LIBERTY CABLEVISION OF PUERTO RICO LLC

Consolidated Financial Statements
December 31, 2015

LIBERTY CABLEVISION OF PUERTO RICO LLC

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San Juan, Puerto Rico
00918-1485

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LIBERTY CABLEVISION OF PUERTO RICO LLC

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2015

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Independent Auditors' Report

The Board of Directors
Liberty Cablevision of Puerto Rico LLC

We have audited the accompanying consolidated financial statements of Liberty Cablevision of Puerto Rico, LLC and its subsidiary, which comprise the balance sheets as of December 31, 2015 and 2014, and the related statements of operations, changes in members' capital, and cash flows for each of the years in the three-year period ended December 31, 2015, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Liberty Cablevision of Puerto Rico, LLC and its subsidiary as of December 31, 2015 and 2014, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2015, in accordance with U.S. generally accepted accounting principles.

Other Matters

Management's Discussion and Analysis is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the audit procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

KPMG LLP

San Juan, Puerto Rico
April 1, 2016

Stamp No. E188246 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.

LIBERTY CABLEVISION OF PUERTO RICO LLC

CONSOLIDATED BALANCE SHEETS

	December 31, 2015	December 31, 2014
	in millions	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 65.7	$ 21.9
Trade receivables and unbilled revenue, net	19.0	11.2
Prepaid expenses	4.6	4.2
Other current assets (note 11)	16.3	15.7
Total current assets	105.6	53.0
Property and equipment, net (note 7)	368.7	272.9
Goodwill (note 7)	277.7	226.1
Cable television franchise rights (note 7)	584.1	436.3
Customer relationships, net (note 7)	117.3	70.7
Other assets, net (note 11)	28.0	30.0
Total assets	$ 1,481.4	$ 1,089.0
LIABILITIES AND MEMBERS' CAPITAL		
Current liabilities:		
Accounts payable (note 11)	$ 15.6	$ 12.9
Deferred revenue and advance payments from subscribers	13.2	8.8
Third-party accrued interest	10.7	7.6
Accrued capital expenditures	8.1	4.7
Current portion of debt and capital lease obligations (note 8)	0.5	0.5
Other accrued and current liabilities (note 12)	47.0	35.5
Total current liabilities	95.1	70.0
Long-term debt and capital lease obligations (note 8):		
Third-party	934.0	672.5
Related-party (note 11)	16.0	14.5
Other long-term liabilities (notes 5 and 11)	17.5	4.4
Total liabilities	1,062.6	761.4
Commitments and contingencies (notes 4, 5, 10, and 13)		
Members' capital:		
Members' capital (note 10)	486.8	327.6
Cayman Holding Loan Receivable (note 11)	(68.0)	—
Members' capital after deducting loan receivable from member	418.8	327.6
Total liabilities and members' capital	$ 1,481.4	$ 1,089.0

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

LIBERTY CABLEVISION OF PUERTO RICO LLC

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year ended December 31,		
	2015	**2014**	**2013**
		in millions	
Revenue (note 14)	$ 379.2	$ 306.1	$ 297.2
Operating costs and expenses:			
Operating (other than depreciation and amortization)	165.6	135.3	142.6
Selling, general and administrative (**SG&A**) (including share-based compensation) (note 11)	47.6	42.2	47.7
Depreciation and amortization (note 7)	74.6	63.9	55.1
Impairment, restructuring and other operating items, net (notes 4 and 12)	11.9	4.6	15.2
	299.7	246.0	260.6
Operating income	79.5	60.1	36.6
Non-operating expense:			
Interest expense:			
Third-party	(49.7)	(42.3)	(47.9)
Related-party (note 11)	(1.6)	(1.5)	(1.2)
Realized and unrealized losses on derivative instruments, net (note 5)	(13.8)	—	—
Loss on debt modification and extinguishment, net (note 8)	—	(9.8)	—
Other expense	(0.2)	—	—
	(65.3)	(53.6)	(49.1)
Net earnings (loss)	$ 14.2	$ 6.5	$ (12.5)

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

LIBERTY CABLEVISION OF PUERTO RICO LLC

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' CAPITAL

	Class A preferred units	Class B common units	Total members' capital	Cayman Holding Loan Receivable	Members' capital after deducting loan receivable from member
			in millions		
Balance at January 1, 2013	$ 218.8	$ 94.4	$ 313.2	$ —	$ 313.2
Net loss	—	(12.5)	(12.5)	—	(12.5)
Cash contributed by parent following settlement of Puerto Rico Transaction claim (note 10)	—	19.9	19.9	—	19.9
Priority Return (note 10)	13.6	(12.1)	1.5	—	1.5
Capital charge in connection with exercise or release of share-based incentive awards (note 11)	—	(1.0)	(1.0)	—	(1.0)
Share-based compensation (note 11)	—	0.4	0.4	—	0.4
Balance at December 31, 2013	232.4	89.1	321.5	—	321.5
Net earnings	—	6.5	6.5	—	6.5
Priority Return (note 10)	11.8	(11.8)	—	—	—
Capital charge in connection with exercise or release of share-based incentive awards (note 11)	—	(0.7)	(0.7)	—	(0.7)
Share-based compensation (note 11)	—	0.3	0.3	—	0.3
Balance at December 31, 2014	244.2	83.4	327.6	—	327.6
Net earnings	—	14.2	14.2	—	14.2
Impact of the Choice Acquisition (notes 4 and 11)	—	404.8	404.8	(68.0)	336.8
Non-cash borrowing and distribution to Cayman Holding (note 4)	—	(259.1)	(259.1)	—	(259.1)
Priority Return (note 10)	13.0	(13.0)	—	—	—
Capital charge in connection with exercise or release of share-based incentive awards (note 11)	—	(1.0)	(1.0)	—	(1.0)
Share-based compensation (note 11)	—	0.3	0.3	—	0.3
Balance at December 31, 2015	$ 257.2	$ 229.6	$ 486.8	$ (68.0)	$ 418.8

