
QUARTERLY REPORT FOR THE PERIOD ENDED SEPTEMBER 30, 2018

Mediacom LLC

1 Mediacom Way
Mediacom Park, NY 10918
(845) 443-2600

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MEDIACOM LLC AND SUBSIDIARIES
QUARTERLY REPORT
FOR THE PERIOD ENDED SEPTEMBER 30, 2018

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Mediacom LLC is a New York limited liability company and a wholly-owned subsidiary of Mediacom Communications Corporation, a Delaware corporation.

References in this Quarterly Report to “we,” “us,” or “our” are to Mediacom LLC and its direct and indirect subsidiaries, 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

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 over-the-top (“OTT”) video delivered over the Internet, including existing competitors and 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;
- our ability to contain the continued increases in video programming costs, or to raise video rates to offset, in whole or in part, the effects of such costs, including retransmission consent fees;
- 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 realize the anticipated benefits from the major initiatives under MCC’s plan for approximately \$1 billion in total capital expenditures during the three years ending December 2018, as further described in this Annual Report;
- 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;
- our ability to refinance future debt maturities on favorable terms, if at all;
- changes in assumptions underlying our critical accounting policies; and
- changes in legislative and regulatory matters that may cause us to incur additional costs and expenses or increase the level of competition we face.

Statements included in our Quarterly Report are based upon information known to us as of the date hereof, 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.

PART I**ITEM 1. FINANCIAL STATEMENTS**

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

	<u>September 30,</u> <u>2018</u> <u>(Unaudited)</u>	<u>December 31,</u> <u>2017</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 13,121	\$ 12,664
Accounts receivable, net of allowance for doubtful accounts of \$2,496 and \$2,343	20,562	46,095
Accounts receivable - affiliates	10,574	14,200
Prepaid expenses and other current assets	28,361	19,439
Total current assets	<u>72,618</u>	<u>92,398</u>
Preferred membership interest in affiliated company (Note 7)	150,000	150,000
Property, plant and equipment, net of accumulated depreciation of \$1,799,643 and \$1,749,951	753,330	745,516
Franchise rights	620,718	620,718
Goodwill	25,182	25,182
Subscriber lists, net of accumulated amortization of \$118,455 and \$118,394	254	315
Other assets, net of accumulated amortization of \$3,486 and \$2,851	15,061	9,302
Total assets	<u>\$ 1,637,163</u>	<u>\$ 1,643,431</u>
LIABILITIES AND MEMBER'S EQUITY		
CURRENT LIABILITIES		
Accounts payable, accrued expenses and other current liabilities	\$ 120,743	\$ 129,959
Deferred revenue - current	13,785	32,493
Current portion of long-term debt	21,500	18,000
Total current liabilities	<u>156,028</u>	<u>180,452</u>
Long-term debt, net (less current portion)	1,101,726	996,295
Deferred revenue - non-current	7,166	-
Total liabilities	<u>1,264,920</u>	<u>1,176,747</u>
Commitments and contingencies (Note 10)		
MEMBER'S EQUITY		
Capital contributions	217,064	432,749
Retained earnings	<u>155,179</u>	<u>33,935</u>
Total member's equity	<u>372,243</u>	<u>466,684</u>
Total liabilities and member's equity	<u>\$ 1,637,163</u>	<u>\$ 1,643,431</u>

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

MEDIACOM LLC AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Dollars in thousands)
(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Revenues	\$ 216,788	\$ 206,548	\$ 639,182	\$ 613,318
Costs and expenses:				
Service costs (exclusive of depreciation and amortization)	97,269	93,813	291,086	276,315
Selling, general and administrative expenses	33,816	34,092	97,975	96,755
Management fee expense	4,175	3,850	11,825	11,185
Depreciation and amortization	33,437	32,843	100,525	97,854
Operating income	48,091	41,950	137,771	131,209
Interest expense, net	(10,732)	(11,102)	(30,885)	(32,269)
(Loss) gain on derivatives, net	(985)	366	(629)	1,112
Gain (loss) on early extinguishment of debt (Note 6)	—	622	—	(11,690)
Investment income from affiliate (Note 7)	4,500	4,500	13,500	13,500
Other income (expense), net	380	(651)	(177)	(1,913)
Net income	<u>\$ 41,254</u>	<u>\$ 35,685</u>	<u>\$ 119,580</u>	<u>\$ 99,949</u>

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

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

	Nine Months Ended	
	September 30,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 119,580	\$ 99,949
Adjustments to reconcile net income to net cash flows provided by operating activities:		
Depreciation and amortization	100,525	97,854
Loss (gain) on derivatives, net	629	(1,112)
Loss on early extinguishment of debt	—	2,627
Amortization of deferred financing costs	2,742	2,277
Debt extinguishment costs	—	9,063
Changes in assets and liabilities:		
Accounts receivable, net	(1,518)	(2,650)
Accounts receivable - affiliates	3,626	(7,340)
Prepaid expenses and other assets	(377)	(8,379)
Accounts payable, accrued expenses and other current liabilities	(4,260)	(2,307)
Deferred revenue - current	(202)	1,917
Deferred revenue - non-current	395	—
Other non-current liabilities	—	(98)
Net cash flows provided by operating activities	<u>\$ 221,140</u>	<u>\$ 191,801</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	\$ (108,883)	\$ (117,796)
Change in accrued property, plant and equipment	1,034	1,745
Proceeds from sale of assets	752	329
Acquisition of cable system	—	(18,242)
Net cash flows used in investing activities	<u>\$ (107,097)</u>	<u>\$ (133,964)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
New borrowings of bank debt (Note 6)	\$ 1,309,000	\$ 1,317,675
Repayment of bank debt	(1,197,750)	(1,046,675)
Redemption of senior notes (Note 6)	—	(250,000)
Capital distributions to parent (Note 8)	(215,738)	(63,800)
Financing costs	(4,519)	(12,818)
Debt extinguishment costs	—	(9,063)
Other financing activities	(4,579)	5,185
Net cash flows used in financing activities	<u>\$ (113,586)</u>	<u>\$ (59,496)</u>
Net change in cash	457	(1,659)
CASH, beginning of period	12,664	11,269
CASH, end of period	<u>\$ 13,121</u>	<u>\$ 9,610</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for interest, net of amounts capitalized	<u>\$ 28,927</u>	<u>\$ 38,764</u>
Non-cash items:		
Accounts receivable/deferred revenue - reclassification	\$ 27,051	\$ —
Prepaid expenses and other current assets - reclassification	\$ 7,724	\$ —
Deferred revenue - current/non-current - reclassification	\$ 6,771	\$ —
Accounts payable/deferred revenue current - reclassification	\$ 2,362	\$ —

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

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

1. ORGANIZATION

Basis of Preparation of Unaudited Consolidated Financial Statements

Mediacom LLC (“Mediacom LLC” and collectively with its subsidiaries, “we,” “our” or “us”) is a New York limited liability company wholly-owned by Mediacom Communications Corporation (“MCC”). MCC is involved in the acquisition and 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 Broadband LLC, a Delaware limited liability company wholly-owned by MCC. As limited liability companies, we and Mediacom Broadband 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.

