a financial measure calculated in accordance with generally accepted accounting principles (“GAAP”) in the United States. We define Adjusted OIBDA as operating income before depreciation and amortization and deferred compensation. Adjusted OIBDA has inherent limitations as discussed below.

Adjusted OIBDA is one of the primary measures used by management to evaluate our performance and to forecast future results. We believe Adjusted OIBDA is useful for investors because it enables them to assess our performance in a manner similar to the methods used by management, and provides a measure that can be used to analyze our value and evaluate our performance compared to other companies in the cable industry. A limitation of Adjusted OIBDA, however, is that it excludes depreciation and amortization, which represents the periodic costs of certain capitalized tangible and intangible assets used in generating revenues in our business, and it excludes deferred compensation. Management uses a separate process to budget, measure and evaluate capital expenditures. Adjusted OIBDA may not be comparable to similarly titled measures used by other companies, which may have different depreciation and amortization policies. Adjusted OIBDA is a key component to our covenant calculations.

Adjusted OIBDA should not be regarded as an alternative to operating income or net income as an indicator of operating performance, or to the statement of cash flows as a measure of liquidity, nor should it be considered in isolation or as a substitute for financial measures prepared in accordance with GAAP. We believe that operating income is the most directly comparable GAAP financial measure to Adjusted OIBDA.

Actual Results of Operations

Three and Nine Months ended September 30, 2019 Compared to Three and Nine Months ended September 30, 2018

The table below sets forth our consolidated statements of operations and Adjusted OIBDA (dollars in thousands and percentage changes that are not meaningful are marked NM):

| | Three Months Ended September 30, | | | Nine Months Ended September 30, | | |
|---|-------------------------------------|-----------|----------|------------------------------------|-----------|----------|
| | 2019 | 2018 | % Change | 2019 | 2018 | % Change |
| Revenues | \$284,510 | \$276,394 | 2.9% | \$848,167 | \$820,827 | 3.3% |
| Costs and expenses: | | | | | | |
| Service costs | 116,634 | 115,781 | 0.7% | 349,446 | 344,090 | 1.6% |
| Selling, general and administrative expenses | 51,257 | 51,768 | (1.0%) | 147,489 | 148,578 | (0.7%) |
| Management fee expense | 6,900 | 6,325 | 9.1% | 19,500 | 17,675 | 10.3% |
| Depreciation and amortization | 37,529 | 36,933 | 1.6% | 109,823 | 110,848 | (0.9%) |
| Operating income | 72,190 | 65,587 | 10.1% | 221,909 | 199,636 | 11.2% |
| Interest expense, net | (13,844) | (13,039) | 6.2% | (41,536) | (43,509) | (4.5%) |
| Gain (loss) on derivatives, net | 2,312 | (1,526) | NM | 2,312 | (875) | NM |
| Loss on early extinguishment of debt (Note 6) | — | — | NM | (899) | (12,216) | NM |
| Other (expense) income, net | (67) | 371 | NM | (610) | (211) | NM |
| Net income | \$ 60,591 | \$ 51,393 | 17.9% | \$181,176 | \$142,825 | 26.9% |
| Adjusted OIBDA | \$109,923 | \$102,520 | 7.2% | \$332,344 | \$310,484 | 7.0% |

The table below represents a reconciliation of operating income to Adjusted OIBDA (dollars in thousands):

| | Three Months Ended September 30, | | | Nine Months Ended September 30, | | |
|-------------------------------|-------------------------------------|-----------|----------|------------------------------------|-----------|----------|
| | 2019 | 2018 | % Change | 2019 | 2018 | % Change |
| Operating income | \$ 72,190 | \$ 65,587 | 10.1% | \$221,909 | \$199,636 | 11.2% |
| Depreciation and amortization | 37,529 | 36,933 | 1.6% | 109,823 | 110,848 | (0.9%) |
| Deferred compensation | 204 | — | NM | 612 | — | NM |
| Adjusted OIBDA | \$109,923 | \$102,520 | 7.2% | \$332,344 | \$310,484 | 7.0% |