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

LIBERTY CABLEVISION OF PUERTO RICO LLC

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2015	2014	2013
		in millions	
Cash flows from operating activities:			
Net earnings (loss)	$ 14.2	$ 6.5	$ (12.5)
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:			
Share-based compensation expense	1.2	0.3	0.4
Depreciation and amortization	74.6	63.9	55.1
Impairment, restructuring and other operating items, net	11.9	4.6	15.2
Amortization of deferred financing costs and non-cash interest accretion	1.9	1.1	1.2
Realized and unrealized losses on derivative instruments, net	13.8	—	—
Loss on debt modification and extinguishment, net	—	9.8	—
Changes in operating assets and liabilities, net of the effects of an acquisition:			
Receivables and other operating assets	1.7	(3.9)	(3.0)
Payables and accruals	(5.9)	(2.4)	(16.8)
Net cash provided by operating activities	113.4	79.9	39.6
Cash flows from investing activities:			
Capital expenditures	(70.8)	(61.3)	(55.5)
Cash acquired related to the Choice Acquisition	3.6	—	—
Other investing activities	—	—	(0.2)
Net cash used by investing activities	(67.2)	(61.3)	(55.7)
Cash flows from financing activities:			
Borrowings of third-party debt	—	20.5	10.0
Payment of financing costs	(1.8)	(13.4)	(0.9)
Repayments of third-party debt and capital lease obligations	(0.4)	(13.2)	(8.8)
Cash contributions from parent	—	—	19.9
Borrowings of related-party debt	—	—	3.3
Other financing activities	(0.2)	(0.1)	(0.3)
Net cash provided (used) by financing activities	(2.4)	(6.2)	23.2
Net increase in cash and cash equivalents	43.8	12.4	7.1
Cash and cash equivalents:			
Beginning of year	21.9	9.5	2.4
End of year	$ 65.7	$ 21.9	$ 9.5
Cash paid for interest	$ 44.7	$ 34.0	$ 46.7

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

(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 4, 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.

Effective with its formation in the November 2012 Merger, Liberty Puerto Rico is treated as a partnership that is not a separate tax-paying entity for United States (**U.S.**) federal or Puerto Rico income tax purposes. For additional information, see note 9.

These consolidated financial statements reflect our consideration of the accounting and disclosure implications of subsequent events through April 1, 2016, the date of issuance.

(2) Recent Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (**FASB**) issued Accounting Standards Update (**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. ASU 2016-02 will replace existing lease guidance in accordance with accounting principles generally accepted in the U.S. (**GAAP**) when it becomes effective for annual and interim reporting periods beginning after December 15, 2019. 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. We expect to adopt ASU 2016-02 no later than January 1, 2019, and we are currently evaluating the effect that ASU 2016-02 will have on our consolidated financial statements and related disclosures.

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 in accordance with GAAP when it becomes effective for annual and interim 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.

(3) Summary of Significant Accounting Policies

Estimates

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 expenses, 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.

Reclassifications

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

Principles of Consolidation

The accompanying consolidated financial statements include our accounts and the accounts of our wholly-owned subsidiary. All significant intercompany accounts and transactions have been eliminated in consolidation.

Cash and Cash Equivalents

Cash equivalents consist of money market funds that are readily convertible into cash and have maturities of three months or less at the time of acquisition. We record money market funds at the net asset value reported by the investment manager as there are no restrictions on our ability, contractual or otherwise, to redeem our investments at the stated net asset value reported by the investment manager. Our significant non-cash investing and financing activities are disclosed in notes 4, 8, 10 and 11.

Cash Flow Statement

For purposes of determining the classification of cash flows in our consolidated statements of cash flows, payments or receipts on related-party loans are first applied to principal (included as cash flows from financing activities) and then to capitalized interest (included as cash flows from operating activities). In addition, interest-bearing cash advances to related parties and repayments thereof are classified as investing activities. All other related-party borrowings, advances and repayments are reflected as financing activities.

Trade Receivables

Our trade receivables are reported net of an allowance for doubtful accounts. Such allowance aggregated $8.4 million and $6.6 million at December 31, 2015 and 2014, respectively. The allowance for doubtful accounts is based upon our assessment of probable loss related to uncollectible accounts receivable. We use a number of factors in determining the allowance, including, among other things, collection trends, prevailing and anticipated economic conditions and specific customer credit risk. The allowance is maintained until either payment is received or the likelihood of collection is considered to be remote.

Concentration of credit risk with respect to trade receivables is limited due to the large number of customers. We also manage this risk by disconnecting services to customers whose accounts are delinquent.

Financial Instruments

Due to the short maturities of cash and cash equivalents, trade and other receivables, other current assets, accounts payable, accrued liabilities, subscriber advance payments and deposits and other current liabilities, their respective carrying values approximate their respective fair values. For information concerning the fair values of our derivative instruments and debt, see notes 5 and 8, respectively. For information concerning how we arrive at certain of our fair value measurements, see note 6.

Derivative Instruments

All derivative instruments are recorded on the balance sheet at fair value. As we do not apply hedge accounting to any of our derivative instruments, the changes in the fair values of our derivative instruments are recognized in earnings. For information regarding our derivative instruments, including our policy for classifying cash flows related to derivative instruments in our consolidated statements of cash flows, see note 5.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. We capitalize costs associated with the construction of new cable transmission and distribution facilities and the installation of new cable services. Capitalized construction and installation costs include materials, labor and other directly attributable costs. Installation activities that are capitalized include (i) the initial connection (or drop) from our cable system to a customer location, (ii) the replacement of a drop and (iii) the installation of equipment for additional services, such as digital cable, telephone or broadband internet service. The costs of other customer-facing activities, such as reconnecting customer locations where a drop already exists, disconnecting customer locations and

repairing or maintaining drops, are expensed as incurred. Interest capitalized with respect to construction activities was not material during any of the periods presented.

