



**LIBERTY CABLEVISION  
OF PUERTO RICO LLC**

**Condensed Consolidated Financial Statements  
March 31, 2016**

**LIBERTY CABLEVISION OF PUERTO RICO LLC**

279 Ponce de Leon Ave.  
San Juan, Puerto Rico  
00918-1485

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**LIBERTY CABLEVISION OF PUERTO RICO LLC**

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**LIBERTY CABLEVISION OF PUERTO RICO LLC**

**CONDENSED CONSOLIDATED BALANCE SHEETS**  
**(unaudited)**

	<b>March 31,</b> <b>2016</b>	<b>December 31,</b> <b>2015</b>
	<b>in millions</b>	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents.....	\$ 84.3	\$ 65.7
Trade receivables and unbilled revenue, net.....	17.2	19.0
Prepaid expenses.....	6.2	4.6
Other current assets (note 9).....	18.3	16.3
Total current assets.....	126.0	105.6
Property and equipment, net (note 6).....	370.5	368.7
Goodwill.....	277.7	277.7
Cable television franchise rights.....	584.1	584.1
Customer relationships, net (note 6).....	113.7	117.3
Other assets, net (note 9).....	16.5	28.0
Total assets.....	\$ 1,488.5	\$ 1,481.4
<b>LIABILITIES AND MEMBERS' CAPITAL</b>		
Current liabilities:		
Accounts payable (note 9).....	\$ 13.3	\$ 15.6
Deferred revenue and advance payments from subscribers.....	13.4	13.2
Third-party accrued interest.....	10.6	10.7
Accrued capital expenditures.....	14.9	8.1
Current portion of debt and capital lease obligations (note 7).....	0.5	0.5
Other accrued and current liabilities (note 4).....	48.6	47.0
Total current liabilities.....	101.3	95.1
Long-term debt and capital lease obligations (note 7):		
Third-party.....	925.4	925.0
Related-party (note 9).....	17.6	16.0
Other long-term liabilities (notes 4 and 9).....	32.5	26.5
Total liabilities.....	1,076.8	1,062.6
Commitments and contingencies (notes 4, 8, and 10)		
Members' capital:		
Members' capital (notes 3, 8 and 9).....	479.7	486.8
Cayman Holding Loan Receivable (note 9).....	(68.0)	(68.0)
Members' capital after deducting loan receivable from member.....	411.7	418.8
Total liabilities and members' capital.....	\$ 1,488.5	\$ 1,481.4

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

**LIBERTY CABLEVISION OF PUERTO RICO LLC**

**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
**(unaudited)**

	<b>Three months ended</b>	
	<b>March 31,</b>	
	<b>2016</b>	<b>2015</b>
	<b>in millions</b>	
Revenue (note 11).....	\$ 103.9	\$ 79.0
Operating costs and expenses:		
Operating (other than depreciation and amortization) .....	44.5	35.6
Selling, general and administrative (SG&A) (including share-based compensation) (note 9) .....	13.0	10.1
Depreciation and amortization .....	21.0	15.3
Impairment, restructuring and other operating items, net (note 3).....	0.5	3.4
	<u>79.0</u>	<u>64.4</u>
Operating income.....	<u>24.9</u>	<u>14.6</u>
Non-operating expense:		
Interest expense:		
Third-party .....	(12.9)	(11.4)
Related-party (note 9) .....	(0.4)	(0.4)
Realized and unrealized losses on derivative instruments, net (note 4).....	(19.2)	—
Other expense .....	—	(0.1)
	<u>(32.5)</u>	<u>(11.9)</u>
Net earnings (loss).....	<u>\$ (7.6)</u>	<u>\$ 2.7</u>

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

**LIBERTY CABLEVISION OF PUERTO RICO LLC**

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' CAPITAL  
(unaudited)**

	<u>Class A preferred units</u>	<u>Class B common units</u>	<u>Total members' capital</u>	<u>Cayman Holding Loan Receivable</u>	<u>Members' capital after deducting loan receivable from member</u>
	in millions				
Balance at January 1, 2016 .....	\$ 257.2	\$ 229.6	\$ 486.8	\$ (68.0)	\$ 418.8
Net loss .....	—	(7.6)	(7.6)	—	(7.6)
Priority Return (note 8) .....	3.7	(3.7)	—	—	—
Other (note 9) .....	—	0.5	0.5	—	0.5
Balance at March 31, 2016 .....	<u>\$ 260.9</u>	<u>\$ 218.8</u>	<u>\$ 479.7</u>	<u>\$ (68.0)</u>	<u>\$ 411.7</u>

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

**LIBERTY CABLEVISION OF PUERTO RICO LLC**

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(unaudited)**

	<b>Three months ended</b>	
	<b>March 31,</b>	
	<b>2016</b>	<b>2015</b>
	<b>in millions</b>	
Cash flows from operating activities:		
Net earnings (loss) .....	\$ (7.6)	\$ 2.7
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:		
Share-based compensation expense .....	0.4	0.2
Depreciation and amortization .....	21.0	15.3
Impairment, restructuring and other operating items, net .....	0.5	3.4
Amortization of deferred financing costs and non-cash interest accretion .....	0.5	0.3
Realized and unrealized losses on derivative instruments, net .....	19.2	—
Changes in operating assets and liabilities .....	5.2	(1.6)
Net cash provided by operating activities .....	<u>39.2</u>	<u>20.3</u>
Cash flows from investing activities:		
Capital expenditures .....	(20.3)	(11.7)
Net cash used by investing activities .....	<u>(20.3)</u>	<u>(11.7)</u>
Cash flows from financing activities:		
Repayments of third-party debt and capital lease obligations .....	(0.1)	(0.1)
Other financing activities .....	(0.2)	(0.2)
Net cash used by financing activities .....	<u>(0.3)</u>	<u>(0.3)</u>
Net increase in cash .....	18.6	8.3
Cash:		
Beginning of period .....	65.7	21.9
End of period .....	<u>\$ 84.3</u>	<u>\$ 30.2</u>
Cash paid for interest .....	<u>\$ 12.5</u>	<u>\$ 9.0</u>

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



**LIBERTY CABLEVISION OF PUERTO RICO LLC**  
**Notes to Condensed Consolidated Financial Statements**  
**March 31, 2016**  
**(unaudited)**

**(1) Basis of Presentation**

Liberty Cablevision of Puerto Rico LLC is a provider of video, broadband internet and fixed-line telephony services in Puerto Rico. Liberty Cablevision of Puerto Rico LLC was formed in connection with a series of transactions with certain investment funds affiliated with Searchlight Capital Partners L.P. (collectively, **Searchlight**) that were completed on November 8, 2012 (the **Puerto Rico Transaction**). This series of transactions includes the merger (the **November 2012 Merger**) of the Puerto Rican broadband communications subsidiary (**Old Liberty Puerto Rico**) of LiLAC Holdings, Inc. (**LiLAC Holdings**) with another broadband communications operator in Puerto Rico, San Juan Cable LLC, doing business as OneLink Communications (**OneLink**), with OneLink as the surviving entity. Immediately following the November 2012 Merger, OneLink changed its name to Liberty Cablevision of Puerto Rico LLC (**Liberty Puerto Rico**). On June 3, 2015, our parent company, LCPR Cayman Holding Inc. (**Cayman Holding**), together with investment funds affiliated with Searchlight, entered into an agreement with PPR Media LLC (**PPR Media**) to purchase Puerto Rico Cable Acquisition Company Inc., doing business as Choice Cable TV (**Choice**), a then subsidiary of PPR Media. Through a series of related-party transactions and immediately following the Choice Acquisition, as defined and described in note 3, Liberty Puerto Rico became the parent company of Choice. LiLAC Holdings indirectly owns a 60.0% controlling interest in Liberty Puerto Rico, with the remaining 40.0% interest indirectly owned by Searchlight. LiLAC Holdings is a wholly-owned subsidiary of Liberty Global plc (**Liberty Global**), an international provider of video, broadband internet, fixed-line telephony and mobile services. In these notes, the terms “we,” “our,” “our company” and “us” may refer, as the context requires, to Liberty Puerto Rico or collectively to Liberty Puerto Rico and its subsidiary.