Revenues

The tables below set forth our revenues and selected customer and average total monthly revenue statistics (dollars in thousands, except per unit data):

| | Three Months Ended September 30, | | | Nine Months Ended September 30, | | |
|---|-------------------------------------|-----------|----------|------------------------------------|-----------|----------|
| | 2019 | 2018 | % Change | 2019 | 2018 | % Change |
| HSD | \$115,238 | \$102,834 | 12.1% | \$338,005 | \$300,358 | 12.5% |
| Video | 99,538 | 104,679 | (4.9%) | 305,362 | 320,163 | (4.6%) |
| Phone | 16,150 | 15,540 | 3.9% | 48,240 | 45,960 | 5.0% |
| Business services | 43,878 | 41,951 | 4.6% | 129,719 | 123,786 | 4.8% |
| Advertising | 9,706 | 11,390 | (14.8%) | 26,841 | 30,560 | (12.2%) |
| Total revenues | \$284,510 | \$276,394 | 2.9% | \$848,167 | \$820,827 | 3.3% |
| Average total monthly revenue per customer relationship (1) | \$ 125.03 | \$ 121.79 | 2.7% | \$ 124.82 | \$ 120.72 | 3.4% |

[Table of Contents](#)

| | September 30, | | % Change |
|------------------------------|---------------|-----------|----------|
| | 2019 | 2018 | |
| HSD customers | 726,000 | 694,000 | 4.6% |
| Video customers | 400,000 | 437,000 | (8.5%) |
| Phone customers | 340,000 | 336,000 | 1.2% |
| Primary service units (PSUs) | 1,466,000 | 1,467,000 | (0.1%) |
| Customer relationships | 757,000 | 756,000 | 0.1% |

(1) Represents average total monthly revenues for the period divided by average customer relationships for the period.

Revenues increased 2.9% and 3.3% for the three and nine months ended September 30, 2019, respectively, primarily due to greater HSD and, to a much lesser extent, business services and phone revenues, offset in part by lower video and, to a much lesser extent, advertising revenues.

We lost 3,000 and gained 4,000 customer relationships during the three and nine months ended September 30, 2019, respectively, compared to a loss of 1,000 and gain of 1,000 customer relationships during the respective prior year periods. Average total monthly revenue per customer relationship was \$125.03 and \$124.82 for the three and nine months ended September 30, 2019, respectively, representing increases of 2.7% and 3.4% over the respective prior year periods.

HSD

HSD revenues rose 12.1% and 12.5% for the three and nine months ended September 30, 2019, respectively, mainly as a result of more customers paying higher rates for faster speed tiers and, to a lesser extent, larger residential HSD customer bases compared to the prior year periods. We gained 5,000 and 27,000 HSD customers during the three and nine months ended September 30, 2019, respectively, compared to gains of 4,000 and 26,000 HSD customers during the respective prior year periods. As of September 30, 2019, we served 726,000 HSD customers, or 47.5% of estimated homes passed.

Video

Video revenues declined 4.9% and 4.6% for the three and nine months ended September 30, 2019, respectively, principally due to smaller residential video customer bases compared to the prior year periods, offset in part by rate adjustments associated with the pass-through of higher programming costs for retransmission consent fees and, to a lesser extent, more customers taking our advanced set-tops. We lost 12,000 and 28,000 video customers during the three and nine months ended September 30, 2019, respectively, compared to losses of 10,000 and 18,000 during the respective prior year periods. As of September 30, 2019, we served 400,000 video customers, or 26.2% of estimated homes passed, and 42.4% of our residential video customers took our DVR service, which represents the largest component of advanced video services revenues.

Phone

Phone revenues increased 3.9% and 5.0% for the three and nine months ended September 30, 2019, respectively, primarily due to larger residential phone customer bases compared to the prior year periods, offset in part by greater levels of discounting within the bundled packaging of our services. We lost 1,000 phone customers and gained 1,000 phone customers during the three and nine months ended September 30, 2019, respectively, compared to gains of 4,000 and 24,000 phone customers during the respective prior year periods. As of September 30, 2019, we served 340,000 phone customers, or 22.3% of estimated homes passed.