Depreciation is computed using the straight-line method over the estimated useful life of the underlying asset. Equipment under capital leases is amortized on a straight-line basis over the shorter of the lease term or estimated useful life of the asset. Useful lives used to depreciate our property and equipment are assessed periodically and are adjusted when warranted. The useful lives of cable distribution systems that are undergoing a rebuild are adjusted such that property and equipment to be retired will be fully depreciated by the time the rebuild is completed. For additional information regarding the useful lives of our property and equipment, see note 7.

Additions, replacements and improvements that extend the asset life are capitalized. Repairs and maintenance are charged to operations.

Intangible Assets

Our primary intangible assets relate to goodwill, cable television franchise rights and customer relationships. Goodwill represents the excess purchase price over the fair value of the identifiable net assets acquired in a business combination. Cable television franchise rights and customer relationships were originally recorded at their fair values in connection with business combinations.

Goodwill and cable television franchise rights have indefinite useful lives and are not amortized, but instead are tested for impairment at least annually. Intangible assets with finite lives are amortized on a straight-line basis over their respective estimated useful lives to their estimated residual values, and reviewed for impairment.

For additional information regarding the useful lives of our intangible assets, see note 7.

Impairment of Property and Equipment and Intangible Assets

We review, when circumstances warrant, the carrying amounts of our property and equipment and our intangible assets (other than goodwill and cable television franchise rights) to determine whether such carrying amounts continue to be recoverable. Such changes in circumstance may include (i) an expectation of a sale or disposal of a long-lived asset or asset group, (ii) adverse changes in market or competitive conditions, (iii) an adverse change in legal factors or business climate in the market in which we operate and (iv) operating or cash flow losses. For purposes of impairment testing, long-lived assets are grouped at the lowest level for which cash flows are largely independent of other assets and liabilities. If the carrying amount of the asset or asset group is greater than the expected undiscounted cash flows to be generated by such asset or asset group, an impairment adjustment is recognized. Such adjustment is measured by the amount that the carrying value of such asset or asset group exceeds its fair value. We generally measure fair value by considering (a) sale prices for similar assets, (b) discounted estimated future cash flows using an appropriate discount rate and/or (c) estimated replacement cost. Assets to be disposed of are carried at the lower of their financial statement carrying amount or fair value less costs to sell.

We evaluate goodwill and cable television franchise rights for impairment at least annually on October 1 and whenever facts and circumstances indicate that the carrying amounts of goodwill and cable television franchise rights may not be recoverable. For purposes of the annual goodwill impairment evaluation, our operations consist of one reporting unit. A reporting unit is an operating segment or one level below an operating segment (referred to as a "component"). Our operating segment is deemed to be a reporting unit as it comprises a single component. For impairment evaluations with respect to both goodwill and cable television franchise rights, we first make a qualitative assessment to determine if the goodwill or cable television franchise rights may be impaired. In the case of goodwill, if it is more-likely-than-not that the reporting unit's fair value is less than its carrying value, we then compare the fair value of the reporting unit to its respective carrying amount. If the carrying value of the reporting unit were to exceed its fair value, we would then compare the implied fair value of the reporting unit's goodwill to its carrying amount, and any excess of the carrying amount over the fair value would be charged to operations as an impairment loss. With respect to cable television franchise rights, if it is more-likely-than-not that the fair value of the cable television franchise rights are less than their carrying value, we then estimate the fair value of the cable television franchise rights and any excess of the carrying value over the fair value of the cable television franchise rights is also charged to operations as an impairment loss.

Income Taxes

Effective with its formation in the November 2012 Merger, Liberty Puerto Rico is treated as a partnership that is not a separate tax-paying entity, but instead is a pass-through entity for U.S. federal and Puerto Rico income tax purposes. Accordingly, following the formation of Liberty Puerto Rico, our taxable income or loss, which may vary substantially from the net earnings or loss reported in our consolidated statements of operations, is proportionately included in the income tax returns of each member, as applicable. For additional information, see note 9.

Revenue Recognition

Service Revenue — Cable Networks. We recognize revenue from the provision of video, broadband internet and fixed-line telephony services over our cable network to customers in the period the related services are provided. Installation revenue (including reconnect fees) related to services provided over our cable network is recognized as revenue in the period during which the installation occurs to the extent these fees are equal to or less than direct selling costs, which costs are expensed as incurred. To the extent installation revenue exceeds direct selling costs, the excess revenue is deferred and amortized over the average expected subscriber life.

Sale of Multiple Products and Services. We sell video, broadband internet and fixed-line telephony services to our customers in bundled packages at a rate lower than if the customer purchased each product on a standalone basis. Revenue from bundled packages generally is allocated proportionally to the individual services based on the relative standalone price for each respective service.

*Business-to-Business (**B2B**) Revenue.* We defer upfront installation and certain nonrecurring fees received on B2B contracts where we maintain ownership of the installed equipment. The deferred fees are amortized into revenue on a straight-line basis over the term of the arrangement or the expected period of performance.

Promotional Discounts. For subscriber promotions, such as discounted or free services during an introductory period, revenue is recognized only to the extent of the discounted monthly fees charged to the subscriber, if any.

Subscriber Advance Payments and Deposits. Payments received in advance for the services we provide are deferred and recognized as revenue when the associated services are provided.

*Sales, Use and Other Value-Added Taxes (**VAT**).* Revenue is recorded net of applicable sales, use and other VAT.

Litigation Costs

Legal fees and related litigation costs are expensed as incurred.

(4) 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 8, ($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.