Our unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (**GAAP**) for interim financial information. Accordingly, these financial statements do not include all of the information required by GAAP for complete financial statements. In the opinion of management, these financial statements reflect all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of the results of operations for the interim periods presented. The results of operations for any interim period are not necessarily indicative of results for the full year. These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our 2015 annual report.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Estimates and assumptions are used in accounting for, among other things, the valuation of acquisition-related assets and liabilities, allowances for uncollectible accounts, programming and copyright costs, loss contingencies, fair value measurements, impairment assessments, capitalization of internal costs associated with construction and installation activities, useful lives of long-lived assets and share-based compensation. Actual results could differ from those estimates.

Certain prior period amounts, including deferred financing costs, have been reclassified to conform to the current period presentation. For additional information regarding the change in the classification of deferred financing costs, see note 2.

These condensed consolidated financial statements reflect our consideration of the accounting and disclosure implications of subsequent events through May 25, 2016, the date of issuance.

**(2) Accounting Changes and Recent Accounting Pronouncements**

***Accounting Changes***

In April 2015, the Financial Accounting Standards Board (**FASB**) issued Accounting Standards Update (**ASU**) No. 2015-03, *Simplifying the Presentation of Debt Issuance Costs* (**ASU 2015-03**), which requires debt issuance costs related to a recognized debt liability to be presented on the balance sheet as a direct deduction from the debt liability, similar to the presentation of debt discounts. ASU 2015-03 is effective for annual reporting periods beginning after December 15, 2015. We adopted ASU 2015-03 on January 1, 2016 and, accordingly, deferred financing costs are presented as a reduction of debt in our March 31, 2016 and December 31, 2015 condensed consolidated balance sheets. Prior to the adoption of ASU 2015-03, we presented deferred financing costs in other assets, net.

**LIBERTY CABLEVISION OF PUERTO RICO LLC**  
**Notes to Condensed Consolidated Financial Statements — (Continued)**  
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***Recent Accounting Pronouncements***

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (ASU 2014-09)*, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. ASU 2014-09, as amended by ASU No. 2015-14, will replace existing revenue recognition guidance when it becomes effective for annual reporting periods beginning after December 15, 2018. Early application is permitted for annual and interim reporting periods that begin after December 15, 2016. This new standard permits the use of either the retrospective or cumulative effect transition method. We will adopt ASU 2014-09 effective January 1, 2018, and we are currently evaluating the effect that ASU 2014-09 will have on our consolidated financial statements and related disclosures. We have not yet selected a transition method nor have we determined the effect of the standard on our ongoing financial reporting.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (ASU 2016-02)*, which, for most leases, will result in lessees recognizing lease assets and lease liabilities on the balance sheet with additional disclosures about leasing arrangements. ASU 2016-02 requires lessees and lessors to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. The modified retrospective approach also includes a number of optional practical expedients an entity may elect to apply. ASU 2016-02 is effective for annual reporting periods beginning after December 15, 2019, with early adoption permitted. We are currently evaluating the effect that ASU 2016-02 will have on our consolidated financial statements and related disclosures.

In March 2016, the FASB issued ASU No. 2016-09, *Compensation — Stock Compensation, Improvements to Employee Share-Based Payment Accounting (ASU 2016-09)*, which simplifies several aspects of the accounting for share-based payment transactions, including income tax consequences, classification of awards as either equity or liabilities and classification within the statement of cash flows. ASU 2016-09 is effective for annual reporting periods beginning after December 15, 2017, with early adoption permitted. We are currently evaluating the effect that ASU 2016-09 will have on our consolidated financial statements and related disclosures.

**(3) Acquisition**

On June 3, 2015, pursuant to a stock purchase agreement with PPR Media and following regulatory approval, Cayman Holding paid cash in exchange for ownership shares of Choice. The purchase price was funded through (i) \$259.1 million of debt under a bridge loan facility, net of discount and fees, (ii) \$10.5 million of cash contributed to Cayman Holding from LiLAC Holdings and (iii) an equity contribution from Searchlight of \$6.8 million. Liberty Puerto Rico then issued 150 common shares to Cayman Holding in exchange for 100% ownership of Choice resulting in Choice being a wholly-owned subsidiary of Liberty Puerto Rico (the **Choice Acquisition**). In connection with these transactions, Liberty Puerto Rico borrowed \$267.5 million on the Liberty Puerto Rico Bank Facility, as defined in note 7, (\$259.1 million after deducting the applicable discount and fees) that was distributed directly to Cayman Holding and, as such, represents a non-cash borrowing and distribution of equity. Liberty Puerto Rico has been treated as the acquiring entity of Choice for financial reporting purposes.

Choice is a cable and broadband services provider in Puerto Rico. We acquired Choice in order to achieve certain financial, operational and strategic benefits through the integration of Choice with Liberty Puerto Rico.

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We have accounted for the Choice Acquisition using the acquisition method of accounting, whereby the total purchase price was allocated to the acquired identifiable net assets of Choice based on assessments of their respective fair values, and the excess of the purchase price over the fair values of these identifiable net assets was allocated to goodwill. A summary of the purchase price and the opening balance sheet for the Choice Acquisition at the June 3, 2015 acquisition date is presented in the following table. The opening balance sheet presented below reflects our final purchase price allocation (in millions):

Cash and cash equivalents .....	\$ 3.6
Other current assets .....	7.8
Property and equipment, net.....	79.8
Goodwill (a) .....	51.6
Cable television franchise rights .....	147.8
Customer relationships, net (b) .....	59.1
Other assets, net.....	0.3
Other accrued and current liabilities .....	(13.2)
Non-current deferred tax liabilities (c).....	(60.4)
Total purchase price (d) .....	<u>276.4</u>
Increase to members' capital associated with issuance of the Cayman Holding Loan Receivable (note 9).....	68.0
Impact of non-current deferred tax liabilities retained by parent (c) .....	60.4
Impact of the Choice Acquisition.....	<u>404.8</u>
Non-cash borrowing and distribution to Cayman Holding .....	(259.1)
Increase to members' capital related to the Choice Acquisition.....	<u>\$ 145.7</u>

- (a) The goodwill recognized in connection with the Choice Acquisition is primarily attributable to (i) the ability to take advantage of Choice's existing advanced broadband communications network to gain immediate access to potential customers and (ii) synergies that are expected to be achieved through the integration of Choice with Liberty Puerto Rico.
- (b) Amount includes intangible assets related to customer relationships. As of June 3, 2015, the weighted average useful life of Choice's intangible assets was approximately ten years.
- (c) Liberty Puerto Rico is not a tax-paying entity for United States (U.S.) federal or Puerto Rico income tax purposes.
- (d) Excludes cumulative direct acquisition costs of \$8.5 million incurred through December 31, 2015, which were included in impairment, restructuring and other operating items, net, in our consolidated statement of operations for the year ended December 31, 2015.

***Pro Forma Information***

The following unaudited pro forma condensed consolidated operating results for the three months ended March 31, 2015 give effect to the Choice Acquisition as if it had been completed as of January 1, 2015 (in millions). These pro forma amounts are not necessarily indicative of the operating results that would have occurred if this transaction had occurred on such date. The pro forma adjustments are based on certain assumptions that we believe are reasonable.

Revenue.....	\$ 101.1
Net earnings .....	<u>\$ 4.6</u>

**(4) Derivative Instruments**

During the second quarter of 2015, we entered into derivative instruments to protect against increases in the interest rates related to our variable-rate debt. We do not apply hedge accounting to our derivative instruments. Accordingly, changes in the fair

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values of our derivative instruments are recorded in realized and unrealized gains or losses on derivative instruments, net, in our condensed consolidated statement of operations.