Business Services

Business services revenues grew 4.6% and 4.8% for the three and nine months ended September 30, 2019, respectively, primarily due to larger SMB customer bases compared to the prior year periods, offset in part by lower cell tower backhaul revenues.

Advertising

Advertising revenues fell 14.8% and 12.2% for the three and nine months ended September 30, 2019, respectively, principally due to lower levels of political advertising and, to a lesser extent, smaller video customer bases to potentially view such advertisements compared to the prior year periods.

Costs and Expenses

Service Costs

Service costs increased 0.7% and 1.6% for the three and nine months ended September 30, 2019, respectively, primarily due to greater video programming and field operating costs, offset in part by lower HSD delivery costs. Programming costs were 1.0% and 1.2% higher for the three and nine months ended September 30, 2019, respectively, mainly due to contractual increases under agreements with certain local broadcast stations and cable networks, substantially offset by smaller video customer bases compared to the prior year periods. Field operating costs rose 4.0% and 4.4% for the three and nine months ended September 30, 2019, respectively, primarily due to greater plant installation, repair and maintenance costs. HSD delivery costs fell 10.5% and 10.3% for the three and nine months ended September 30, 2019 and 2018, respectively, principally due to lower maintenance service agreements and self-installation costs. Service costs as a percentage of revenues were 41.0% and 41.9% for the three months ended September 30, 2019 and 2018, respectively, and 41.2% and 41.9% for the nine months ended September 30, 2019 and 2018, respectively.

Selling, General and Administrative Expenses

Selling, general and administrative expenses decreased 1.0% and 0.7% for the three and nine months ended September 30, 2019, respectively, largely a result of lower marketing, office and bad debt expenses and, for the three months ended September 30, 2019, lower employee expenses. Marketing expenses declined 2.8% and 4.1% for the three and nine months ended September 30, 2019, respectively, mainly due to lower spending on print, mail and television advertising and third-party commission expenses. Office expenses fell 8.8% and 2.7% for the three and nine months ended September 30, 2019, respectively, primarily due to lower rent and equipment maintenance expenses. Bad debt expenses decreased 0.4% and 8.6% for the three and nine months ended September 30, 2019, respectively, substantially due to lower write-offs associated with customer accounts. Employee expenses decreased 4.3% for the three months ended September 30, 2019, primarily due to lower marketing and advertising staffing and compensation levels. Selling, general and administrative expenses as a percentage of revenues were 18.0% and 18.7% for the three months ended September 30, 2019 and 2018, respectively, and 17.4% and 18.1% for the nine months ended September 30, 2019 and 2018, respectively.

Management Fee Expense

Management fee expense grew 9.1% and 10.3% for the three and nine months ended September 30, 2019, respectively, reflecting higher fees charged by MCC. Management fee expense as a percentage of revenues was 2.4% and 2.3% for the three months ended September 30, 2019 and 2018, respectively, and 2.3% and 2.2% for the nine months ended September 30, 2019 and 2018, respectively.

Depreciation and Amortization

Depreciation and amortization was 1.6% higher for the three months ended September 30, 2019, respectively, mainly due to greater depreciation of investments in newer customer premise equipment, business customer support equipment and software and HSD bandwidth expansion, offset in part by older investments in customer premise equipment and network assets becoming fully depreciated.

Depreciation and amortization was 0.9% lower for the nine months ended September 30, 2019, respectively, mainly due to older investments in customer premise equipment and network assets becoming fully depreciated, offset in part by depreciation of investments in newer customer premise equipment, business customer support equipment and software and HSD bandwidth expansion.

Operating Income

Operating income rose 10.1% and 11.2% for the three and nine months ended September 30, 2019, respectively, principally due to the increase in revenues.

Interest Expense, Net

Interest expense, net, increased 6.2% for the three months ended September 30, 2019, due to a higher average cost of debt, offset in part by lower average outstanding indebtedness.

Interest expense, net, fell 4.5% for the nine months ended September 30, 2019, due to lower average outstanding indebtedness, offset in part by a higher average cost of debt.