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. The preliminary opening balance sheet is subject to adjustment based on our final assessment of the fair values of the acquired identifiable assets and liabilities. Although most items in the valuation process remain open, the items with the highest likelihood of changing upon finalization of the valuation process include property and equipment, goodwill, intangible assets associated with cable television franchise rights and customer relationships and income taxes. A summary of the purchase price and the preliminary opening balance sheet for the Choice Acquisition at the June 3, 2015 acquisition date is presented in the following table (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)	276.4
Increase to members' capital associated with issuance of the Cayman Holding Loan Receivable (note 11)	68.0
Impact of non-current deferred tax liabilities retained by parent (c)	60.4
Impact of the Choice Acquisition	404.8
Non-cash borrowing and distribution to Cayman Holding	(259.1)
Increase to members' capital related to the Choice Acquisition	$ 145.7

(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 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 are included in impairment, restructuring and other operating items, net, in our consolidated statements of operations.

Pro Forma Information

The following unaudited pro forma consolidated operating results give effect to the Choice Acquisition as if it had been completed as of January 1, 2014. 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.

	Year ended December 31,	
	2015	2014
	in millions	
Revenue	$ 416.3	$ 393.4
Net earnings	$ 16.1	$ 6.1

Our consolidated statement of operations for 2015 includes revenue and net earnings of $52.1 million and $9.6 million, respectively, attributable to Choice.

(5) Derivative Instruments

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

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

	December 31, 2015			December 31, 2014		
	Current	Long-term (a)	Total	Current	Long-term	Total
	in millions					
Interest rate derivative contracts (b) ...	$ —	$ 13.8	$ 13.8	$ —	$ —	$ —

(a) Our long-term derivative liabilities are included in other long-term liabilities in our December 31, 2015 consolidated balance sheet.

(b) We consider credit risk in our fair value assessments. As of December 31, 2015, the fair values of our interest rate derivative contracts that represented liabilities have been reduced by credit risk valuation adjustments aggregating $0.5 million. 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 $0.5 million during 2015 that is included in realized and unrealized losses on derivative instruments, net, in our consolidated statement of operations. For further information regarding our fair value measurements, see note 6.

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

	Year ended December 31,		
	2015	2014	2013
	in millions		
Interest rate derivative contracts	$ 13.8	$ —	$ —

Counterparty Credit Risk

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

We have entered into derivative instruments under master agreements with each counterparty that contain master netting arrangements that are applicable in the event of early termination by either party to such derivative instrument.

Under our derivative contracts, it is generally only the non-defaulting party that has a contractual option to exercise early termination rights upon the default of the other counterparty and to set off other liabilities against sums due upon such termination. However, in an insolvency of a derivative counterparty, under the laws of certain jurisdictions, the defaulting counterparty or its insolvency representatives may be able to compel the termination of one or more derivative contracts and trigger early termination payment liabilities payable by us, reflecting any mark-to-market value of the contracts for the counterparty. Alternatively, or in addition, the insolvency laws of certain jurisdictions may require the mandatory set off of amounts due under such derivative contracts against present and future liabilities owed to us under other contracts between us and the relevant counterparty.

Accordingly, it is possible that we may be subject to obligations to make payments, or may have present or future liabilities owed to us partially or fully discharged by set off as a result of such obligations, in the event of the insolvency of a derivative counterparty, even though it is the counterparty that is in default and not us. To the extent that we are required to make such payments, our ability to do so will depend on our liquidity and capital resources at the time. In an insolvency of a defaulting counterparty, we will be an unsecured creditor in respect of any amount owed to us by the defaulting counterparty, except to the extent of the value of any collateral we have obtained from that counterparty.

In addition, where a counterparty is in financial difficulty, under the laws of certain jurisdictions, the relevant regulators may be able to (i) compel the termination of one or more derivative instruments, determine the settlement amount and/or compel, without any payment, the partial or full discharge of liabilities arising from such early termination that are payable by the relevant counterparty or (ii) transfer the derivative instruments to an alternative counterparty.

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 December 31, 2015, we present a range of dates that represents the period covered by the applicable derivative instruments.

Interest Rate Derivative Contracts

The terms of our outstanding interest rate swap contracts at December 31, 2015 are as follows:

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

(6) Fair Value Measurements

We use the fair value method to account for our derivative instruments. The reported fair values of these derivative instruments as of December 31, 2015 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 2015, no such transfers were made.

As further described in note 5, we have entered into various derivative instruments to manage our interest rate risk. The recurring fair value measurements of these derivative 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 derivative 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 our various interest rate derivative valuations. As we would not expect changes in our or our counterparties' credit spreads to have a significant impact on the valuations of these derivative 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 5.

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 under Level 3 of the fair value hierarchy. During 2015, we performed nonrecurring valuations for the purpose of determining the acquisition accounting for the Choice Acquisition. The discount rates used to value the cable television franchise rights and customer relationships acquired as a result of this acquisition were approximately 12.25% and 11.75%, respectively.

(7) Long-lived Assets

Property and Equipment, Net

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

	Estimated useful life at December 31, 2015	December 31, 2015	December 31, 2014
		in millions	
Distribution systems	4 to 15 years	$ 549.4	$ 406.2
Support equipment, buildings and land	3 to 40 years	45.4	33.1
		594.8	439.3
Accumulated depreciation		(226.1)	(166.4)
Total property and equipment, net		$ 368.7	$ 272.9

Depreciation expense related to our property and equipment was $62.1 million, $54.7 million and $46.5 million during 2015, 2014 and 2013, respectively.

During 2015 and 2014, we did not purchase assets under capital leases. During 2013, we recorded non-cash increases to our property and equipment related to assets acquired under capital leases of $1.2 million. During 2015, 2014 and 2013, we recorded changes in current liabilities related to capital expenditures of ($7.3 million), $0.9 million and ($9.1 million), respectively.

Most of our property and equipment is pledged as security under the Liberty Puerto Rico Bank Facility. For additional information, see note 8.