The following table provides details of the fair values of our derivative instrument liabilities:

	March 31, 2016			December 31, 2015		
	Current (a)	Long-term (a)	Total	Current (a)	Long-term (a)	Total
	in millions					
Interest rate derivative contracts (b) .....	\$ 2.7	\$ 30.3	\$ 33.0	\$ —	\$ 13.8	\$ 13.8

- (a) Our current and long-term derivative liabilities are included in other accrued and current liabilities and other long-term liabilities, respectively, in our condensed consolidated balance sheets.
- (b) We consider credit risk in our fair value assessments. As of March 31, 2016 and December 31, 2015, the fair values of our interest rate derivative contracts that represented liabilities have been reduced by credit risk valuation adjustments aggregating \$1.6 million and \$0.5 million, respectively. The adjustments to our derivative liabilities relate to credit risk associated with our own nonperformance. In all cases, the adjustments take into account offsetting liability or asset positions within a given contract. Our determination of credit risk valuation adjustments generally is based on our credit risks, as observed in the credit default swap market and market quotations for our debt instruments, as applicable. The changes in the credit risk valuation adjustments associated with our interest rate derivative contracts resulted in a net gain of \$1.1 million during the three months ended March 31, 2016 that is included in realized and unrealized losses on derivative instruments, net, in our condensed consolidated statement of operations. For further information regarding our fair value measurements, see note 5.

The details of our realized and unrealized losses on derivative instruments, net, are as follows:

	Three months ended	
	March 31,	
	2016	2015
	in millions	
Interest rate derivative contracts .....	\$ 19.2	\$ —

**Counterparty Credit Risk**

Collateral is generally not posted by either party under our derivative instruments.

**Details of our Derivative Instruments**

In the following table, we present the details of our derivative instruments. The notional amounts of multiple derivative instruments that mature within the same calendar month are shown in the aggregate and interest rates are presented on a weighted average basis. For derivative instruments that become effective subsequent to March 31, 2016, we present a range of dates that represents the period covered by the applicable derivative instruments.

**LIBERTY CABLEVISION OF PUERTO RICO LLC**  
**Notes to Condensed Consolidated Financial Statements — (Continued)**  
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***Interest Rate Derivative Contracts***

The terms of our outstanding interest rate swap contracts at March 31, 2016 are as follows:

<u>Final maturity date</u>	<u>Notional amount</u>	<u>Interest rate due from</u> <u>counterparty</u>	<u>Interest rate due to</u> <u>counterparty</u>
	in millions		
October 2016 - January 2022 .....	\$ 506.3	3 mo. LIBOR	2.49%
October 2016 - January 2019 .....	\$ 168.8	3 mo. LIBOR	1.96%

**(5) Fair Value Measurements**

We use the fair value method to account for our derivative instruments. The reported fair values of these instruments as of March 31, 2016 likely will not represent the value that will be paid or received upon the ultimate settlement or disposition of these liabilities. With respect to our derivative instruments, we expect that the values realized generally will be based on market conditions at the time of settlement, which may occur at the maturity of the derivative instrument or at the time of the repayment or refinancing of the underlying debt instrument.

GAAP provides for a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. Level 1 inputs are quoted market prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 2 inputs are inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability. We record transfers of assets or liabilities into or out of Levels 1, 2 or 3 at the beginning of the quarter during which the transfer occurred. During the three months ended March 31, 2016, no such transfers were made.

In order to manage our interest rate risk, we have entered into various derivative instruments, as further described in note 4. The recurring fair value measurements of these instruments are determined using discounted cash flow models. Most of the inputs to these discounted cash flow models consist of, or are derived from, observable Level 2 data for substantially the full term of these instruments. This observable data includes most interest rate futures and swap rates, which are retrieved or derived from available market data. Although we may extrapolate or interpolate this data, we do not otherwise alter this data in performing our valuations. We incorporate a credit risk valuation adjustment in our fair value measurements to estimate the impact of both our own nonperformance risk and the nonperformance risk of our counterparties. Our and our counterparties' credit spreads represent our most significant Level 3 inputs, and these inputs are used to derive the credit risk valuation adjustments with respect to these instruments. As we would not expect changes in our or our counterparties' credit spreads to have a significant impact on the valuations of these instruments, we have determined that these valuations fall under Level 2 of the fair value hierarchy. Our credit risk valuation adjustments with respect to our interest rate swaps are quantified and further explained in note 4.

Fair value measurements are also used in connection with nonrecurring valuations performed in connection with impairment assessments and acquisition accounting. These nonrecurring valuations include the valuation of intangible assets related to cable television franchise rights and customer relationships, property and equipment and the implied value of goodwill. With the exception of certain inputs for our weighted average cost of capital and discount rate calculations that are derived from pricing services, the inputs used in our discounted cash flow analyses, such as forecasts of future cash flows, are based on our assumptions. The valuations of our cable television franchise rights and customer relationship intangible assets are each primarily based on an excess earnings methodology, which is a form of a discounted cash flow analysis. The excess earnings methodology requires us to estimate the specific cash flows expected from the respective cable television franchise rights and customer relationship intangible assets, considering such factors as estimated customer life, the revenue expected to be generated over the life of the cable television franchise rights or the customer relationship, contributory asset charges and other factors. Tangible assets are typically valued using a replacement or reproduction cost approach, considering factors such as current prices of the same or similar equipment, the age of the equipment and economic obsolescence. The implied value of goodwill is determined by allocating the fair value of the reporting unit to all of the assets and liabilities of that unit as if the reporting unit had been acquired in a business combination, with the residual amount allocated to goodwill. Our nonrecurring valuations use significant unobservable inputs and therefore fall

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under Level 3 of the fair value hierarchy. During the three months ended March 31, 2016, we did not perform significant nonrecurring fair value measurements.

**(6) Long-lived Assets**

***Property and Equipment, Net***

The details of our property and equipment and the related accumulated depreciation are set forth below:

	<b>March 31, 2016</b>	<b>December 31, 2015</b>
	<b>in millions</b>	
Distribution systems .....	\$ 567.1	\$ 549.4
Support equipment, buildings and land .....	46.9	45.4
	614.0	594.8
Accumulated depreciation .....	(243.5)	(226.1)
Total property and equipment, net.....	\$ 370.5	\$ 368.7

During the three months ended March 31, 2016 and 2015, we recorded changes in current liabilities related to capital expenditures of \$1.2 million and (\$4.0 million), respectively.

***Customer Relationships, Net***

The details of our customer relationships are set forth below:

	<b>March 31, 2016</b>	<b>December 31, 2015</b>
	<b>in millions</b>	
Gross carrying amount .....	\$ 149.1	\$ 149.1
Accumulated amortization .....	(35.4)	(31.8)
Total customer relationships, net.....	\$ 113.7	\$ 117.3

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**Notes to Condensed Consolidated Financial Statements — (Continued)**  
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**(unaudited)**

**(7) Debt and Capital Lease Obligations**

Our debt and capital lease obligations are as follows:

	<u>March 31, 2016</u>		<u>Estimated fair value (c)</u>		<u>Principal amount</u>	
	<u>Weighted average interest rate (a)</u>	<u>Unused borrowing capacity (b)</u>	<u>March 31, 2016</u>	<u>December 31, 2015</u>	<u>March 31, 2016</u>	<u>December 31, 2015</u>
	in millions					
Third-party debt – Liberty Puerto Rico Bank Facility (d).....	5.11%	\$ 40.0	\$ 899.2	\$ 913.0	\$ 942.5	\$ 942.5
					<u>March 31, 2016</u>	<u>December 31, 2015</u>
					in millions	
Total principal amount of third-party debt before unamortized discounts and deferred financing costs .....					\$ 942.5	\$ 942.5
Unamortized discounts .....					(8.4)	(8.6)
Unamortized deferred financing costs.....					(8.7)	(9.0)
Total carrying amount of third-party debt.....					925.4	924.9
Capital lease obligations.....					0.5	0.6
Total third-party debt and capital lease obligations.....					925.9	925.5
Related-party debt (note 9).....					17.6	16.0
Total debt and capital lease obligations .....					943.5	941.5
Current maturities of debt and capital lease obligations .....					(0.5)	(0.5)
Long-term debt and capital lease obligations.....					\$ 943.0	\$ 941.0