Gain on Derivatives, Net

As a result of the changes in the mark-to-market valuations on our interest rate exchange agreements, we recorded a net gain on derivatives of \$2.3 million for each of the three and nine months ended September 30, 2019, and a net loss on derivatives of \$1.5 million and \$0.9 million for the three and nine months ended September 30, 2018, respectively. See Notes 3 and 6 in our Notes to Consolidated Financial Statements.

Loss on Early Extinguishment of Debt

Loss on early extinguishment of debt totaled \$0.9 million for the nine months ended September 30, 2019, which represented the write-off of unamortized financing costs associated with the partial repayment of the 5½% Notes. See Note 6 in our Notes to Consolidated Financial Statements.

Loss on early extinguishment of debt totaled \$12.2 million for the nine months ended September 30, 2018, which represented the \$9.6 million redemption price paid above par and the write-off of \$2.6 million of unamortized financing costs associated with the repayment of certain previously existing senior notes.

Other (Expense) Income, Net

Other expense, net, was less than \$0.1 million for the three months ended September 30, 2019, representing \$0.2 million of revolving credit commitment fees, offset in part by \$0.1 million of other income. Other income, net, was \$0.4 million for the three months ended September 30, 2018, substantially due to a reversal of accruals associated with tower retirements, offset in part by \$0.3 million of revolving credit commitment fees.

Other expense, net, was \$0.6 million for the nine months ended September 30, 2019, representing \$0.9 million of revolving credit commitment fees, offset in part by \$0.3 million of other income, and \$0.2 million for the nine months ended September 30, 2018, representing \$1.0 million of revolving credit commitment fees, mostly offset by a reversal of accruals associated with tower retirements.

Net Income

As a result of the factors described above, we recognized net income of \$60.6 million and \$51.4 million for the three months ended September 30, 2019 and 2018, respectively, and \$181.2 million and \$142.8 million for the nine months ended September 30, 2019 and 2018, respectively.

Adjusted OIBDA

Adjusted OIBDA grew 7.2% and 7.0% for the three and nine months ended September 30, 2019, respectively, substantially due to the increase in revenues and, to a much lesser extent, lower selling, general and administrative expenses, offset in part by higher service costs and, to a much lesser extent, management fees.

Liquidity and Capital Resources

Our net cash flows provided by operating activities are primarily used to fund investments to enhance the capacity and reliability of our network and further expand our products and services, and make scheduled and voluntary repayments of our indebtedness and certain periodic distributions to MCC. As of September 30, 2019, our near-term liquidity requirements included term loan principal repayments of \$20.5 million over the next twelve months. As of the same date, our sources of liquidity included \$15.6 million of cash and approximately \$227.4 million of unused and available commitments under our \$375.0 million revolving credit facility, after giving effect to \$138.3 million of outstanding loans and \$9.4 million of letters of credit issued to various parties as collateral.

We believe that we will be able to meet our current and long-term liquidity and capital requirements, including fixed charges, through existing cash, internally generated cash flows from operating activities, cash available to us under our revolving credit commitments and our ability to obtain future financing. If we are unable to obtain sufficient future financing on acceptable terms, or at all, we may need to take other actions to conserve or raise capital that we would not take otherwise. However, we have accessed the debt markets for significant amounts of capital in the past and expect to continue to be able to access these markets in the future, as necessary.

2019 Financing Activity

On March 15, 2019, we called for the redemption of \$150.0 million principal amount outstanding of the 5½% Notes. On April 15, 2019, approximately \$117.9 million of available cash, along with \$32.1 million of borrowings under our revolving credit commitments, were used to fund the redemption of \$150.0 million principal amount outstanding of the 5½% Notes at a redemption price of 100.0% for each \$1,000 principal amount redeemed, or approximately \$150.0 million. Upon completion of the partial redemption, \$50.0 million principal amount of the 5½% Notes remained outstanding. See Note 6 in our Notes to Consolidated Financial Statements.