Goodwill and Cable Television Franchise Rights

The change in the carrying amount of our goodwill during 2015 is set forth below (in millions):

Balance at January 1, 2015	$ 226.1
Choice Acquisition	51.6
Balance at December 31, 2015	$ 277.7

During 2014, there were no changes in the balances of our goodwill and cable television franchise rights. No impairments of our goodwill or cable television franchise rights were required to be recorded in connection with our October 1, 2015 or 2014 impairment tests.

If, among other factors, (i) our enterprise value or Liberty Global's equity value 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.

Customer Relationships, Net

The details of our customer relationships, which have an estimated useful life of 10 years at December 31, 2015, are set forth below:

	December 31,	
	2015	2014
	in millions	
Gross carrying amount	$ 149.1	$ 90.0
Accumulated amortization	(31.8)	(19.3)
Net carrying amount	$ 117.3	$ 70.7

Amortization expense of intangible assets with finite useful lives was $12.5 million, $9.2 million and $8.6 million during 2015, 2014 and 2013, respectively.

Based on our customer relationships balance at December 31, 2015, we expect that amortization expense will be as follows for the next five years and thereafter (in millions):

2016	$ 16.8
2017	16.0
2018	15.7
2019	14.9
2020	14.9
Thereafter	39.0
Total	$ 117.3

(8) Debt and Capital Lease Obligations

Our debt and capital lease obligations are as follows:

	December 31, 2015		Estimated fair value (c)		Carrying value (d)	
			December 31,		December 31,	
	Weighted average interest rate (a)	Unused borrowing capacity (b)	2015	2014	2015	2014
			in millions			
Third-party debt – Liberty Puerto Rico Bank Facility	5.11%	$ 40.0	$ 913.0	$ 666.2	$ 933.9	$ 672.0
Related-party debt – Shareholder Loan	10.00%	—	(e)	(e)	16.0	14.5
Total debt	5.19%	$ 40.0			949.9	686.5
Capital lease obligations					0.6	1.0
Total debt and capital lease obligations					950.5	687.5
Current maturities					(0.5)	(0.5)
Long-term debt and capital lease obligations					$ 950.0	$ 687.0

(a) Represents the weighted average interest rate in effect at December 31, 2015 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 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 December 31, 2015. For information regarding our derivative instruments, see note 5.

(b) Unused borrowing capacity represents the maximum availability under the LPR Revolving Loan (as defined and described below) at December 31, 2015 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 LPR Revolving Loan at December 31, 2015. When the relevant December 31, 2015 compliance reporting requirements have been completed, and assuming no changes from the December 31, 2015 borrowing levels, we anticipate the full amount of the LPR Revolving Loan 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 6.

(d) Amounts include the impacts of discounts, as applicable.

(e) The fair value is not subject to reasonable estimation due to the related-party nature of this loan.

Liberty Puerto Rico Bank Facility

The Liberty Puerto Rico Bank Facility is the senior secured credit facility of our company. The details of our borrowings under the Liberty Puerto Rico Bank Facility as of December 31, 2015 are summarized in the following table:

	Maturity	Interest rate	Facility amount	Unused borrowing capacity	Carrying value (a)
				in millions	
LPR Term Loan B (b)	January 7, 2022	LIBOR + 3.50% (c)	$ 765.0	$ —	$ 757.0
LPR Term Loan C (b)	July 7, 2023	LIBOR + 6.75% (c)	$ 177.5	—	176.9
LPR Revolving Loan (d)	July 7, 2020	LIBOR + 3.50%	$ 40.0	40.0	—
Total				$ 40.0	$ 933.9

(a) The carrying values of LPR Term Loan B and LPR Term Loan C include the impact of discounts.

(b) In June 2015, we increased the principal amount outstanding under (i) LPR Term Loan B by $235.0 million and (ii) LPR Term Loan C by $32.5 million. Substantially all of the net proceeds from this borrowing were used to fund a portion of the purchase price for the Choice Acquisition. For additional information regarding the Choice Acquisition, see note 4.

(c) LPR Term Loan B and LPR Term Loan C each have a LIBOR floor of 1.0%.

(d) The LPR Revolving Loan has a fee on unused commitments of 0.50% or 0.375% depending on the consolidated total net leverage ratio (as specified in the Liberty Puerto Rico Bank Facility).

In addition to customary restrictive covenants, prepayment requirements and events of default, including defaults on other indebtedness of Liberty Puerto Rico, the Liberty Puerto Rico Bank Facility requires compliance with a consolidated total net leverage ratio and a consolidated first lien net leverage ratio, each specified in the Liberty Puerto Rico Bank Facility. The Liberty Puerto Rico Bank Facility permits Liberty Puerto Rico to transfer funds to its parent company (and indirectly to Liberty Global) through loans, dividends or other distributions provided that Liberty Puerto Rico maintains compliance with applicable covenants.

The Liberty Puerto Rico Bank Facility is (i) guaranteed by Liberty Puerto Rico and its subsidiary and (ii) secured by pledges over (a) the Liberty Puerto Rico shares indirectly owned by Liberty Global and (b) certain other assets owned by Liberty Puerto Rico.

Refinancing Transactions. During 2014, we completed various refinancing transactions that generally resulted in additional borrowings or extended maturities under the Liberty Puerto Rico Bank Facility. In connection with these transactions, we recognized a loss on debt modification and extinguishment, net, of $9.8 million. This loss includes (i) third-party costs of $7.1 million, (ii) the write-off of deferred financing costs of $3.6 million and (iii) the write-off of unamortized premium of $0.9 million.