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.

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, 2018

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09 (“ASU 2014-09”) – *Revenue from Contracts with Customers*. The new guidance has impacted the timing of the recognition of installation revenue as well as installation costs and commission expenses. Under the new guidance, these amounts have been recognized as revenue and expenses over a period of time instead of immediately, as was being done under prior practice. We adopted ASU 2014-09 as of January 1, 2018, using the modified retrospective method of adoption with cumulative-effect adjustments consisting of: a decrease of \$27.1 million to accounts receivable, an increase to prepaid expenses and other current assets of \$6.9 million, an increase in other assets of \$7.7 million, a decrease of accounts payable, accrued expenses and other current liabilities of \$2.4 million, a decrease to deferred revenue - current of \$18.5 million, an increase to deferred revenue – non-current of \$6.8 million and a decrease to total shareholders’ equity of \$1.6 million. Previously reported amounts were not restated as a result of this adoption method. Operating results for the nine months ended September 30, 2018 are not materially different than results that would have been reported under guidance in effect before application of ASU 2014-09. See Note 12.

In August 2016, the FASB issued ASU 2016-15 – *Statement of Cash Flows – Clarification of Certain Cash Receipts and Cash Payments*. (“ASU 2016-15”). Stakeholders indicated that there is diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows under Topic 230, *Statement of Cash Flows*, and other topics. ASU 2016-15 addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice. The amendments in ASU 2016-15 are effective for non-public business entities for fiscal years beginning after December 15, 2018, and interim periods beginning after December 15, 2019, using a retrospective transition method. We adopted ASU 2016-15 as of January 1, 2018. ASU 2016-15 did not have a material impact on our financial position, operations or cash flows upon adoption.

Accounting Pronouncements with Future Adoption Dates

In February 2016, the 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 model (“ROU”) that requires a lessee to recognize a ROU asset and lease liability on the balance sheet for all leases with a term 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.

The new standard is effective for us on January 1, 2020, with early adoption permitted. We expect to early adopt the new standard on January 1, 2019. A modified retrospective transition approach is required for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available.

While we are continuing to assess the effect of adoption, we currently believe the most significant changes relate to: the recognition of new ROU assets and lease liabilities on our balance sheet for office equipment, real estate, and other assets as determined; and to a much lesser extent, (i) the de-recognition of existing assets and liabilities for certain sale-leaseback transactions (including those arising from build-to-suit lease arrangements for which construction is complete and we are leasing the constructed asset) that currently do not qualify for sale accounting; and (ii) the de-recognition of existing assets and liabilities for certain assets under construction in build-to-suit lease arrangements that we will lease when construction is complete. We do not expect a significant change in our leasing activity between now and the time of adoption. We expect to elect many of the standard’s available practical expedients on adoption. Consequently, at adoption, we expect to:

- Recognize additional operating liabilities with corresponding ROU assets of the same amount based on the present value of the remaining minimum rental payments under current leasing standards for existing operating leases.
- To a lesser extent, de-recognize existing debt obligations and existing fixed assets for sale-leaseback transactions that currently do not qualify for sale accounting (where applicable). Any gains or losses associated with this change in accounting will be recognized through opening retained earnings on adoption, and we will recognize new ROU assets and lease liabilities on our balance sheet for the associated leases.
- Also, to a lesser extent, de-recognize existing build-to-suit assets and liabilities at the later of the beginning of the earliest comparative period presented in the financial statements and the date that the lessee is determined to be the accounting owner of the asset in accordance with current lease guidance (where applicable). Any difference should be recorded as an adjustment to equity at that date.

We continue to assess all of the potential impacts that the adoption of ASU 2016-02 will have on our consolidated financial statements, including the determination of the assets within the scope of the guidance, the implementation of new accounting systems and the development of new accounting policies, procedures and internal controls associated with the adoption of the standard.

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. The amendments in ASU 2017-04 are effective for non-public business entities for fiscal years beginning after December 31, 2021, with early adoption permitted. We do not expect ASU 2017-04 will have a material impact on our financial position, operations or cash flows upon adoption.

In January 2018, the FASB issued ASU 2018-01 – *Leases - Land Easement Practical Expedient for Transition to Topic 842* (“ASU 2018-01”). The amendments in ASU 2018-01 permit an entity to elect an optional transition practical expedient to not evaluate under Accounting Standards Codification No. 842 – *Leases* (“ASC 842”) all land easements that exist or expired before the entity’s adoption of ASC 842 and that were not previously accounted for as leases under current GAAP. Once an entity adopts ASC 842, it should be applied prospectively to all new (or modified) land easements to determine whether the arrangement should be accounted for as a lease. An entity that does not elect this practical expedient should evaluate all existing or expired land easements in connection with the adoption of the new lease requirements in ASC 842 to assess whether they meet the definition of a lease. The amendments in ASU 2018-01 affect the amendments in ASU 2016-02, which are not yet effective. The effective date and transition requirements for the amendments are the same as the effective date and transition requirements in ASU 2016-02. We continue to assess ASU 2018-01 in

conjunction with our adoption of ASU 2016-02, as noted above, but we expect to elect the practical expedient afforded by ASU-2018-01.

In July 2018, the FASB issued ASU 2018-11- Leases (Topic 842) – *Targeted Improvements* (“ASU 2018-11”). ASU 2018-11 provides specific financial reporting relief to the previously-issued ASU 2016-02 (above) and related guidance. ASU 2018-11 provides transition relief on comparative reporting at adoption which affects all entities with lease contracts that choose the additional transition method. In addition, ASU 2018-11 provides relief related to the requirements for separating components of a contract and benefits only lessors whose lease contracts qualify for the practical expedient. We believe that both items of relief in ASU 2018-11 will apply to the Company and we expect to avail ourselves of these relief provisions. The amendments in ASU 2018-11 are effective for public business entities as of January 1, 2020. We expect that ASU 2018-11 will provide efficiencies with the Company’s transition efforts at 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. We are still evaluating the impact of ASU 2018-15. The amendments in ASU 2018-15 are effective for public business entities for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. For us, the amendments in ASU 2018-15 are effective for annual reporting periods beginning after December 15, 2020, and interim periods within annual periods beginning after December 15, 2021. 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.

3. FAIR VALUE

The tables below set forth our financial assets and liabilities 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.