[Table of Contents](#)

On June 4, 2019, we made a cash distribution aggregating \$200.0 million to MCC, which was fully funded by borrowings under our revolving credit facility. See Note 8 in our Notes to Consolidated Financial Statements.

Net Cash Flows Provided by Operating Activities

Net cash flows provided by operating activities were \$290.7 million for the nine months ended September 30, 2019, primarily due to Adjusted OIBDA of \$332.3 million, offset in part by interest expense of \$41.5 million and the \$2.4 million net change in our operating assets and liabilities. The net change in our operating assets and liabilities was primarily due to decreases in accounts payable to affiliates of \$5.8 million and in other non-current liabilities of \$2.0 million, offset in part by decreases in prepaid expenses and other assets of \$4.3 million and in accounts receivable, net of \$1.7 million.

Net cash flows provided by operating activities were \$261.2 million for the nine months ended September 30, 2018, primarily due to Adjusted OIBDA of \$310.5 million, offset in part by interest expense of \$43.5 million and, to a much lesser extent, the \$8.8 million net change in our operating assets and liabilities. The net change in our operating assets and liabilities was primarily due to a decrease in accounts payable, accrued expenses and other current liabilities of \$7.5 million, an increase in accounts receivable, net, of \$3.1 million, and a decrease in accounts payable to affiliates of \$2.4 million, offset in part by a decrease in prepaid expenses and other assets of \$3.7 million.

Net Cash Flows Used in Investing Activities

Capital expenditures continue to be our primary use of capital resources and generally comprise substantially all of our net cash flows used in investing activities.

Net cash flows used in investing activities were \$120.5 million for the nine months ended September 30, 2019, substantially comprising \$119.1 million of capital expenditures and, to a much lesser extent, a net change in accrued property, plant and equipment of \$1.7 million.

Net cash flows used in investing activities were \$125.1 million for the nine months ended September 30, 2018, substantially comprising \$128.6 million of capital expenditures, slightly offset by a net change in accrued property, plant and equipment of \$2.6 million.

Capital Expenditures

The table below sets forth our capital expenditures (dollars in thousands):

| | Nine Months Ended September 30, | | |
|----------------------------|------------------------------------|------------------|-------------------|
| | 2019 | 2018 | Change |
| Customer premise equipment | \$ 47,293 | \$ 61,602 | \$(14,309) |
| Enterprise networks | 9,467 | 6,342 | 3,125 |
| Scalable infrastructure | 16,928 | 24,429 | (7,501) |
| Line extensions | 12,877 | 9,046 | 3,831 |
| Upgrade / rebuild | 19,868 | 15,292 | 4,576 |
| Support capital | 12,656 | 11,860 | 796 |
| Total capital expenditures | <u>\$119,089</u> | <u>\$128,571</u> | <u>\$ (9,482)</u> |

The decrease in capital expenditures largely reflects lower spending in: (i) customer premise equipment, primarily due to lower spending on set-tops for our video service and reduced installation and fulfillment expenditures associated with lower connect activity; and (ii) scalable infrastructure, mainly due to lower spending on HSD bandwidth expansion; offset in part by greater spending in: (i) upgrade and rebuild, principally due to restoration activity in areas affected by Hurricane Michael in October 2018; (ii) line extensions, chiefly on the expansion of our residential network; and (iii) enterprise networks, largely for upgraded electronic equipment for our enterprise customers and network construction for our cell tower backhaul customers.

Net Cash Flows Used in Financing Activities

Net cash flows used in financing activities were \$184.6 million for the nine months ended September 30, 2019, primarily comprising \$354.6 million of capital distributions to our parent, MCC, the \$150.0 million partial redemption of the 5½% Notes and \$13.5 million of dividend payments on preferred members' interest, offset in part by \$211.4 million of capital contributions from MCC and \$122.9 million of net borrowings under our bank credit facility.