Shareholder Loan

On December 31, 2012, we entered into a loan agreement with LiLAC Holdings (the **Shareholder Loan**). The Shareholder Loan is subordinate in right of payment to the Liberty Puerto Rico Bank Facility. On February 13, 2013, the Shareholder Loan was amended and restated, whereby certain of the 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 currently bears interest at 10.0% per annum and is due and payable on either July 7, 2024 or the first anniversary of the latest maturity date of the loans under the Liberty Puerto Rico Bank Facility. Accrued and unpaid interest, if any, is added to the principal of the loan on January 1 of each year. As of December 31, 2015 and 2014, accrued and unpaid interest on the Shareholder Loan was $1.6 million and $1.5 million, respectively. The increases in the Shareholder Loan balance during 2015 and 2014 include non-cash transfers of accrued interest of $1.5 million and $1.2 million, respectively. The increase in the Shareholder Loan balance during 2013 relates to cash borrowings of $3.3 million.

Maturities of Debt and Capital Lease Obligations

Maturities of our debt and capital lease obligations as of December 31, 2015 are presented below:

Debt:

	Third-party debt	Shareholder Loan	Total
		in millions	
Years ending December 31:			
2016 - 2020	$ —	$ —	$ —
Thereafter	942.5	16.0	958.5
Total debt maturities	942.5	16.0	958.5
Unamortized discount	(8.6)	—	(8.6)
Total debt (a)	$ 933.9	$ 16.0	$ 949.9

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(a) Amounts are classified as non-current as of December 31, 2015.

Capital lease obligations (in millions):

Year ending December 31:	
2016	$ 0.4
2017	0.3
Total principal and interest payments	0.7
Amounts representing interest	(0.1)
Present value of net minimum lease payments	$ 0.6
Current portion	$ 0.5
Noncurrent portion	$ 0.1

Non-cash Refinancing Transactions

During 2015, our refinancing transactions included non-cash borrowings and repayments in connection with the Choice Acquisition, as further described in note 4. During 2014, our refinancing transactions included non-cash borrowings and repayments of debt aggregating $651.2 million.

(9) Income Taxes

Prior to the November 2012 Merger, Old Liberty Puerto Rico was treated as a separate tax-paying corporation in Puerto Rico. Effective with its formation in the November 2012 Merger, Liberty Puerto Rico is treated as a partnership that is not a separate tax-paying entity, but instead is a pass-through entity for U.S. federal and Puerto Rico income tax purposes.

Prior to the Choice Acquisition, Choice was a separate tax-paying corporation in Puerto Rico. Effective with the Choice Acquisition, Choice is treated as a disregarded entity for U.S. federal income tax purposes and as a partnership for Puerto Rico income tax purposes. In either case, Choice is not a separate tax-paying entity.

We file, and prior to the November 2012 Merger and the Choice Acquisition our predecessors and the predecessor to Choice filed, tax returns in both Puerto Rico and U.S. tax jurisdictions. In the normal course of business, these income tax filings are subject to review by various taxing authorities. In connection with such reviews, disputes could arise with the taxing authorities over the interpretation or application of certain income tax rules related to our business in that tax jurisdiction. Such disputes may result in future tax and interest assessments by these taxing authorities. The ultimate resolution of tax contingencies will take place upon the earlier of (i) the settlement date with the applicable taxing authorities in either cash or agreement of income tax positions or (ii) the date when the tax authorities are statutorily prohibited from adjusting the company's tax computations.

The tax returns filed by our predecessors for years prior to 2011 are no longer subject to examination by tax authorities. We do not anticipate that any adjustments that might arise from tax authorities' examinations will have a material impact on our financial position or results of operations.

(10) Members' Capital

Liberty Puerto Rico is a limited liability company. In connection with the November 2012 Merger, we have two Members, a Class A Preferred Unit Member (**Class A Preferred Member**) and a Class B Common Unit Member (**Class B Common Member**). Our limited liability company agreement (the **LLC Agreement**) requires any distributions to our Members be made in the following order of priority: (i) first, to the Class A Preferred Member, the amount of the aggregate accrued and unpaid Priority Return (as defined and discussed below), (ii) second, to the Class B Common Member until such Class B Common Member's capital account has been reduced to the amount of the Class B Common Member's capital contributions, (iii) third, to the Members in respect of their units on a pro rata basis, subject to certain limitations, and (iv) fourth, the balance, if any, to the Class B Common Member.

We allocate profits and losses to our Members as follows: (i) profits shall be allocated in the following order: (a) first, to our Class A Preferred Member in an amount equal to the excess, if any, of (1) the cumulative Priority Returns from the date of issuance of the Class A preferred units, as specified in the LLC Agreement, over (2) the sum of all profits to be allocated to the Class A Preferred Member and (b) second, all remaining profits shall be allocated to the Class B Common Member and (ii) all losses shall be allocated to the Class B Common Member.

A priority return (the **Priority Return**) shall be made, from time to time, to the Class A Preferred Member based on a per annum rate of 11% on the adjusted value of the Class A preferred units, as specified in the LLC Agreement. Whether or not declared, the Priority Return accrues on a daily basis, is cumulative and compounds annually on December 31. The Priority Return shall be paid generally only when and if declared.

In accordance with the LLC 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 December 31, 2015 is $36.9 million. The Priority Return amount reflected in our consolidated statement of changes in members' capital during 2013 also includes an adjustment to properly reflect the $1.5 million Priority Return accrued during 2012 following the November 2012 Merger.

In November 2013, LiLAC Holdings reached a settlement agreement with respect to certain claims against the third-party seller of OneLink, pursuant to which, among other matters, Leo Cable LP (**Leo Cable**) received a cash payment of $20.0 million. Following this settlement, we received a cash contribution of $19.9 million from our parent.

Liberty Puerto Rico issued 150 common shares to Cayman Holding in connection with the Choice Acquisition. For additional information, see note 4.

(11) Related-party Transactions

Allocated share-based compensation expense. We recognized share-based compensation expense of $1.2 million, $0.3 million and $0.4 million, during 2015, 2014 and 2013, respectively. These amounts include share-based compensation of $0.3 million, $0.3 million and $0.4 million during 2015, 2014 and 2013, respectively, that Liberty Global allocated to our company with respect to share-based incentive awards held by certain of our employees, which are reflected as an increase to members' capital. The remaining share-based compensation during 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 consolidated statements of operations.