	Fair Value as of September 30, 2018			
	Level 1	Level 2	Level 3	Total
Assets				
Interest rate exchange agreements	\$ —	\$ 762	\$ —	\$ 762
Liabilities				
Interest rate exchange agreements	\$ —	\$ —	\$ —	\$ —

	Fair Value as of December 31, 2017			
	Level 1	Level 2	Level 3	Total
Assets				
Interest rate exchange agreements	\$ —	\$ 1,391	\$ —	\$ 1,391
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, 2018, we recorded a current asset of \$0.8 million, and no current liability, long-term asset or long-term liability. As of December 31, 2017, we recorded a current asset of \$1.4 million, and no current liability, long-term asset or long-term liability.

As a result of the changes in the mark-to-market valuations on our interest rate swaps, we recorded a net loss on derivatives of \$1.0 million and a net gain on derivatives of \$0.4 million for the three months ended September 30, 2018 and 2017, respectively, and a net loss on derivatives of \$0.6 million and a net gain on derivatives of \$1.1 million for the nine months ended September 30, 2018 and 2017, respectively.

4. PROPERTY, PLANT AND EQUIPMENT

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

	September 30, 2018	December 31, 2017
Cable systems, equipment and customer devices	\$ 2,444,742	\$ 2,386,517
Vehicles	45,652	46,897
Furniture, fixtures and office equipment	41,804	41,998
Buildings and leasehold improvements	19,203	18,483
Land and land improvements	1,572	1,572
Property, plant and equipment, gross	\$ 2,552,973	\$ 2,495,467
Accumulated depreciation	(1,799,643)	(1,749,951)
Property, plant and equipment, net	<u>\$ 753,330</u>	<u>\$ 745,516</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, 2018	December 31, 2017
Accrued programming costs	\$ 23,726	\$ 21,411
Accounts payable - trade	22,117	35,941
Accrued payroll and benefits	14,721	11,365
Accrued taxes and fees	12,486	12,209
Accrued administrative costs	9,928	5,386
Accrued service costs	8,003	6,328
Advance customer payments	7,988	9,641
Bank overdrafts ⁽¹⁾	7,761	12,340
Accrued property, plant and equipment	7,310	6,276
Accrued marketing costs	3,790	2,734
Accrued telecommunications costs	887	1,101
Accrued interest	255	549
Other accrued expenses	1,771	4,678
Accounts payable, accrued expenses and other current liabilities	<u>\$ 120,743</u>	<u>\$ 129,959</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, 2018	December 31, 2017
Bank credit facility	\$ 1,139,250	\$ 1,028,000
Total debt	\$ 1,139,250	\$ 1,028,000
Less: current portion	21,500	18,000
Total long-term debt, gross (less current portion)	\$ 1,117,750	\$ 1,010,000
Less: deferred financing costs, net	16,024	13,705
Total long-term debt, net (less current portion)	\$ 1,101,726	\$ 996,295

2018 Financing Activity

On March 29, 2018, we entered into an amended and restated credit agreement under our bank credit facility (the “credit facility”) that, among other things, provided for: (i) an additional \$60.0 million of term loans under Term Loan A-1, resulting in an aggregate outstanding amount of \$250.0 million, and extended the maturity of Term Loan A-1 from November 2021 to March 2023; and (ii) an additional \$106.0 million of term loans under Term Loan K (which was renamed Term Loan N), resulting in an aggregate outstanding amount of \$900.0 million (together “the amended term loans”). On the same date, the full additional amounts of the amended term loans were borrowed and the proceeds, along with available cash were used to: (i) repay the entire outstanding balance under our existing revolving credit commitments; (ii) fund a capital distribution of \$158.0 million to our parent, MCC, on March 30, 2018; and (iii) pay \$4.5 million of related fees and expenses.

On March 30, 2018, we made \$158.0 million of capital distributions to our parent, MCC, which was substantially funded by proceeds from the amended term loans and available cash. On the same date, MCC contributed such distributions to Mediacom Broadband LLC, to fund, in part, the redemption of certain outstanding senior notes that were redeemed in April 2018.

Bank Credit Facility

As of September 30, 2018, we maintained a \$1.509 billion credit facility, comprising:

- \$370.0 million of revolving credit commitments, which expire on February 15, 2022;
- \$243.8 million of outstanding borrowings under Term Loan A-1, which mature on March 31, 2023; and
- \$895.5 million of outstanding borrowings under Term Loan N, which mature on February 15, 2024.

As of September 30, 2018, we had approximately \$361.7 million of unused revolving credit commitments, all of which were available to be borrowed and used for general corporate purposes, after giving effect to no outstanding loans and \$8.3 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, 2018, 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, 2018, 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 at any time prior to maturity.

Interest Rate Swaps

We have entered into several interest rate exchange agreements (which we refer to as “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 may 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 as of, and for each of the three and nine months ended, September 30, 2018 and 2017. As of September 30, 2018, we had interest rate swaps that fixed the variable portion of \$400 million of borrowings at a rate of 1.5%, all of which were scheduled to expire during December 2018.

As of September 30, 2018, the weighted average interest rate on outstanding borrowings under the credit facility, including the effect of our interest rate swaps, was 3.6%.

Debt Ratings

MCC's corporate credit ratings are currently Ba2 by Moody's and BB by Standard and Poor's, both with positive outlooks. There are no covenants, events of default, borrowing conditions or other terms in the credit agreement that are based on changes in our credit rating assigned by any rating agency.

Fair Value

The fair values of our 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, 2018	December 31, 2017
Bank credit facility	\$ 1,139,250	\$ 1,033,955

7. PREFERRED MEMBERS' INTEREST

In July 2001, we made a \$150.0 million preferred membership investment ("PMI") in the operating subsidiaries of Mediacom Broadband LLC, which has a 12% annual dividend, payable quarterly in cash. We may call for the redemption of the PMI upon the repayment of all of Mediacom Broadband LLC's outstanding senior notes, and Mediacom Broadband LLC may voluntarily repay the PMI at any time at par. We received \$4.5 million in cash dividends on the PMI during each of the three months ended September 30, 2018 and 2017, and \$13.5 million in cash dividends on the PMI during each of the nine months ended September 30, 2018 and 2017.

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 no capital contributions from parent during each of the nine months ended September 30, 2018 and 2017. We made capital distributions to parent in cash of \$215.7 million and \$63.8 million during the nine months ended September 30, 2018 and 2017, respectively. See Note 6.

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 4.5% 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 \$4.2 million and \$3.9 million for the three months ended September 30, 2018 and 2017, respectively, and \$11.8 million and \$11.2 million for the nine months ended September 30, 2018 and 2017, respectively.