- (a) Represents the weighted average interest rate in effect at March 31, 2016 for all borrowings outstanding pursuant to each debt instrument, including any applicable margin. The interest rates presented represent stated rates and do not include the impact of deferred financing costs, original issue premiums or discounts and commitment fees, all of which affect our overall cost of borrowing. Including the effects of derivative instruments, original issue discounts and commitment fees, but excluding the impact of financing costs, our weighted average interest rate on our aggregate third-party indebtedness was 5.1% at March 31, 2016. For information regarding our derivative instruments, see note 4.
- (b) Unused borrowing capacity represents the maximum availability under the Liberty Puerto Rico Bank Facility at March 31, 2016 without regard to covenant compliance calculations or other conditions precedent to borrowing. Based on the applicable leverage and other financial covenants, the full amount of unused borrowing capacity was available to be borrowed under the Liberty Puerto Rico Bank Facility at March 31, 2016. When the relevant March 31, 2016 compliance reporting requirements have been completed, and assuming no changes from the March 31, 2016 borrowing levels, we anticipate the full amount of the Liberty Puerto Rico Bank Facility will continue to be available to be borrowed.
- (c) The estimated fair values of our debt instruments were determined using the average of applicable bid and ask prices (mostly Level 1 of the fair value hierarchy). For additional information concerning fair value hierarchies, see note 5.
- (d) The Liberty Puerto Rico Bank Facility consists of (i) a first lien term loan with a principal amount of \$765.0 million, (ii) a second lien term loan with a principal amount of \$177.5 million and (iii) a \$40.0 million revolving credit facility.

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***Maturities of Third-party Debt***

As of March 31, 2016, all of our third-party outstanding debt matures in January 2022 and thereafter.

**(8) Members' Capital**

In accordance with and as defined in our limited liability company agreement, Priority Returns have been accrued and recorded quarterly as increases to the Class A Preferred Member capital and decreases to the Class B Common Member capital since November 8, 2012. Accrued Priority Returns will be reflected as a liability when and if declared. The cumulative amount of Priority Returns accrued through March 31, 2016 is \$40.6 million.

**(9) Related-party Transactions**

*Allocated share-based compensation expense.* We recognized share-based compensation expense of \$0.4 million and \$0.2 million during the three months ended March 31, 2016 and 2015, respectively. These amounts include share-based compensation of nil and \$0.1 million during the three months ended March 31, 2016 and 2015, respectively, that Liberty Global allocated to our company with respect to share-based incentive awards held by certain of our employees, which, if applicable, are reflected as an increase to members' capital. The remaining share-based compensation during the three months ended March 31, 2016 and 2015 relates to a liability-based share incentive award plan that we implemented on January 1, 2015. Share-based compensation expense is included in SG&A in our condensed consolidated statements of operations.

*Interest expense.* We recognized related-party interest expense on the Shareholder Loan, as defined and described below, of \$0.4 million for each of the three months ended March 31, 2016 and 2015.

The following table provides details of our related-party balances:

	<b>March 31, 2016</b>	<b>December 31, 2015</b>
	<b>in millions</b>	
<b>Assets:</b>		
Other current assets (a) .....	\$ 1.0	\$ 1.0
Other assets (b) .....	3.7	3.7
Total assets .....	\$ 4.7	\$ 4.7
<b>Liabilities:</b>		
Accounts payable (c) .....	\$ 1.4	\$ 1.8
Debt – Shareholder Loan (d) .....	17.6	16.0
Other long-term liabilities (e) .....	0.4	1.6
Total liabilities .....	\$ 19.4	\$ 19.4

- 
- (a) Represents various related-party receivables that may be cash or loan settled.
- (b) Represents estimated income tax payments paid on behalf of Cayman Holding. Cayman Holding, which owns a 60.0% interest in Liberty Puerto Rico, is a pass-through entity for U.S. federal income tax purposes, but is treated as a corporation for income tax purposes in the Puerto Rico jurisdiction. On a quarterly basis, we make estimated tax payments on behalf of Cayman Holding. The resulting receivables are non-interest bearing and will be cash or loan settled at the discretion of Leo Cable LLC, the parent company of Cayman Holding.
- (c) Represents various non-interest bearing related-party payables that may be cash or loan settled.



**LIBERTY CABLEVISION OF PUERTO RICO LLC**  
**Notes to Condensed Consolidated Financial Statements — (Continued)**  
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- (d) As of March 31, 2016, we had a loan agreement with LiLAC Holdings (the **Shareholder Loan**), which was subordinate in right of payment to the Liberty Puerto Rico Bank Facility. Under the Shareholder Loan agreement, Searchlight affiliates provided an irrevocable, absolute and unconditional guarantee to LiLAC Holdings for the repayment of the original advance under the Shareholder Loan, including accrued interest, limited to Searchlight's 40.0% pro rata portion. The Shareholder Loan bore interest at 10.0% per annum. Accrued and unpaid interest, if any, was added to the principal of the loan on January 1 of each year. The increase in the Shareholder Loan balance during the three months ended March 31, 2016 relates to a non-cash transfer of accrued interest of \$1.6 million. On April 29, 2016, we paid \$18.2 million to LiLAC Holdings, representing the then outstanding balance of the Shareholder Loan and accrued and unpaid interest.
- (e) Represents accrued and unpaid interest on the Shareholder Loan.

In June 2015, Cayman Holding issued a related-party loan receivable to us in connection with the Choice Acquisition (the **Cayman Holding Loan Receivable**). The Cayman Holding Loan Receivable bears interest at 5.45% and has a maturity date of June 10, 2025. For financial reporting purposes, we have presented the Cayman Holding Loan Receivable, and the related accrued interest and interest income, as a reduction of our members' capital. For additional information regarding the Choice Acquisition, see note 3.

During the three months ended March 31, 2016, we recorded a \$0.5 million adjustment to increase members' capital in our condensed consolidated statement of changes in members' capital. This adjustment relates to certain 2015 capital charges associated with the exercise or release from restriction of Liberty Global share-based incentive awards held by certain of our employees. We and Liberty Global have agreed that these capital charges, which are generally cash settled, will be based on the fair value of the underlying Liberty Global shares associated with share-based incentive awards that are exercised or are released from restriction during the period.

**(10) Commitments and Contingencies**

***Commitments***

In the normal course of business, we have entered into agreements that commit our company to make cash payments in future periods with respect to network and connectivity commitments and non-cancellable operating leases. As of March 31, 2016, such commitments are as follows:

	<b>Payments due during:</b>							<b>Total</b>
	<b>Remainder of 2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>Thereafter</b>	
	<b>in millions</b>							
Network and connectivity commitments.....	\$ 0.9	\$ 1.2	\$ 1.2	\$ 1.2	\$ 1.1	\$ 1.1	\$ 3.3	\$ 10.0
Operating leases .....	1.1	1.2	1.2	1.1	0.9	0.9	3.1	9.5
Total (a) .....	<u>\$ 2.0</u>	<u>\$ 2.4</u>	<u>\$ 2.4</u>	<u>\$ 2.3</u>	<u>\$ 2.0</u>	<u>\$ 2.0</u>	<u>\$ 6.4</u>	<u>\$ 19.5</u>

- (a) The commitments included in this table do not reflect any liabilities that are included in our March 31, 2016 condensed consolidated balance sheet.

In addition to the commitments set forth in the table above, we have certain commitments under agreements with programming vendors, franchise authorities and municipalities pursuant to which we expect to make payments in future periods. While our programming commitments do not require that we pay any fixed minimum fees, we expect to make significant future payments under these contracts based on the actual number of subscribers to the programming services. In this regard, we incurred programming and copyright costs of \$26.1 million and \$21.3 million during the three months ended March 31, 2016 and 2015, respectively.

**LIBERTY CABLEVISION OF PUERTO RICO LLC**  
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In addition to the commitments set forth in the table above, we have significant commitments under derivative instruments pursuant to which we expect to make payments in future periods. For information regarding our derivative instruments, see note 4.