[Table of Contents](#)

Net cash flows used in financing activities were \$136.4 million for the nine months ended September 30, 2018, substantially as a result of the \$300.0 million redemption of certain previously existing senior notes, \$16.3 million of net repayments under our bank credit facility, \$13.5 million of dividend payments on preferred member's interest, \$9.6 million for the redemption price paid above par associated with certain previously existing senior notes and \$9.3 million of capital distributions to our parent, MCC, offset in part by \$208.0 million of capital contributions from our parent, MCC, and \$4.2 million of other financing activities.

Capital Structure

As of September 30, 2019, our total indebtedness was \$1.197 billion, of which approximately 21% was at fixed interest rates. During the nine months ended September 30, 2019, we paid cash interest of \$47.0 million, net of capitalized interest.

Bank Credit Facility

As of September 30, 2019, we maintained a \$1.384 billion credit facility, comprising \$1,009.0 million of term loans with maturities ranging from November 2022 to January 2025 and \$375.0 million of revolving credit commitments, which are scheduled to expire in November 2022. As of the same date, we had approximately \$227.4 million of unused lines under our revolving credit commitments, all of which were available to be borrowed and used for general corporate purposes, after giving effect to \$138.3 million of outstanding loans and \$9.4 million of letters of credit issued to various parties as collateral.

The credit facility is collateralized by our ownership interests in our operating subsidiaries and is guaranteed by us on a limited recourse basis to the extent of such ownership interests. The credit agreement governing the credit facility (the "credit agreement") requires our operating subsidiaries to maintain a total leverage ratio (as defined in the credit agreement) of no more than 5.0 to 1.0 and an interest coverage ratio (as defined in the credit agreement) of no less than 2.0 to 1.0. For all periods through September 30, 2019, our operating subsidiaries were in compliance with all covenants under the credit agreement including, as of the same date, a total leverage ratio of 2.5 to 1.0 and an interest coverage ratio of 5.9 to 1.0. For the foreseeable future, we believe that our operating subsidiaries will maintain compliance with their covenants under the credit agreement.

Interest Rate Swaps

We periodically enter into interest rate swaps with various banks to fix the variable rate on a portion of our borrowings under the credit facility to reduce the potential volatility in our interest expense that could result from changes in market interest rates.

As of September 30, 2019, we had interest rate swaps that fixed the variable portion of \$200 million of borrowings at a weighted average rate of 1.3%, all of which were scheduled to expire during 2022. As of the same date, we also had forward starting interest rate swaps that will fix the variable portion of an additional \$200 million of borrowings at a rate of 1.1% for a three-year period commencing in October 2019, all of which were scheduled to expire during 2022.

As of September 30, 2019, the weighted average interest rate on outstanding borrowings under the credit facility, including the effect of our interest rate swaps, was 3.8%.

Senior Notes

As of September 30, 2019, we had \$50 million of outstanding senior notes, all of which comprised the 5½% Notes. On April 15, 2019, we repaid \$150.0 million principal amount outstanding of the 5½% Notes. See Note 6 in our Notes to Consolidated Financial Statements.

Our senior notes are unsecured obligations, and the indenture governing the 5½% Notes (the "indenture") limits the incurrence of additional indebtedness based upon a maximum debt to operating cash flow ratio (as defined in the indenture) of 8.5 to 1.0. For all periods through September 30, 2019, we were in compliance with all covenants under the indenture including, as of the same date, a debt to operating cash flow ratio of 2.7 to 1.0. We do not believe that we will have any difficulty complying with any of the covenants under the indenture in the near future.

Debt Ratings

MCC's corporate credit ratings are currently Ba1 by Moody's and BB+ by Standard and Poor's ("S&P"), both with stable outlooks, and our senior unsecured ratings are currently Ba2 by Moody's and BB- by S&P, both with stable outlooks.

There can be no assurance that Moody's or S&P will maintain their ratings on MCC and us. A negative change to these credit ratings could result in higher interest rates on future debt issuance than we currently experience, or adversely impact our ability to raise additional funds. There are no covenants, events of default, borrowing conditions or other terms in the credit agreement or indenture that are based on changes in our credit rating assigned by any rating agency.

Contractual Obligations and Commercial Commitments

There have been no material changes to our contractual obligations and commercial commitments as previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2018.