Interest expense. We recognized related-party interest expense on the Shareholder Loan of $1.6 million, $1.5 million and $1.2 million, during 2015, 2014 and 2013, respectively. For additional information, see note 8.

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

	December 31,	
	2015	2014
	in millions	
Assets:		
Other current assets (a)	$ 1.0	$ 0.9
Other assets (b)	3.7	2.4
Total assets	$ 4.7	$ 3.3
Liabilities:		
Accounts payable (c)	$ 1.8	$ 1.0
Debt (d)	16.0	14.5
Other long-term liabilities (e)	1.6	1.5
Total liabilities	$ 19.4	$ 17.0

(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, the parent company of Cayman Holding.

(c) Represents various non-interest bearing related-party payables that may be cash or loan settled.

(d) Represents amounts outstanding on the Shareholder Loan. For additional information, see note 8.

(e) Represents accrued and unpaid interest on the Shareholder Loan. For additional information, see note 8.

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 4.

During 2015, 2014 and 2013, we recorded aggregate capital charges of $1.0 million, $0.7 million and $1.0 million, respectively, in our consolidated statements of changes in members' capital in connection 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.

(12) Restructuring Liabilities

A summary of changes in our restructuring liabilities during 2015, 2014 and 2013 is set forth in the table below:

	Employee severance and termination	Contract termination and other	Total
		in millions	
Restructuring liability as of January 1, 2013	$ 0.3	$ —	$ 0.3
Restructuring charges (a)	1.6	10.0	11.6
Cash paid	(1.4)	(7.6)	(9.0)
Other	—	(2.2)	(2.2)
Restructuring liability as of December 31, 2013	0.5	0.2	0.7
Restructuring charges	0.1	—	0.1
Cash paid	(0.6)	—	(0.6)
Restructuring liability as of December 31, 2014 (b)	—	0.2	0.2
Restructuring charges (c)	2.6	—	2.6
Choice liability at acquisition date	—	1.0	1.0
Cash paid	(2.4)	(1.0)	(3.4)
Restructuring liability as of December 31, 2015 (b)	$ 0.2	$ 0.2	$ 0.4

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(a) Restructuring charges primarily relate to reorganization and integration activities following the Puerto Rico Transaction.

(b) Our December 31, 2015 and 2014 restructuring liabilities are included in other accrued and current liabilities in our consolidated balance sheets.

(c) Restructuring charges primarily relate to reorganization and integration activities following the Choice Acquisition. In addition, we incurred a $4.5 million restructuring charge related to the write-off of a prepaid asset in connection with a contract termination.

(13) 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 December 31, 2015, such commitments are as follows:

	Payments due during:						
	2016	2017	2018	2019	2020	Thereafter	Total
				in millions			
Network and connectivity commitments	$ 1.2	$ 1.2	$ 1.2	$ 1.2	$ 1.1	$ 4.4	$ 10.3
Operating leases	1.4	1.2	1.2	1.1	0.9	4.0	9.8
Total (a)	$ 2.6	$ 2.4	$ 2.4	$ 2.3	$ 2.0	$ 8.4	$ 20.1

(a) The commitments included in this table do not reflect any liabilities that are included in our December 31, 2015 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 $96.0 million, $80.7 million and $81.5 million during 2015, 2014 and 2013, respectively.

Commitments arising from acquisition agreements are not reflected in the above table.

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 5.

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 27, 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 VAT 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.

(14) Segments

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:

	Year ended December 31,		
	2015	2014	2013
		in millions	
Cable subscription revenue (a):			
Video	$ 174.1	$ 150.1	$ 149.5
Broadband internet	136.3	99.9	92.4
Fixed-line telephony	31.5	29.6	29.7
Total cable subscription revenue	341.9	279.6	271.6
B2B revenue (b)	9.3	3.8	2.4
Other revenue (c)	28.0	22.7	23.2
Total	$ 379.2	$ 306.1	$ 297.2

(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 $20.6 million, $17.3 million and $5.8 million during 2015, 2014 and 2013, 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 consolidated financial statements, is intended to assist in providing an understanding of our results of operations and financial condition 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.
- *Results of Operations.* This section provides an analysis of our results of operations for the years ended December 31, 2015 and 2014.
- *Liquidity and Capital Resources.* This section provides an analysis of our liquidity and consolidated statements of cash flows.

The capitalized terms used below have been defined in the notes to our 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 annual report constitute forward-looking statements. To the extent that statements in this annual 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, and 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 and target leverage levels. 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 digital video, 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 digital video, 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 annual 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 annual 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 2015 and 2014 results of operations. For further information regarding the Choice Acquisition, see note 4 to our consolidated financial statements.

Our digital cable service offerings include basic and premium programming and incremental offerings such as enhanced pay-per-view programming (including video-on-demand), digital video recorders and high definition programming. Our residential subscribers generally access the internet via cable modems connected to their personal computers at download speeds up to 200 Mbps, depending on the tier of service selected. We determine pricing for each tier of broadband internet service through analysis of speed, data limits, market conditions and other factors. We offer fixed-line telephony services using voice-over-internet-protocol or “VoIP” technology.

Our revenue includes amounts earned from subscribers for broadband communications services, late fee, advertising and installation revenue. We use the term “subscription revenue” in the following discussion to refer to amounts received from subscribers for ongoing services, excluding advertising revenue, late fees and installation fees.

We strive to achieve organic revenue and customer growth in our operations by developing and marketing bundled entertainment and information and communications services, and extending and upgrading the quality of our network where appropriate. As we use the term, organic growth excludes the estimated impact of the Choice Acquisition. While we seek to obtain new customers, we also seek to maximize the average revenue we receive from each household by increasing the penetration of our digital cable, broadband internet and fixed-line telephony services, with existing customers through product bundling and promotions.