***Legal and Regulatory Proceedings and Other Contingencies***

*PRTC and Class Action Claims.* Liberty Puerto Rico, as the surviving entity in the Puerto Rico Transaction, is a party to certain claims previously asserted by the incumbent telephone operator against OneLink based on alleged conduct of OneLink that occurred prior to the acquisition of OneLink (the **PRTC Claim**). The PRTC Claim includes an allegation that OneLink acted in an anticompetitive manner in connection with a series of legal and regulatory proceedings it initiated against the incumbent telephone operator in Puerto Rico beginning in 2009. In March 2014, a separate class action claim was filed in Puerto Rico (the **Class Action Claim**) containing allegations substantially similar to those asserted in the PRTC Claim, but alleging ongoing injury on behalf of a consumer class (as opposed to harm to a competitor). The former owners of OneLink have partially indemnified us through November 8, 2016 for any losses we may incur in connection with the PRTC Claim up to a specified maximum amount. However, the indemnity does not cover any potential losses resulting from the Class Action Claim. We have recorded a provision and a related indemnification asset representing our best estimate of the net loss we may incur upon the ultimate resolution of the PRTC Claim. While we expect that the net amount required to satisfy these contingencies will not materially differ from the estimated amount we have accrued, no assurance can be given that the ultimate resolution of these matters will not have an adverse impact on our results of operations, cash flows or financial position in any given period.

*Regulatory Issues.* Adverse regulatory developments could subject our businesses to a number of risks. Regulation, including conditions imposed on us by competition or other authorities as a requirement to close acquisitions or dispositions, could limit growth, revenue and the number and types of services offered and could lead to increased operating costs and property and equipment additions. In addition, regulation may restrict our operations and subject them to further competitive pressure, including pricing restrictions, interconnect and other access obligations, and restrictions or controls on content, including content provided by third parties. Failure to comply with current or future regulation could expose our businesses to various penalties.

In addition to the foregoing items, we have contingent liabilities related to matters arising in the ordinary course of business, including (i) legal proceedings, (ii) issues involving value-added taxes and wage, property and other tax issues and (iii) disputes over interconnection, programming, copyright and channel carriage fees. While we generally expect that the amounts required to satisfy these contingencies will not materially differ from any estimated amounts we have accrued, no assurance can be given that the resolution of one or more of these contingencies will not result in a material impact on our results of operations, cash flows or financial position in any given period. Due, in general, to the complexity of the issues involved and, in certain cases, the lack of a clear basis for predicting outcomes, we cannot provide a meaningful range of potential losses or cash outflows that might result from any unfavorable outcomes.

**LIBERTY CABLEVISION OF PUERTO RICO LLC**  
**Notes to Condensed Consolidated Financial Statements — (Continued)**  
**March 31, 2016**  
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**(11) Segment Reporting**

We have one reportable segment that provides video, broadband internet and fixed-line telephony services to residential and/or business customers in Puerto Rico.

Our revenue by major category is set forth below:

	<b>Three months ended March 31,</b>	
	<b>2016</b>	<b>2015</b>
	<b>in millions</b>	
Cable subscription revenue (a):		
Video.....	\$ 44.4	\$ 37.8
Broadband internet.....	40.8	26.4
Fixed-line telephony .....	7.8	7.5
Total cable subscription revenue .....	93.0	71.7
Business-to-business ( <b>B2B</b> ) revenue (b).....	3.8	1.4
Other revenue (c) .....	7.1	5.9
Total .....	\$ 103.9	\$ 79.0

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- (a) Cable subscription revenue includes amounts received from subscribers for ongoing services, excluding installation fees and late fees. Cable subscription revenue from subscribers who purchase bundled services at a discounted rate is generally allocated proportionally to each service based on the standalone price for each individual service. As a result, changes in the standalone pricing of our cable products or the composition of bundles can contribute to changes in our product revenue categories from period to period.
- (b) B2B revenue includes revenue from business broadband internet, video, voice and data services offered to medium to large enterprises and, on a wholesale basis, to other operators. We also provide services to certain small or home office (**SOHO**) subscribers. SOHO subscribers pay a premium price to receive expanded service levels along with video, broadband internet or fixed-line telephony services that are the same or similar to the mass marketed products offered to our residential subscribers. Revenue from SOHO subscribers, which is included in cable subscription revenue, aggregated \$5.6 million and \$4.5 million during the three months ended March 31, 2016 and 2015, respectively.
- (c) Other revenue includes, among other items, late fee, advertising and installation revenue.

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## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis, which should be read in conjunction with our condensed consolidated financial statements and the discussion and analysis included in our 2015 annual report, is intended to assist in providing an understanding of our financial condition, changes in financial condition and results of operations and is organized as follows:

- *Forward-looking Statements.* This section provides a description of certain of the factors that could cause actual results or events to differ materially from anticipated results or events.
- *Overview.* This section provides a general description of our business and recent events.
- *Material Changes in Results of Operations.* This section provides an analysis of our results of operations for the three months ended March 31, 2016 and 2015.
- *Material Changes in Financial Condition.* This section provides an analysis of our liquidity, condensed consolidated statements of cash flows and contractual commitments.

The capitalized terms used below have been defined in the notes to our condensed consolidated financial statements. In the following text, the terms “we,” “our,” “our company” and “us” may refer, as the context requires, to Liberty Puerto Rico or collectively to Liberty Puerto Rico and its subsidiary.

### Forward-looking Statements

Certain statements in this quarterly report constitute forward-looking statements. To the extent that statements in this quarterly report are not recitations of historical fact, such statements constitute forward-looking statements, which, by definition, involve risks and uncertainties that could cause actual results to differ materially from those expressed or implied by such statements. In particular, statements under *Management's Discussion and Analysis of Financial Condition and Results of Operations* may contain forward-looking statements, including statements regarding the economic environment in Puerto Rico, our business, product, finance strategies, our property and equipment additions, subscriber growth and retention rates, competitive, regulatory and economic factors, the timing and impacts of proposed transactions, the anticipated impacts of new legislation (or changes to existing rules and regulations), anticipated changes in our revenue, costs or growth rates, our liquidity, credit risks, target leverage levels and our future projected contractual commitments and cash flows. Where, in any forward-looking statement, we express an expectation or belief as to future results or events, such expectation or belief is expressed in good faith and believed to have a reasonable basis, but there can be no assurance that the expectation or belief will result or be achieved or accomplished. In evaluating these statements, you should consider the following list of some but not all of the factors that could cause actual results or events to differ materially from anticipated results or events:

- economic and business conditions and industry trends in Puerto Rico, including any adverse impacts that may arise as a result of the high level of Puerto Rico's sovereign debt;
- the competitive environment in Puerto Rico, including competitor responses to our products and services;
- fluctuations in interest rates;
- instability in global financial markets, including sovereign debt issues and related fiscal reforms;
- consumer disposable income and spending levels, including the availability and amount of individual consumer debt;
- the ultimate outcome of pending or threatened litigation, including the PRTC Claim and the Class Action Claim;
- changes in consumer television viewing preferences and habits;
- consumer acceptance of our existing service offerings, including our cable television, broadband internet, fixed-line telephony and business service offerings, and of new technology, programming alternatives and other products and services that we may offer in the future;
- our ability to manage rapid technological changes;