We are a preferred equity investor in Mediacom Broadband LLC. See Note 7.

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 LLC reporting unit as of October 1, 2017 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, 2017 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 2018, 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, 2018.

12. REVENUE RECOGNITION

We adopted the new accounting guidance for revenue recognition (i.e. ASU 2014-09) as of January 1, 2018. See Note 2.

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 stream is subscription-based and consists of: video service, high-speed data service and phone service. These services have base-level offerings and can be upgraded to premium level services. Residential customers can cancel their services 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.

One of our other revenue streams is advertising sales. These revenues represent 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.

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 \$2.7 million and \$3.0 million for the three months ended September 30, 2018 and 2017, respectively, and \$8.6 million and \$8.7 million for the nine months ended September 30, 2018 and 2017, respectively.

Significant Judgments

We often provide multiple services to a customer such as: subscription services, premium video and HSD upgrades, installation services and equipment rental. These services are highly integrated within our video, HSD and phone service offerings. Judgment is required to determine whether the delivery of customer premise equipment, installation services, and additional premium services are considered

distinct and should be accounted for separately from subscription services. Alternatively, the determination that these offerings are not distinct would cause these offerings to be accounted for on a combined basis within our subscription services.

Allocation of the transaction price to the distinct performance obligations in bundled service subscriptions requires judgment. The transaction price for bundled residential services is often discounted. This results in a combined, bundled price that is less than the sum of each of the individual standalone selling prices for each service. We allocate discounts for bundled residential services among each of the services to which the discount relates based on the relative standalone selling prices of those services. Standalone selling prices for our residential services are directly observable.

We believe that non-refundable upfront installation fees charged to customers result in a material right to renew the contract. As such, these upfront fees are not required to be paid upon subsequent renewals. These fees are deferred and 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). Estimation of the deferral period requires consideration of both quantitative and qualitative factors.

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

<u>Type of services</u>	<u>Three Months Ended</u>	<u>Nine Months Ended</u>
	<u>September 30, 2018</u>	<u>September 30, 2018</u>
Video	\$ 86,943	\$ 262,134
Data	87,014	252,021
Phone	13,249	39,287
Business services	26,564	78,068
Advertising	3,018	7,672
Total revenues	<u>\$ 216,788</u>	<u>\$ 639,182</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.

Contract Balances

We perform our obligations under contracts with customers by transferring services in exchange for receiving consideration from our customers. The timing of our performance often differs from the timing of the customer's payment, which results in the recognition of a contract asset or a contract liability. We recognize a contract asset when we have the right to consideration for services transferred to a customer. Contract assets are classified as accounts receivable in our Consolidated Balance Sheets, where our right to consideration is unconditional. We recognize a contract liability for amounts paid by the customer, where we have a right to receive consideration before the transfer of services to the customer. Customers are generally billed in advance for most services we provide, resulting in a contract liability until such services are transferred to the customer. Contract liabilities are recorded as deferred revenue (current and non-current) in our Consolidated Balance Sheet.

The amount of revenue recognized during the three and nine months ended September 30, 2018 that was included in the opening contract liability balance was \$1.6 million and \$12.1 million, respectively.

The difference in the opening and closing balances of our receivables and contract liability primarily result from the timing difference between our performance and the customer's payment.

There was no impairment of receivables during the nine months ended September 30, 2018.

Contract Costs

We capitalize amounts paid to obtain and fulfill a contract with a customer (e.g. sales commissions and installation activities on new contracts). We incur sales commissions in our effort to obtain customer contracts. These commissions are paid as an incentive to our employees, who are performing in a sales function, which is directly related to the contract obtained. Additionally, we incur costs to fulfill a contract through installation activities performed by its technicians. These costs include allocations of the amounts incurred for all activities associated with the installation services which are performed at a customer's premises, such as technician's wages and benefits, fuel costs, and vehicle maintenance.

As of September 30, 2018, the balance recognized from the costs incurred to obtain or fulfill a contract with a customer was \$15.0 million of which approximately \$7.1 million was short-term (recorded in prepaid and other current assets) and \$7.9 million was long-term (recorded in other assets, net).

We amortize the contract assets recognized from the costs to obtain or fulfill a contract with a customer on a systematic basis, consistent with the pattern of transfer to which the services relate. For residential customers, there is no stated contract term but, in practice, is treated as a day-to-day contract that renews over time. For these residential contracts, the contract period including renewals is estimated to be our average churn rate or turnover rate, which is approximately three years. For business customers, the amortization period is the initial contract term which ranges from 1 – 10 years. The amount of amortization that we recognized in service costs for installation activities for the three and nine months ended September 30, 2018 was \$0.6 million and \$1.7 million, respectively. The amount of amortization that we recognized in selling, general and administrative expenses for sales commissions for the three and nine months ended September 30, 2018 was \$1.5 million and \$4.3 million, respectively.

Supplemental Disclosures of Cash Flow Information

Our customers are typically billed in advance for the services we provide on a monthly basis. Historically, we have recorded such amounts in both accounts receivable and deferred revenue at the time of billing. With our adoption of the new revenue recognition guidance as of January 1, 2018, we record billed amounts when we have established an unconditional right to receive payment from our customers for services to be delivered or delivered to date under the customer's contract. Since we adopted this new guidance using the modified retrospective method and for more information about accounts receivable, deferred revenue and other affected accounts, please refer to the non-cash items noted in the Supplemental Disclosures of Cash Flow Information section in our Consolidated Statement of Cash Flows for the nine months ended September 30, 2018. Previously reported amounts were not restated as a result of this adoption method.

13. SALE OF ASSETS

Tower Asset Sale

On November 15, 2017, MCC entered into an asset purchase agreement (the "APA") to sell substantially all of its operating subsidiaries' tower assets (the "tower assets") to CTI Towers ("CTI"), subject to closing conditions and requirements per the APA. Such tower assets were non-strategic to MCC's cable operations. MCC will receive equity in CTI, representing a minority position, in exchange for MCC's tower assets.

On December 21, 2017, March 15, 2018 and September 25, 2018, we contributed certain tower assets to MCC which, in turn, sold such tower assets to CTI, pursuant to the terms and conditions of the APA. The contributed tower assets had a net book value of approximately \$0.1 million at the time of transfer. In conjunction, with the sale, we reduced our asset retirement obligation (liability) by approximately \$2.0 million.

These transactions substantially completed the tower asset sale, pursuant to the terms and conditions of the APA.

14. SUBSEQUENT EVENTS

On October 10, 2018, Hurricane Michael made landfall in the Panhandle region of Florida. Hurricane Michael caused property damage to our cable plant, as well as to our customers' homes and businesses, in Florida. We are currently assessing the full impact of this storm. We have not yet determined the impact to our financial position, operations or cash flows.