Critical Accounting Policies

The preparation of our financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. Periodically, we evaluate our estimates, including those related to doubtful accounts, long-lived assets, capitalized costs and accruals. We base our estimates on historical experience and on various other assumptions that we believe are reasonable. Actual results may differ from these estimates under different assumptions or conditions. We believe that the application of the critical accounting policies requires significant judgments and estimates on the part of management. For a summary of our critical accounting policies, refer to our Annual Report on Form 10-K for the year ended December 31, 2018.

Goodwill and Other Intangible Assets

In accordance with the Financial Accounting Standards Board's Accounting Standards Codification ("ASC") ASC 350 *Intangibles — Goodwill and Other* ("ASC 350"), the amortization of goodwill and indefinite-lived intangible assets is prohibited and requires such assets to be tested annually for impairment, or more frequently if impairment indicators arise. We have determined that our franchise rights and goodwill are indefinite-lived assets and therefore not amortizable.

Because we believe there has not been a meaningful change in the long-term fundamentals of our business during the first nine months of 2019, we determined that there has been no triggering event under ASC 350 and, as such, no interim impairment test was required as of September 30, 2019.

Inflation and Changing Prices

Our costs and expenses are subject to inflation and price fluctuations. Such changes in costs and expenses can generally be passed through to customers. Programming costs have historically increased at rates in excess of inflation and are expected to continue to do so. We believe that under the Federal Communications Commission's existing cable rate regulations we may increase rates for video services to more than cover any increases in programming costs. However, competitive conditions and other factors in the marketplace may limit our ability to increase our rates.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no significant changes to the information required under this Item from what was disclosed in Item 7A of our Annual Report on Form 10-K for the year ended December 31, 2018.

ITEM 4. CONTROLS AND PROCEDURES

Mediacom Broadband LLC

Under the supervision and with the participation of the management of Mediacom Broadband LLC, including Mediacom Broadband LLC's Chief Executive Officer and Chief Financial Officer, Mediacom Broadband LLC evaluated the effectiveness of Mediacom Broadband LLC's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this report. Based upon that evaluation, Mediacom Broadband LLC's Chief Executive Officer and Chief Financial Officer concluded that Mediacom Broadband LLC's disclosure controls and procedures were effective as of September 30, 2019.

There has not been any change in Mediacom Broadband LLC's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended September 30, 2019 that has materially affected, or is reasonably likely to materially affect, Mediacom Broadband LLC's internal control over financial reporting.

Mediacom Broadband Corporation

Under the supervision and with the participation of the management of Mediacom Broadband Corporation ("Mediacom Broadband"), including Mediacom Broadband's Chief Executive Officer and Chief Financial Officer, Mediacom Broadband evaluated the effectiveness of Mediacom Broadband's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this report.

[Table of Contents](#)

Based upon that evaluation, Mediacom Broadband's Chief Executive Officer and Chief Financial Officer concluded that Mediacom Broadband's disclosure controls and procedures were effective as of September 30, 2019.

[Table of Contents](#)

There has not been any change in Mediacom Broadband's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended September 30, 2019 that has materially affected, or is reasonably likely to materially affect, Mediacom Broadband's internal control over financial reporting.

PART II

ITEM 1. LEGAL PROCEEDINGS

See Note 10 in our Notes to Consolidated Financial Statements.

ITEM 1A. RISK FACTORS

There have been no material changes in our risk factors from those disclosed in our Annual Report on Form 10-K for the year ended December 31, 2018.