- our ability to maintain or increase the number of subscriptions to our cable television, broadband internet and fixed-line telephony offerings and our average revenue per household;
- our ability to provide satisfactory customer service, including support for new and evolving products and services;
- our ability to maintain or increase rates to our subscribers or to pass through increased costs to our subscribers;
- the impact of our future financial performance, or market conditions generally, on the availability, terms and deployment of capital;
- changes in, or failure or inability to comply with, government regulations in Puerto Rico and adverse outcomes from regulatory proceedings;
- government intervention that opens our broadband distribution network to competitors;
- our ability to obtain regulatory approval and satisfy other conditions necessary to close acquisitions and dispositions, and the impact of conditions imposed by competition and other regulatory authorities in connection with acquisitions;
- our ability to successfully acquire new businesses and, if acquired, to integrate, realize anticipated efficiencies from and implement our business plan with respect to the businesses we have acquired or may acquire, such as the acquisition of Choice;
- changes in laws or treaties relating to taxation, or the interpretation thereof;
- changes in laws and government regulations that may impact the availability and cost of capital and the derivative instruments that hedge certain of our financial risks;
- the ability of suppliers and vendors to timely deliver quality products, equipment, software, services and access;
- the availability of attractive programming for our digital video services and the costs associated with such programming, including retransmission and copyright fees payable to public and private broadcasters;
- uncertainties inherent in the development and integration of new business lines and business strategies;
- our ability to adequately forecast and plan future network requirements;
- the availability of capital for the acquisition and/or development of telecommunications networks and services;
- problems we may discover post-closing with the operations, including the internal controls and financial reporting process, of businesses we acquire;
- the leakage of sensitive customer data;
- the loss of key employees and the availability of qualified personnel;
- changes in the nature of key strategic relationships with partners and joint venturers; and
- events that are outside of our control, such as political unrest in international markets, terrorist attacks, malicious human acts, natural disasters, pandemics and other similar events.

The broadband distribution services industries are changing rapidly and, therefore, the forward-looking statements of expectations, plans and intent in this quarterly report are subject to a significant degree of risk. These forward-looking statements and the above-described risks, uncertainties and other factors speak only as of the date of this quarterly report, and we expressly disclaim any obligation or undertaking to disseminate any updates or revisions to any forward-looking statement contained herein, to reflect any change in our expectations with regard thereto, or any other change in events, conditions or circumstances on which any such statement is based. Readers are cautioned not to place undue reliance on any forward-looking statement.

## Overview

We are a provider of video, broadband internet and fixed-line telephony services in Puerto Rico. Liberty Puerto Rico was formed in connection with the Puerto Rico Transaction. LiLAC Holdings indirectly owns a 60.0% controlling interest in Liberty Puerto Rico, with the remaining 40.0% interest indirectly owned by Searchlight. LiLAC Holdings is a wholly-owned subsidiary of Liberty Global, an international provider of video, broadband internet, fixed-line telephony and mobile services.

We completed the Choice Acquisition on June 3, 2015, which impacts the comparability of our 2016 and 2015 results of operations. For further information regarding the Choice Acquisition, see note 3 to our condensed consolidated financial statements.

At March 31, 2016, we owned and operated a network that passed 1,072,500 homes and served 782,000 revenue generating units (**RGUs**), consisting of 321,200 broadband internet subscribers, 263,000 video subscribers and 197,800 telephony subscribers.

We added 5,100 and 10,000 RGUs during the three months ended March 31, 2016 and 2015, respectively. The RGU growth during the three months ended March 31, 2016 is attributable to the net effect of (i) an increase of 3,800 fixed-line telephony RGUs, (ii) an increase of 2,200 broadband internet RGUs and (iii) a decrease of 900 enhanced video RGUs.

We are facing a challenging economic environment in Puerto Rico. This environment could adversely impact our ability to increase, or in certain cases, maintain the revenue, RGUs, Segment OCF (as defined and described below) and liquidity of our business, particularly if the economic environment were to weaken further. Additionally, concerns exist with respect to the Puerto Rico government's cash flows and, accordingly, its ability to meet its debt obligations. On May 1, 2016, Puerto Rico's government failed to pay \$367.0 million of the \$422.8 million of debt obligations that were due as of such date, and on July 1, 2016, another \$1.9 billion will become due. During 2015, the Puerto Rico government enacted a new tax law that, among other things, (i) increased the sales and use tax rate from 7.0% to 11.5%, effective July 1, 2015, and (ii) provided for the taxing of services between businesses at a rate of 4.0%, effective October 1, 2015. Prior to the new tax law, such services were exempt from taxation. In addition, further changes in tax laws of Puerto Rico are currently being contemplated. Puerto Rico's government is also implementing austerity and a number of other measures to improve its solvency. It remains possible, if not likely, that Puerto Rico will be required to restructure its debt obligations. If the fiscal and economic conditions in Puerto Rico were to worsen as a result of these or other factors, (a) the population of Puerto Rico could continue to decline, reducing the future demand for Liberty Puerto Rico's services, and (b) the demand and ability of customers to pay for our services could be impaired, which could have a negative impact on our results of operations, cash flows and financial condition.

As we use the term, adjusted operating income before depreciation and amortization (**Segment OCF**) is defined as operating income before depreciation and amortization, share-based compensation, provisions and provision releases related to significant litigation and impairment, restructuring and other operating items. Other operating items include (i) gains and losses on the disposition of long-lived assets, (ii) third-party costs directly associated with successful and unsuccessful acquisitions and dispositions, including legal, advisory and due diligence fees, as applicable, and (iii) other acquisition-related items, such as gains and losses on the settlement of contingent consideration.

## Material Changes in Results of Operations

### Revenue

Revenue includes amounts earned from (i) subscribers to our broadband communications and (ii) B2B services, installation fees, late fees and advertising revenue. Consistent with the presentation of our revenue categories in note 11 to our condensed consolidated financial statements, we use the term “subscription revenue” in the following discussion to refer to amounts received from subscribers for ongoing services, excluding installation fees and late fees.

Variances in the cable subscription revenue that we receive from our customers are a function of (i) changes in the number of RGUs outstanding during the period and (ii) changes in average monthly subscription revenue per average RGU (ARPU). Changes in ARPU can be attributable to (a) price increases, (b) changes in bundling or promotional discounts, (c) changes in the tier of services selected, (d) variances in subscriber usage patterns and (e) the overall mix of cable products during the period. In the following discussion, we provide the net impact of the above factors on the ARPU that is derived from our video, broadband internet and fixed-line telephony products.

Our revenue by major category is set forth below:

	Three months ended March 31,		Increase		Organic increase (decrease)
	2016	2015	\$	%	%
	in millions				
Cable subscription revenue (a):					
Video .....	\$ 44.4	\$ 37.8	\$ 6.6	17.5	(3.7)
Broadband internet .....	40.8	26.4	14.4	54.5	11.1
Fixed-line telephony .....	7.8	7.5	0.3	4.0	(6.0)
Total cable subscription revenue.....	93.0	71.7	21.3	29.7	1.5
B2B revenue (b).....	3.8	1.4	2.4	171.4	131.1
Other revenue (c) .....	7.1	5.9	1.2	20.3	(9.4)
Total .....	\$ 103.9	\$ 79.0	\$ 24.9	31.5	3.0

- (a) Cable subscription revenue includes amounts received from subscribers for ongoing services, excluding installation fees and late fees. Cable subscription revenue from subscribers who purchase bundled services at a discounted rate is generally allocated proportionally to each service based on the standalone price for each individual service. As a result, changes in the standalone pricing of our cable products or the composition of bundles can contribute to changes in our product revenue categories from period to period.
- (b) B2B revenue includes revenue from business broadband internet, video, voice and data services offered to medium to large enterprises and, on a wholesale basis, to other operators. We also provide services to certain SOHO subscribers. SOHO subscribers pay a premium price to receive expanded service levels along with video, broadband internet or fixed-line telephony services that are the same or similar to the mass marketed products offered to our residential subscribers. Revenue from SOHO subscribers, which is included in cable subscription revenue, aggregated \$5.6 million and \$4.5 million during the three months ended March 31, 2016 and 2015, respectively. On an organic basis, our total B2B revenue, including revenue from SOHO subscribers, increased 26.9% for the three months ended March 31, 2016, as compared to the corresponding prior-year period. A portion of the increase in our SOHO revenue is attributable to the conversion of our residential subscribers to SOHO subscribers.
- (c) Other revenue includes, among other items, late fee, advertising and installation revenue.