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, 2018 and 2017, and with our Annual Report for the year ended December 31, 2017.

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 offers a wide array of information, communications and entertainment services to households and businesses, including video, high-speed data (“HSD”), phone, and home security and automation. Through Mediacom Business, MCC provides scalable broadband communications solutions to commercial and public sector 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 Broadband LLC, another wholly-owned subsidiary of MCC. As of September 30, 2018, MCC’s cable systems passed an estimated 2.9 million homes and served approximately 793,000 video customers, 1,260,000 HSD customers and 609,000 phone customers, aggregating 2.7 million primary service units (“PSUs”).

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

Mediacom LLC

As of September 30, 2018, we served approximately 356,000 video customers, 566,000 HSD customers and 273,000 phone customers, aggregating 1.2 million PSUs. As of the same date, we served 609,000 residential and business customer relationships.

We offer video, HSD 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. We also offer home security and automation services to residential customers. Our services are typically offered on a subscription basis, and installation fees, monthly rates and related charges vary according to the services, equipment and features customers choose. We offer discounted packages for new customers and those who take multiple services, and primarily market bundled packages under the Xstream brand that include video with digital video recorder (“DVR”) service and set-tops with the TiVo guide, HSD with a wireless gateway, and phone service. We believe the simplified pricing and value proposition of our Xstream bundles has driven higher levels of sales activity.

Over the past several years, revenues from residential services have principally increased due to residential HSD customer growth. We expect to continue to grow residential revenues through HSD customer growth and greater 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 “Project Open Road,” we are extending our network to new commercial locations that contain multiple potential businesses customers, in an effort to sustain or accelerate our rate of growth in business services revenues.

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. Over the past several years, we have experienced meaningful video customer losses, largely to DBS competitors, and we expect video customer losses to continue. OTT video services have increasingly represented additional competition for our video service, and several OTT services have recently been introduced that offer video programming similar to our video service. We have placed a greater emphasis on higher quality residential customer relationships, and have generally eliminated or reduced tactical discounts for video customers that do not purchase multiple services. To enhance the appeal of our video service, 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 recently introduced a lower-cost IP set-top that offers the TiVo guide and integrated OTT video services, but without the required equipment for DVR service. In 2018, we introduced a voice-controlled remote, which allows our customers to use voice commands to change channels, search for shows and discover content through recommendations. We believe our video strategy has enabled us to reduce the rate of video customer losses and regain market share of new video connects. If we are unsuccessful with this strategy and cannot offset video

customer losses through higher average unit pricing and greater penetration of our advanced video services, we may experience future declines in annual video 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 60 megabits per second (“Mbps”) is faster than the highest speed offered by substantially all our competitors. As consumers’ bandwidth requirements have dramatically risen in recent years, we have dedicated increasing levels of capital expenditures to allow for faster speeds and greater levels of consumption. Through Project Gigabit, we completed the transition of our network to DOCSIS 3.1 technology and offer 1 Gbps downstream HSD service throughout substantially all of our footprint. We offer wireless gateways that combine a modem with a wireless router and phone adapter, ensuring performance of multiple personal devices used at the same time. Recently, we launched WiFi360, which provides additional access points and extends the range of the wireless network in the customer’s home. We expect to continue to grow HSD revenues as we further take market share and our HSD customers choose higher speed tiers.

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. We believe we will continue to grow residential phone customers, but may experience modest declines in phone revenues due to unit pricing pressure.

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 nation-wide 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 cell tower backhaul and enterprise-level services 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 expanded our network into additional commercial areas through Project Open Road. We believe these tactics have allowed us to gain meaningful market share and led to strong growth rates of business services revenues in the past several years, which we believe will continue.

We sell advertising and production services to local, regional and national customers under our OnMedia brand. These 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. Competition has, and likely will, continue to elevate as new formats of advertising are introduced into our markets. In recent years, we have generally experienced lower advertising revenues due digital marketing taking a greater share of advertising spend in our markets and an overall reduction of our video customer base. These secular declines have been periodically offset by increased levels of political advertising during national elections and other significant political events.

Historically, video programming has been our single largest expense, and we have experienced substantial increases in programming costs per video customer, particularly for sports and local broadcast programming, well in excess of the inflation rate or the change in the consumer price index. We believe these expenses will continue to grow at a high single- to low double-digit rate because of the demands of large media conglomerates or other owners of most of the popular cable networks and major market local broadcast stations, and of large independent television broadcast groups, who own or control 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. Moreover, 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, given the contractual economic penalties if we fail to comply. Consequently, we have little or no ability to individually or selectively negotiate for networks or stations, to forego purchasing networks or stations that generate low customer interest, to offer sports programming services, such as ESPN and regional sports networks, on one or more separate tiers, or to offer networks or stations on an a la carte basis to give our customers more choice and potentially lower their costs. In many instances, such programmers have created additional networks and migrated popular programming, particularly sports programming, to these new networks, which has contributed to the increases in our programming costs. Additionally, we believe certain programmers may also demand higher fees from us in an effort to partially offset declines in their advertising revenue as more advertisers allocate a greater portion of their spending to Internet advertising. Over the past several years, such growth in programming expenses have not been offset by customer rate increases and as such, we expect our video gross margins will continue to decline.

2018 Developments

Tower Asset Sale

On March 15, 2018, we contributed certain tower assets to our parent, MCC, which, in turn, sold such tower assets to CTI.

On September 25, 2018, we contributed certain tower assets to our parent, MCC, which, in turn, sold such tower assets to CTI.

See Note 13 in our Notes to Consolidated Financial Statements.

2018 Financing Activity

On March 29, 2018, we entered into an amended and restated credit agreement under our bank credit facility that, among other things, provided for an additional \$166.0 million of term loans and extended the maturity and amended the terms of certain term loans (together “the amended term loans”). On the same date, the full additional amounts of the amended term loans were borrowed and the proceeds, along with available cash were used to repay our entire outstanding balance under our existing revolving credit commitments, fund a cash distribution of \$158.0 million to our parent, MCC, on March 30, 2018, and pay approximately \$4.5 million of related fees and expenses. On the same date, MCC contributed such distributions to Mediacom Broadband LLC, to fund, in part, the redemption of certain outstanding senior notes that were redeemed in April 2018.

See “Liquidity and Capital Resources — Capital Structure — *2018 Financing Activity*” and Note 6 in our Notes to Consolidated Financial Statements.