[Table of Contents](#)

ITEM 6. EXHIBITS

| <u>Exhibit Number</u> | <u>Exhibit Description</u> |
|-----------------------|--|
| 31.1 | Rule 15d-14(a) Certifications of Mediacom Broadband LLC |
| 31.2 | Rule 15d-14(a) Certifications of Mediacom Broadband Corporation |
| 32.1 | Section 1350 Certifications of Mediacom Broadband LLC |
| 32.2 | Section 1350 Certifications of Mediacom Broadband Corporation |
| 101 | The following is financial information from Mediacom Broadband LLC's and Mediacom Broadband Corporation's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2019, formatted in eXtensible Business Reporting Language (XBRL): (i) Consolidated Balance Sheets at September 30, 2019 and December 31, 2018, (ii) Consolidated Statements of Operations for the three and nine months ended September 30, 2019 and 2018, (iii) Consolidated Statements of Cash Flows for the nine months ended September 30, 2019 and 2018, (iv) Notes to Consolidated Financial Statements |

EXHIBIT INDEX

| <u>Exhibit Number</u> | <u>Exhibit Description</u> |
|-----------------------|--|
| 31.1 | Rule 15d-14(a) Certifications of Mediacom Broadband LLC |
| 31.2 | Rule 15d-14(a) Certifications of Mediacom Broadband Corporation |
| 32.1 | Section 1350 Certifications of Mediacom Broadband LLC |
| 32.2 | Section 1350 Certifications of Mediacom Broadband Corporation |
| 101 | The following is financial information from Mediacom Broadband LLC's and Mediacom Broadband Corporation's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2019, formatted in eXtensible Business Reporting Language (XBRL): (i) Consolidated Balance Sheets at September 30, 2019 and December 31, 2018, (ii) Consolidated Statements of Operations for the three and nine months ended September 30, 2019 and 2018, (iii) Consolidated Statements of Cash Flows for the nine months ended September 30, 2019 and 2018, (iv) Notes to Consolidated Financial Statements |

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

November 6, 2019

MEDIACOM BROADBAND LLC

By: /s/ Mark E. Stephan

Mark E. Stephan

Executive Vice President and Chief Financial Officer

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

November 6, 2019

MEDIACOM BROADBAND CORPORATION

By: /s/ Mark E. Stephan

Mark E. Stephan

Executive Vice President and Chief Financial Officer

CERTIFICATIONS

I, Rocco B. Commisso, certify that:

- (1) I have reviewed this report on Form 10-Q of Mediacom Broadband LLC;
- (2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- (3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- (4) The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- (5) The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

November 6, 2019

By: /s/ ROCCO B. COMMISSO

Rocco B. Commisso
Chairman and Chief Executive Officer

CERTIFICATIONS

I, Mark E. Stephan, certify that:

- (1) I have reviewed this report on Form 10-Q of Mediacom Broadband LLC;
- (2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- (3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- (4) The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- (5) The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

November 6, 2019

By: /s/ MARK E. STEPHAN

Mark E. Stephan

Executive Vice President and Chief Financial Officer

CERTIFICATIONS

I, Rocco B. Commisso, certify that:

- (1) I have reviewed this report on Form 10-Q of Mediacom Broadband Corporation;
- (2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- (3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- (4) The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- (5) The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

November 6, 2019

By: /s/ ROCCO B. COMMISSO

Rocco B. Commisso
Chairman and Chief Executive Officer

CERTIFICATIONS

I, Mark E. Stephan, certify that:

- (1) I have reviewed this report on Form 10-Q of Mediacom Broadband Corporation;
- (2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- (3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- (4) The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- (5) The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

November 6, 2019

By: /s/ MARK E. STEPHAN

Mark E. Stephan

Executive Vice President and Chief Financial Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Mediacom Broadband LLC (the "Company") on Form 10-Q for the period ended September 30, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Rocco B. Commisso, Chairman and Chief Executive Officer and Mark E. Stephan, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) the Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

November 6, 2019

By: /s/ ROCCO B. COMMISSO

Rocco B. Commisso
Chairman and Chief Executive Officer

By: /s/ MARK E. STEPHAN

Mark E. Stephan
Executive Vice President and Chief Financial Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Mediacom Broadband Corporation (the "Company") on Form 10-Q for the period ended September 30, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Rocco B. Commisso, Chairman and Chief Executive Officer and Mark E. Stephan, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) the Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

November 6, 2019

By: /s/ ROCCO B. COMMISSO

Rocco B. Commisso
Chairman and Chief Executive Officer

By: /s/ MARK E. STEPHAN

Mark E. Stephan
Executive Vice President and Chief Financial Officer