The details of our revenue increase during the three months ended March 31, 2016, as compared to the corresponding period in 2015, include (i) an organic increase of \$2.3 million or 3.0% and (ii) the impact of the Choice Acquisition, as set forth below:

	<u>Subscription revenue</u>	<u>Non- subscription revenue</u>	<u>Total</u>
	<u>in millions</u>		
Increase (decrease) in cable subscription revenue due to change in:			
Average number of RGUs (a).....	\$ 3.3	\$ —	\$ 3.3
ARPU (b).....	(2.2)	—	(2.2)
Total increase in cable subscription revenue .....	1.1	—	1.1
Increase in B2B revenue (c).....	—	1.8	1.8
Decrease in other revenue .....	—	(0.6)	(0.6)
Total organic increase.....	1.1	1.2	2.3
Impact of the Choice Acquisition .....	20.3	2.3	22.6
Total.....	<u>\$ 21.4</u>	<u>\$ 3.5</u>	<u>\$ 24.9</u>

- (a) The increase in cable subscription revenue related to a change in the average number of RGUs is attributable to an increase in the average numbers of broadband internet and fixed-line telephony RGUs that was only partially offset by a decline in the average number of enhanced video RGUs.
- (b) The decrease in cable subscription revenue related to a change in ARPU is attributable to (i) an adverse change in RGU mix and (ii) a net decrease primarily due to (a) lower ARPU from fixed-line telephony services and (b) higher ARPU from broadband internet services.
- (c) The increase in B2B revenue is primarily due to higher revenue from broadband internet services.

### ***Operating expenses***

Operating expenses include programming and copyright, network operations, customer operations, customer care and other costs related to our operations. Programming and copyright costs, which represent a significant portion of our operating costs, are expected to rise in future periods as a result of (i) higher costs associated with the expansion of our digital video content, including rights associated with ancillary product offerings and rights that provide for the broadcast of live sporting events, (ii) rate increases and (iii) growth in the number of our enhanced video subscribers. In addition, we are subject to inflationary pressures with respect to our labor and other costs. Any cost increases that we are not able to pass on to our subscribers through service rate increases would result in increased pressure on our operating margins.

Our total operating expenses increased \$8.9 million or 25.0% during the three months ended March 31, 2016, as compared to the corresponding period in 2015. This increase includes an increase of \$10.0 million attributable to the impact of the Choice Acquisition. Excluding the effect of the Choice Acquisition, our operating expenses decreased \$1.1 million or 3.2%. This decrease is attributable to (i) lower fixed-line telephony rates and (ii) a net decrease from individually insignificant changes in other operating expense categories.

### ***SG&A expenses***

SG&A expenses include human resources, information technology, general services, management, finance, legal and sales and marketing costs, share-based compensation and other general expenses. As noted under *Operating expenses* above, we are subject to inflationary pressures with respect to our labor and other costs.

Our total SG&A expenses (exclusive of share-based compensation expense) increased \$2.7 million or 27.3% during the three months ended March 31, 2016, as compared to the corresponding period in 2015. This increase includes an increase of \$3.3 million

attributable to the impact of the Choice Acquisition. Excluding the effect of the Choice Acquisition, our SG&A expenses decreased \$0.6 million or 6.3%. This decrease is attributable to individually insignificant changes in SG&A expense categories.

***Share-based compensation expense (included in SG&A expenses)***

We recognized share-based compensation expense of \$0.4 million and \$0.2 million during the three months ended March 31, 2016 and 2015, respectively.

***Depreciation and amortization expense***

Our depreciation and amortization expense increased \$5.7 million or 37.3% during the three months ended March 31, 2016, as compared to the corresponding period in 2015. This increase is primarily attributable to the net effect of (i) an increase due to the impact of the Choice Acquisition, (ii) an increase associated with property and equipment additions related to the expansion and upgrade of our network, the installation of customer premises equipment and other capital initiatives and (iii) a decrease associated with certain assets becoming fully depreciated.

***Impairment, restructuring and other operating items, net***

We recognized impairment, restructuring and other operating items, net, of \$0.5 million and \$3.4 million during the three months ended March 31, 2016 and 2015, respectively. The 2016 amount is primarily attributable to employee severance and termination costs associated with certain reorganization and integration activities. The 2015 amount is primarily attributable to (i) restructuring charges from employee severance and termination costs related to certain reorganization and integration activities and (ii) direct acquisition costs related to the Choice Acquisition.

If, among other factors, (i) our enterprise value or Liberty Global's equity values were to decline significantly or (ii) the adverse impacts of economic, competitive, regulatory or other factors were to cause our results of operations or cash flows to be worse than anticipated, we could conclude in future periods that impairment charges are required in order to reduce the carrying values of our goodwill, cable television franchise rights and, to a lesser extent, other long-lived assets. Any such impairment charges could be significant.

***Interest expense – third-party***

Our third-party interest expense increased \$1.5 million during the three months ended March 31, 2016, as compared to the corresponding period in 2015, primarily due to a higher average outstanding debt balance resulting from the Choice Acquisition.

For additional information regarding our outstanding third-party indebtedness, see note 7 to our condensed consolidated financial statements.

***Interest expense – related-party***

Our related-party interest expense of \$0.4 million remained relatively unchanged during the three months ended March 31, 2016, as compared to the corresponding period in 2015. For additional information regarding our related-party debt, see note 9 to our condensed consolidated financial statements.

### ***Realized and unrealized losses on derivative instruments, net***

Our realized and unrealized gains or losses on derivative instruments include unrealized changes in the fair values of our derivative instruments that are non-cash in nature until such time as the derivative contracts are fully or partially settled.

During the second quarter of 2015, we entered into interest rate derivative contracts. Our realized and unrealized losses on derivative instruments, net, were \$19.2 million during the three months ended March 31, 2016, primarily due to decreases in market interest rates in the U.S. dollar market. In addition, the losses during the three months ended March 31, 2016 include a net gain of \$1.1 million resulting from changes in our credit risk valuation adjustments.

For additional information regarding our derivative instruments, see notes 4 and 5 to our condensed consolidated financial statements.

### ***Net earnings (loss)***

During the three months ended March 31, 2016 and 2015, we reported net earnings (loss) of (\$7.6 million) and \$2.7 million, respectively, including (i) operating income of \$24.9 million and \$14.6 million, respectively, and (ii) non-operating expense of \$32.5 million and \$11.9 million, respectively.

Gains or losses associated with changes in the fair values of derivative instruments are subject to a high degree of volatility and, as such, any gains from this source do not represent a reliable source of income. In the absence of significant gains in the future from this source or from other non-operating items, our ability to achieve earnings from operations is largely dependent on our ability to increase our Segment OCF to a level that more than offsets the aggregate amount of our (i) share-based compensation expense, (ii) depreciation and amortization, (iii) impairment, restructuring and other operating items, net, (iv) interest expense and (v) other net non-operating expenses.

Subject to the limitations included in our various debt instruments, we expect that Liberty Global will continue to cause our company to maintain our debt at current levels relative to our Segment OCF. As a result, we expect that we will continue to report significant levels of interest expense for the foreseeable future.

## **Material Changes in Financial Condition**

### ***Sources and Uses of Cash***

We had \$84.3 million of cash and cash equivalents at March 31, 2016. In addition to our existing cash and cash equivalents, the primary sources of our liquidity are cash provided by operations and borrowings available under the Liberty Puerto Rico Bank Facility, as further described in note 7 to our condensed consolidated financial statements. From time to time, our members may also agree to provide funding to us in the form of subordinated loans or equity contributions.

Our liquidity is generally used to fund property and equipment additions and debt service requirements. From time to time, we may also require cash in connection with (i) the repayment of any outstanding debt, (ii) acquisitions and other investment opportunities and (iii) satisfaction of contingencies.

For additional information concerning our cash flows, see the discussion under *Condensed Consolidated Statements of Cash Flows* below.

### ***Capitalization***

For the quarter ended March 31, 2016, (i) our consolidated first lien net leverage ratio was 3.56x and (ii) our consolidated total net leverage ratio was 4.48x, each as specified in, and calculated in accordance with, the Liberty Puerto Rico Bank Facility.