Revenues

Changes in Accounting Standards

As of January 1, 2018, we have adopted certain accounting standards and related guidance (collectively, “revenue recognition”) that affects both the timing of revenue recognition (the “timing change”) and the allocation of revenues among video, HSD and phone within our multi-product offerings, in which we offer product bundles at discount (the “allocation change”). We adopted this accounting standard using a modified retrospective transition, and accordingly, the impact was reflected in our financial results only for the three and nine months ended September 30, 2018 and reported results for prior periods were not restated. The adoption of the new standard did not have a material impact on our results of operations for this period.

See Notes 2 and 12 in our Notes to Consolidated Financial Statements.

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.

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.

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 video, HSD 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 and customer growth. 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 expenses, 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

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

OIBDA is one of the primary measures used by management to evaluate our performance and to forecast future results. We believe 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 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. Management uses a separate process to budget, measure and evaluate capital expenditures. In addition, OIBDA may not be comparable to similarly titled measures used by other companies, which may have different depreciation and amortization policies.

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 OIBDA.

Actual Results of Operations

Three and Nine Months ended September 30, 2018 Compared to Three and Nine Months ended September 30, 2017

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

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2018	2017	Change	2018	2017	Change
Revenues	\$ 216,788	\$ 206,548	5.0%	\$ 639,182	\$ 613,318	4.2%
Costs and expenses:						
Service costs	97,269	93,813	3.7%	291,086	276,315	5.3%
Selling, general and administrative expenses	33,816	34,092	(0.8%)	97,975	96,755	1.3%
Management fee expense	4,175	3,850	8.4%	11,825	11,185	5.7%
Depreciation and amortization	33,437	32,843	1.8%	100,525	97,854	2.7%
Operating income	48,091	41,950	14.6%	137,771	131,209	5.0%
Interest expense, net	(10,732)	(11,102)	(3.3%)	(30,885)	(32,269)	(4.3%)
(Loss) gain on derivatives, net	(985)	366	NM	(629)	1,112	NM
Gain (loss) on early extinguishment of debt	—	622	NM	—	(11,690)	NM
Investment income from affiliate	4,500	4,500	NM	13,500	13,500	NM
Other income (expense), net	380	(651)	NM	(177)	(1,913)	NM
Net income	\$ 41,254	\$ 35,685	15.6%	\$ 119,580	\$ 99,949	19.6%
OIBDA	\$ 81,528	\$ 74,793	9.0%	\$ 238,296	\$ 229,063	4.0%

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

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2018	2017	Change	2018	2017	Change
Operating income	\$ 48,091	\$ 41,950	14.6%	\$ 137,771	\$ 131,209	5.0%
Depreciation and amortization	33,437	32,843	1.8%	100,525	97,854	2.7%
OIBDA	\$ 81,528	\$ 74,793	9.0%	\$ 238,296	\$ 229,063	4.0%

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,		
	2018	2017	% Change	2018	2017	% Change
Video	\$ 86,943	\$ 89,284	(2.6%)	\$ 262,134	\$ 267,696	(2.1%)
HSD	87,014	76,988	13.0%	252,021	227,004	11.0%
Phone	13,249	13,225	0.2%	39,287	39,034	0.6%
Business services	26,564	24,597	8.0%	78,068	72,113	8.3%
Advertising	3,018	2,454	23.0%	7,672	7,471	2.7%
Total revenues	\$ 216,788	\$ 206,548	5.0%	\$ 639,182	\$ 613,318	4.2%
Average total monthly revenue per customer relationship ⁽¹⁾	\$ 118.46	\$ 113.05	4.8%	\$ 116.71	\$ 112.18	4.0%

	September 30,		
	2018	2017	% Change
Video customers	356,000	368,000	(3.3%)
HSD customers	566,000	535,000	5.8%
Phone customers	273,000	242,000	12.8%
Primary service units (PSUs)	1,195,000	1,145,000	4.4%
Customer relationships	609,000	608,000	0.2%

- (1) Represents average total monthly revenues for the period divided by average customer relationships for the period, adjusted to reflect certain acquisitions during the year ended December 31, 2017, as they had occurred on December 31, 2016.

Revenues increased 5.0% and 4.2% for the three and nine months ended September 30, 2018, respectively, primarily due to greater HSD and, to a lesser extent, business services and advertising revenues. Revenues were substantially unaffected by the timing change to revenue recognition as noted in “Revenues – *Changes in Accounting Standards*,” and, excluding the impact of such change, revenues would have increased 5.0% and 4.2% for the three and nine months ended September 30, 2018, respectively.

We lost 2,000 and gained 1,000 customer relationships during the three and nine months ended September 30, 2018, respectively, compared to a loss of 2,000 and a gain of 1,000 customer relationships (excluding the effect of certain acquisitions) during the three and nine months ended September 30, 2017, respectively. Average total monthly revenue per customer relationship was \$118.46 and \$116.71 for the three and nine months ended September 30, 2018, respectively, representing increases of 4.8% and 4.0% over the respective prior year periods.

Video

Video revenues decreased 2.6% and 2.1% for the three and nine months ended September 30, 2018, respectively, largely due to the timing and allocation changes to revenue recognition noted in “Revenues – *Changes in Accounting Standards*,” and 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 more customers taking our advanced video services. Excluding the impact of the timing and allocation changes, video revenues would have increased 0.3% and 0.2% for the three and nine months ended September 30, 2018, respectively. We lost 5,000 and 10,000 video customers during the three and nine months ended September 30, 2018, respectively, compared to losses of 2,000 and 4,000 video customers (excluding the effect of certain acquisitions) during the respective prior year periods. As of September 30, 2018, we served 356,000 video customers, or 25.9% of estimated homes passed, and 42.9% of our residential video customers took our DVR service, which represents the largest component of revenues from advanced video services.

HSD

HSD revenues rose 13.0% and 11.0% for the three and nine months ended September 30, 2018, respectively, principally due to more customers paying higher rates for faster speed tiers, larger residential HSD customer bases compared to the prior year periods and the timing and allocation changes to revenue recognition. Excluding the impact of the timing and allocation changes, HSD revenues would have grown 10.6% and 8.7% for the three and nine months ended September 30, 2018, respectively. We gained 5,000 and 25,000 HSD customers for the three and nine months ended September 30, 2018, respectively, compared to increases of 5,000 and 16,000 HSD customers (excluding the effect of certain acquisitions) during the respective prior year periods. As of September 30, 2018, we served 566,000 HSD customers, or 41.2% of estimated homes passed, and 73.8% of our residential HSD customers took our wireless home gateway service.

Phone

Phone revenues increased 0.2% and 0.6% for the three and nine months ended September 30, 2018, respectively, primarily due to a larger residential phone customer base compared to the prior year period and the timing and allocation changes to revenue recognition. Excluding the impact of the timing and the allocation changes, phone revenues would have decreased 3.5% and 0.9% for the three and nine months ended September 30, 2018, respectively. We gained 6,000 and 21,000 phone customers during the three and nine months ended September 30, 2018, respectively, compared to increases of 10,000 and 26,000 phone customers (excluding the effect of certain acquisitions) during the respective prior year periods. As of September 30, 2018, we served 273,000 phone customers, or 19.9% of estimated homes passed.

Business Services

Business services revenues grew 8.0% and 8.3% for the three and nine months ended September 30, 2018, respectively, substantially due to larger SMB customer bases compared to the prior year periods and, to a lesser extent, by the timing change due to revenue recognition. Excluding the impact of the timing change, business services revenue would have grown 7.6% and 8.4% for the three and nine months ended September 30, 2018, respectively.

Advertising

Advertising revenues rose 23.0% and 2.7% for the three and nine months ended September 30, 2018, respectively, principally due to greater political advertising revenue and, for the nine months ended September 30, 2018, offset in part by declines in local automotive advertising and smaller video customer bases compared to the prior year periods.

Costs and Expenses

Service Costs

Service costs grew 3.7% and 5.3% for the three and nine months ended September 30, 2018, respectively, primarily due to greater video programming and, to a lesser extent, employee costs. Programming costs rose 5.0% and 7.3% for the three and nine months ended September 30, 2018, respectively, mainly due to higher fees associated with the renewal of programming contracts and contractual increases under agreements with certain cable networks and local broadcast stations, slightly offset by smaller video customer bases compared to the prior year periods. Employee costs increased 5.1% and 5.0% for the three and nine months ended September 30, 2018, respectively, largely as a result of greater operations and maintenance employee staffing and compensation levels. Service costs as a percentage of revenues were 44.9% and 45.4% for the three months ended September 30, 2018 and 2017, respectively, and 45.5% and 45.1% for the nine months ended September 30, 2018 and 2017, respectively.

Selling, General and Administrative Expenses

Selling, general and administrative expenses decreased 0.8% for the three months ended September 30, 2018, principally due to lower bad debt, taxes and fees and administrative expense. Bad debt expenses fell 14.9% for the three months ended September 30, 2018, largely due to lower write-offs of certain accounts. Taxes and fees decreased 10.4% for the three months ended September 30, 2018, principally due to lower franchise fees. Administrative expenses fell 16.9% mainly due to lower spending on certain customer support functions.

Selling, general and administrative expenses increased 1.3% for the nine months ended September 30, 2018, mainly due to greater billing and office expenses, offset in part by lower bad debt expense. Billing expenses grew 7.4% for the nine months ended September 30, 2018, principally due to greater fees associated with processing customers' bank and credit card payments. Office expenses were 9.6% higher for the nine months ended September 30, 2018, mainly due to higher rent and equipment maintenance and repair expenses. Bad debt expenses decreased 7.3% for the nine months ended September 30, 2018, principally due to lower write-offs of certain accounts.

Selling, general and administrative expenses as a percentage of revenues was 15.6% and 16.5% for the three months ended September 30, 2018 and 2017, respectively, and 15.3% and 15.8% for the nine months ended September 30, 2018 and 2017, respectively.

Management Fee Expense

Management fee expense increased 8.4% and 5.7% for the three and nine months ended September 30, 2018, respectively, reflecting higher fees charged by MCC. Management fee expense as a percentage of revenues was 1.9% for each of the three months ended September 30, 2018 and 2017, and 1.9% and 1.8% for the nine months ended September 30, 2018 and 2017, respectively.

Depreciation and Amortization

Depreciation and amortization was 1.8% and 2.7% higher for the three and nine months ended September 30, 2018, respectively, largely as a result of greater depreciation of investments in customer premise equipment, HSD bandwidth expansion and business support equipment and software.

Operating Income

Operating income increased 14.6% for the three months ended September 30, 2018, primarily due to the increase in revenues and, to a much lesser extent, the decrease in selling, general and administrative expenses, slightly offset by a muted increase in service costs and, to a much lesser extent, higher depreciation and amortization and management fees.

Operating income increased 5.0% for the nine months ended September 30, 2018, mainly due to the increase in revenues, offset in part by higher service costs and, to a lesser extent, depreciation and amortization and selling, general and administrative expenses and management fees.

Interest Expense, Net

Interest expense, net, decreased 3.3% and 4.3% for the three and nine months ended September 30, 2018, respectively, due to lower average outstanding indebtedness.

(Loss) 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 loss on derivatives of \$1.0 million and a net gain on derivatives of \$0.4 million for the three months ended September 30, 2018 and 2017, respectively, and a net loss on derivatives of \$0.6 million and a net gain on derivatives \$1.1 million for the nine months ended September 30, 2018 and 2017, respectively. See Notes 3 and 6 in our Notes to Consolidated Financial Statements.

Gain (Loss) on Early Extinguishment of Debt

There was no loss on early extinguishment of debt for each of the three and nine months ended September 30, 2018. Gain on early extinguishment of debt totaled \$0.6 million for the three months ended September 30, 2017, which represented certain adjustments. Loss on early extinguishment of debt totaled \$11.7 million for the nine months ended September 30, 2017, which represented the \$9.1 million redemption price paid above par and the write-off of \$2.6 million of unamortized financing costs, both substantially associated with the repayment of certain previously existing senior notes.

Investment Income from Affiliate

Investment income from affiliate was \$4.5 million for each of the three months ended September 30, 2018 and 2017, and \$13.5 million for each of the nine months ended September 30, 2018 and 2017. These amounts represent the investment income on our \$150.0 million preferred membership interest in Mediacom Broadband LLC. See Note 7 in our Notes to Consolidated Financial Statements.

Other Income (Expense), Net

Other income, net, was \$0.4 million for the three months ended September 30, 2018, primarily due to a reversal of accruals associated with tower retirements, offset in part by \$0.5 million of revolving credit commitment fees. Other expense, net, was approximately \$0.7 million for the three months ended September 30, 2017, representing \$0.3 million of revolving credit commitment fees and \$0.4 million of other fees.

Other expense, net, was \$0.2 million for the nine months ended September 30, 2018, primarily representing \$1.4 million of revolving credit commitment fees, mostly offset by a reversal of accruals associated with tower retirement expenses. Other expense, net, was \$1.9 million for the nine months ended September 30, 2017, representing \$0.7 million of revolving credit commitment fees and \$1.2 million of other fees.

See “2018 Developments – *Tower Asset Sale.*”

Net Income

As a result of the factors described above, we recognized net income of \$41.3 million and \$35.7 million for the three months ended September 30, 2018 and 2017, respectively, and \$119.6 million and \$99.9 million for the nine months ended September 30, 2018 and 2017, respectively.