At March 31, 2016, the outstanding principal amount of our third-party debt, together with our capital lease obligations, aggregated \$943.0 million, including \$0.5 million that is classified as current in our condensed consolidated balance sheet and \$942.5 million that is due in 2022 or thereafter. For additional information concerning our debt, see note 7 to our condensed consolidated financial statements.

Our ability to generate cash from our operations will depend on our future operating performance, which is in turn dependent, to some extent, on general economic, financial, competitive, market, regulatory and other factors, many of which are beyond our control. We believe that our cash and cash equivalents, the cash provided from our operations and any available borrowings under the Liberty Puerto Rico Bank Facility will be sufficient to fund our currently anticipated working capital needs, property and equipment additions and debt service requirements during the next 12 months, although no assurance can be given that this will be the case. For additional information regarding available borrowings under the Liberty Puerto Rico Bank Facility, see note 7 to our condensed consolidated financial statements. In addition, under certain circumstances, it is possible that LiLAC Holdings would provide a loan to our company pursuant to an arrangement similar to the Shareholder Loan. For additional information concerning the repayment of the Shareholder Loan subsequent to March 31, 2016, see note 9 to our condensed consolidated financial statements. No assurance can be given that our members would agree to loan additional amounts to our company on a subordinated basis. We may seek to refinance the Liberty Puerto Rico Bank Facility prior to its January 2022 maturity, and no assurance can be given that we will be able to complete this refinancing. In this regard, it is not possible to predict how political and economic conditions, sovereign debt concerns and/or any adverse regulatory developments could impact the credit markets we access and accordingly, our future liquidity and financial position. In addition, sustained or increased competition, particularly in combination with adverse economic or regulatory developments, could have an unfavorable impact on our cash flows and liquidity.

Our ability to service or refinance our debt and to maintain compliance with our leverage covenants is dependent primarily on our ability to maintain or increase our Segment OCF and to achieve adequate returns on our property and equipment additions and acquisitions. In addition, our ability to obtain additional debt financing is limited by the leverage covenants contained in our credit agreements. In this regard, if our Segment OCF were to decline, we could be required to repay or limit our borrowings under the Liberty Puerto Rico Bank Facility in order to maintain compliance with applicable covenants. No assurance can be given that we would have sufficient sources of liquidity, or that any funding would be available on favorable terms, or at all, to fund any such required repayment.

### ***Condensed Consolidated Statements of Cash Flows***

*Summary.* Our condensed consolidated statements of cash flows for the three months ended March 31, 2016 and 2015 are summarized as follows:

	<b>Three months ended March 31,</b>		<b>Change</b>
	<b>2016</b>	<b>2015</b>	
	<b>in millions</b>		
Net cash provided by operating activities .....	\$ 39.2	\$ 20.3	\$ 18.9
Net cash used by investing activities .....	(20.3)	(11.7)	(8.6)
Net cash used by financing activities .....	(0.3)	(0.3)	—
Net increase in cash and cash equivalents.....	<u>\$ 18.6</u>	<u>\$ 8.3</u>	<u>\$ 10.3</u>

*Operating activities.* The increase in net cash provided by our operating activities is primarily attributable to the net impact of (i) an increase in the cash provided by our Segment OCF and related working capital items, a significant portion of which is due to the impact of the Choice Acquisition, and (ii) a decrease in cash provided due to higher cash payments for interest.

*Investing activities.* The increase in cash used by our investing activities is attributable to higher capital expenditures.

The capital expenditures that we report in our condensed consolidated statements of cash flows do not include amounts that are financed under capital lease arrangements. Instead, these amounts are reflected as non-cash additions to our property and equipment when the underlying assets are delivered, and as repayments of debt when the principal is repaid. In the following discussion, we refer to (i) our capital expenditures as reported in our condensed consolidated statements of cash flows, which exclude amounts financed under capital lease arrangements, and (ii) our total property and equipment additions, which include our capital expenditures on an accrual basis and amounts financed under capital lease arrangements.

A reconciliation of our property and equipment additions to our capital expenditures as reported in our condensed consolidated statements of cash flows is set forth below:

	<b>Three months ended March 31,</b>	
	<b>2016</b>	<b>2015</b>
	<b>in millions</b>	
Property and equipment additions.....	\$ 19.1	\$ 15.7
Changes in current liabilities related to capital expenditures.....	1.2	(4.0)
Capital expenditures.....	<u>\$ 20.3</u>	<u>\$ 11.7</u>

The increase in property and equipment additions is attributable to the net effect of (i) an increase due to the impact of the Choice Acquisition, (ii) a decrease in expenditures for the purchase and installation of customer premises equipment, (iii) a decrease in expenditures for support capital, such as information technology upgrades and general support systems, and (iv) an increase in expenditures for new build and upgrade projects to expand services.

*Financing activities.* There were no material cash financing activities during the three months ended March 31, 2016 or 2015.

### **Contractual Commitments**

The following table sets forth our commitments as of March 31, 2016:

	<b>Payments due during:</b>							<b>Total</b>
	<b>Remainder of 2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>Thereafter</b>	
	<b>in millions</b>							
Debt (excluding interest):								
Third-party.....	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 942.5	\$ 942.5
Related-party (a).....	—	—	—	—	—	—	17.6	17.6
Capital leases (excluding interest).....	0.5	—	—	—	—	—	—	0.5
Network and connectivity commitments.....	0.9	1.2	1.2	1.2	1.1	1.1	3.3	10.0
Operating leases.....	1.1	1.2	1.2	1.1	0.9	0.9	3.1	9.5
Total (b).....	<u>\$ 2.5</u>	<u>\$ 2.4</u>	<u>\$ 2.4</u>	<u>\$ 2.3</u>	<u>\$ 2.0</u>	<u>\$ 2.0</u>	<u>\$ 966.5</u>	<u>\$ 980.1</u>
Projected cash interest payments on third-party debt and capital lease obligations (c).....	<u>\$ 37.1</u>	<u>\$ 48.9</u>	<u>\$ 48.9</u>	<u>\$ 49.0</u>	<u>\$ 49.1</u>	<u>\$ 48.9</u>	<u>\$ 32.0</u>	<u>\$ 313.9</u>

- (a) For additional information concerning the repayment of the Shareholder Loan subsequent to March 31, 2016, see note 9 to our condensed consolidated financial statements.
- (b) The commitments included in this table do not reflect any liabilities that are included in our March 31, 2016 condensed consolidated balance sheet other than debt and capital lease obligations.

- (c) Amounts are based on interest rates, interest payment dates, commitment fees and contractual maturities in effect as of March 31, 2016. These amounts are presented for illustrative purposes only and will likely differ from the actual cash payments required in future periods. In addition, the amounts presented do not include the impact of our interest rate derivative contracts, deferred financing costs or original issue discounts. Amounts associated with related-party debt are excluded from the table.

For information concerning our debt and capital lease obligations, see note 7 to our condensed consolidated financial statements. For information concerning our commitments, see note 10 to our condensed consolidated financial statements.

In addition to the commitments set forth in the table above, we have significant commitments under derivative instruments, pursuant to which we expect to make payments in future periods. For information regarding our derivative instruments, see note 4 to our condensed consolidated financial statements.

***Projected Cash Flows Associated with Derivative Instruments***

The following table provides information regarding the projected net cash flows associated with our derivative instruments. The amounts presented below are based on interest rates that were in effect as of March 31, 2016. These amounts are presented for illustrative purposes only and will likely differ from the actual cash payments required in future periods. For additional information regarding our derivative instruments, including our counterparty credit risk, see note 4 to our condensed consolidated financial statements.

	Payments due during:							Total
	Remainder of 2016	2017	2018	2019	2020	2021	Thereafter	
	in millions							
Interest-related (a).....	\$ —	\$ 12.0	\$ 11.9	\$ 10.2	\$ 9.6	\$ 9.6	\$ 2.1	\$ 55.4

- (a) Includes the interest-related cash flows of our interest rate swap contracts.