OIBDA

OIBDA increased 9.0% for the three months ended September 30, 2018, as the increase in revenues and, to a much lesser extent, decrease in selling, general and administrative expenses was slightly offset by a muted increase in service costs and, to a much lesser extent, higher management fees.

OIBDA increased 4.0% for the nine months ended September 30, 2018, as the increase in revenues was offset in part by higher service costs and, to a much lesser extent, selling, general and administrative expenses and management fees.

Excluding the impact of the timing change, OIBDA would have increased 9.4% and 3.9% for the three and nine months ended September 30, 2018, respectively.

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 periodic distributions to MCC. As of September 30, 2018, our near-term liquidity requirements included term loan principal repayments of \$21.5 million over the next twelve months. As of the same date, our sources of liquidity included \$13.1 million of cash and approximately \$361.7 million of unused and available commitments under our \$370.0 million revolving credit facility, after giving effect to no outstanding loans and \$8.3 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.

Net Cash Flows Provided by Operating Activities

Net cash flows provided by operating activities were \$221.1 million for the nine months ended September 30, 2018, primarily due to OIBDA of \$238.3 million and, to a much lesser extent, investment income from affiliate of \$13.5 million, offset in part by interest expense of \$30.9 million and the \$2.3 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 \$4.3 million and an increase in accounts receivable, net, of \$1.5 million, offset in part by a decrease in accounts receivable from affiliates of \$3.6 million.

Net cash flows provided by operating activities were \$191.8 million for the nine months ended September 30, 2017, primarily due to OIBDA of \$229.1 million and, to a much lesser extent, investment income from affiliate of \$13.5 million, offset in part by interest expense of \$32.3 million and the \$18.9 million net change in our operating assets and liabilities. The net change in our operating assets and liabilities was primarily due to increases in prepaid expenses and other assets of \$8.4 million, and in accounts receivable from affiliates of \$7.3 million, and in accounts receivable, net, of \$2.7 million and a decrease in accounts payable, accrued expenses and other current liabilities of \$2.3 million, offset in part by an increase in deferred revenue of \$1.9 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 \$107.1 million for the nine months ended September 30, 2018, primarily comprising \$108.9 million of capital expenditures, slightly offset by a net change in accrued property, plant and equipment of \$1.0 million.

Net cash flows used in investing activities were \$134.0 million for the nine months ended September 30, 2017, primarily comprising \$117.8 million of capital expenditures and an acquisition of a cable system for \$18.2 million, slightly offset by a net change in accrued property, plant and equipment of \$1.7 million.

Capital Expenditures

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

	Nine Months Ended		
	September 30,		
	2018	2017	Change
Customer premise equipment	\$ 52,524	\$ 53,092	\$ (568)
Enterprise networks	4,225	4,229	(4)
Scalable infrastructure	13,422	18,132	(4,710)
Line extensions	10,238	9,597	641
Upgrade / rebuild	19,886	23,942	(4,056)
Support capital	8,588	8,804	(216)
Total capital expenditures	\$ 108,883	\$ 117,796	\$ (8,913)

The decrease in capital expenditures largely reflects lower spending levels in: (i) scalable infrastructure, mainly due to lower spending on HSD bandwidth expansion; (ii) upgrade and rebuild, largely associated with the replacement of certain network assets and; (iii) customer premise equipment, primarily for our next-generation video set-tops.

Net Cash Flows Used in Financing Activities

Net cash flows used in financing activities were \$113.6 million for the nine months ended September 30, 2018, primarily comprising \$215.7 million of capital distributions to our parent, MCC, \$4.6 million of other financing activities and \$4.5 million of financing costs, offset in part by \$111.3 million of net borrowings under our bank credit facility, which were largely used to fund the capital distributions to MCC. See “Capital Structure – 2018 Financing Activity” and Note 6 in our Notes to Consolidated Financial Statements.

Net cash flows used in financing activities were \$59.5 million for the nine months ended September 30, 2017, primarily comprising \$271.0 million of net borrowings under our bank credit facility, which were largely used to fund a \$250.0 million redemption of certain previously existing senior notes, \$63.8 million of capital distributions to our parent, MCC, \$12.8 million of financing costs and the \$9.1 million redemption price paid above par associated with certain previously existing senior notes, offset in part by \$5.2 million of other financing activities.

Capital Structure

As of September 30, 2018, our total indebtedness was \$1.139 billion, of which approximately 35% was at fixed interest rates or had interest rate exchange agreements that fixed the corresponding variable portion of debt. During the nine months ended September 30, 2018, we paid cash interest of \$28.9 million, net of capitalized interest.

2018 Financing Activity

On March 29, 2018, we entered into an amended and restated credit agreement under our bank credit facility that, among other things, provided for an additional \$166.0 million of term loans and extended the maturity and amended the terms of certain term loans (together “the amended term loans”). On the same date, the full additional amounts of the amended term loans were borrowed and the proceeds, along with available cash were used to repay our entire outstanding balance under our existing revolving credit commitments, fund a cash distribution of \$158.0 million to our parent, MCC, on March 30, 2018, and pay approximately \$4.5 million of related fees and expenses. On the same date, MCC contributed such distributions to Mediacom Broadband LLC to fund, in part, the redemption of certain outstanding senior notes that were redeemed in April 2018.

See Note 6 in our Notes to Consolidated Financial Statements.

Bank Credit Facility

As of September 30, 2018, we maintained a \$1.509 billion bank credit facility (the “credit facility”), comprising \$1,139.3 million of term loans with maturities ranging from March 2023 to February 2024, and \$370.0 million of revolving credit commitments, which are scheduled to expire in February 2022. As of the same date, we had approximately \$361.7 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 no outstanding loans and \$8.3 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, 2018, our operating subsidiaries were in compliance with all covenants under the credit agreement including, as of the same date, a total leverage ratio of 3.2 to 1.0 and an interest coverage ratio of 7.7 to 1.0. We do not believe that our operating subsidiaries will have any difficulty complying with any of the covenants under the credit agreement in the near future.

Interest Rate Swaps

We have entered into several interest rate exchange agreements (which we refer to as “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 may result from changes in market interest rates. As of September 30, 2018, we had interest rate swaps that fixed the variable portion of \$400 million of borrowings at a rate of 1.5%, all of which are scheduled to expire during December 2018.

As of September 30, 2018, the weighted average interest rate on outstanding borrowings under the credit facility, including the effect of our interest rate swaps, was 3.6%.

Debt Ratings

MCC’s corporate credit ratings are currently Ba2 by Moody’s and BB by Standard and Poor’s (“S&P”), both with positive outlooks.

There can be no assurance that Moody’s or S&P will maintain their ratings on MCC. 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 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 for the year ended December 31, 2017.

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 for the year ended December 31, 2017.

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 2018, 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, 2018.

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.