At December 31, 2015, we owned and operated a network that passed 1,070,700 homes and served 776,900 revenue generating units (**RGU**s), consisting of 319,000 broadband internet subscribers, 263,900 video subscribers and 194,000 fixed-line telephony subscribers.

During the first quarter of 2015, we modified our video subscriber definition to better align the definition with the underlying services received by our subscribers and have replaced our “digital cable” subscriber definitions with “enhanced video”. An enhanced video subscriber receives our video service via a digital video signal while subscribing to any recurring monthly service that requires the use of encryption-enabling technology.

Including the effects of the Choice Acquisition, we added a total of 186,000 RGUs during 2015. Excluding the effects of the Choice Acquisition (RGUs added on the acquisition date), but including post-acquisition date RGU additions, we added 30,100 RGUs on an organic basis during 2015, as compared to 55,100 RGUs added during 2014. The organic RGU growth during 2015 is attributable to the net effect of (i) an increase of 17,400 fixed-line telephony RGUs, (ii) an increase of 17,300 broadband internet RGUs and (iii) a decrease of 4,600 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. For example, the Puerto Rico government failed to make bond payments of $58 million in August 2015 and $36 million in January 2016. Before the first payment default, 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%, effective October 1, 2015. Effective June 1, 2016, the aforementioned sales and use tax will be replaced with a VAT of 10.5% and a sales and use tax of 1.0%. Prior to the new tax law, such services were exempt from taxation. More changes to the Puerto Rico tax system are expected during 2016. Puerto Rico’s government is also currently 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 to remain solvent. 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.

The video, broadband internet and fixed-line telephony businesses in which we operate are capital intensive. Significant additions to our property and equipment are required to add customers to our network and to upgrade our broadband communications network and customer premises equipment to enhance our service offerings and improve the customer experience, including expenditures for equipment and labor costs. Significant competition, the introduction of new technologies, the expansion of existing technologies such as fiber-to-the-home, -building or -node and advanced digital subscriber line technologies, or adverse regulatory developments could cause us to decide to undertake previously unplanned upgrades of our network and customer premises equipment. In addition, no assurance can be given that any future upgrades will generate a positive return or that we will have adequate capital available to finance such future upgrades. If we are unable to, or elect not to, pay for costs associated with adding new customers, expanding or upgrading our network or making other planned or unplanned additions to our property and equipment, our growth could be limited and our competitive position could be harmed. For information regarding our property and equipment additions, see *Liquidity and Capital Resources – Consolidated Statements of Cash Flows* below.

We rely on third-party vendors for the equipment, software and services that we require in order to provide services to our customers. Our suppliers often conduct business worldwide and their ability to meet our needs are subject to various risks, including political and economic instability, natural calamities, interruptions in transportation systems, terrorism and labor issues. As a result, we may not be able to obtain the equipment, software and services required for our businesses on a timely basis or on satisfactory terms. Any shortfall in customer premises equipment could lead to delays in connecting customers to our services and, accordingly, could adversely impact our ability to maintain or increase our RGUs, revenue and cash flows.

Results of Operations

General

This section provides an analysis of our results of operations for the years ended December 31, 2015 and 2014.

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 14 to our 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:

	Year ended December 31,		Increase		Organic increase
	2015	2014	$	%	%
	in millions				
Cable subscription revenue (a):					
Video	$ 174.1	$ 150.1	$ 24.0	16.0	3.5
Broadband internet	136.3	99.9	36.4	36.4	9.7
Fixed-line telephony	31.5	29.6	1.9	6.4	0.4
Total cable subscription revenue	341.9	279.6	62.3	22.3	5.4
B2B revenue (b)	9.3	3.8	5.5	144.7	110.0
Other revenue (c)	28.0	22.7	5.3	23.3	5.3
Total	$ 379.2	$ 306.1	$ 73.1	23.9	6.7

(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 $20.6 million and $17.3 million during 2015 and 2014, respectively. On an organic basis, our total B2B revenue, including revenue from SOHO subscribers, increased 21.9% during 2015, as compared to 2014. 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 2015, as compared to 2014, includes (i) an organic increase of $20.5 million or 6.7% and (ii) the impact of the Choice Acquisition, as set forth below:

	Subscription revenue	Non-subscription revenue	Total
		in millions	
Increase (decrease) in cable subscription revenue due to change in:			
Average number of RGUs (a)	$ 20.8	$ —	$ 20.8
ARPU (b)	(5.7)	—	(5.7)
Total increase in cable subscription revenue	15.1	—	15.1
Increase in B2B revenue	—	4.2	4.2
Increase in other revenue	—	1.2	1.2
Total organic increase	15.1	5.4	20.5
Impact of the Choice Acquisition	47.2	5.4	52.6
Total	$ 62.3	$ 10.8	$ 73.1

(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 fixed-line telephony, broadband internet and enhanced video RGUs.

(b) The decrease in cable subscription revenue related to a change in ARPU is primarily due to an adverse change in RGU mix. Excluding the impact of RGU mix, ARPU was relatively unchanged due to the net effect of (i) lower ARPU from fixed-line telephony services and (ii) higher ARPU from video and 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 $30.3 million or 22.4% during 2015, as compared to 2014. This increase includes an increase of $23.4 million attributable to the impact of the Choice Acquisition. Excluding the effects of this acquisition, our operating expenses increased $6.9 million or 5.1%. This increase includes the following factors:

- An increase in programming and copyright costs of $3.2 million or 3.9%, primarily due to increased costs for certain content and growth in the numbers of enhanced video subscribers; and

- An increase in access costs of $1.8 million or 22.9%, primarily due to increased costs related to additional capacity agreements with third-party internet providers.

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 $4.5 million or 10.7% during 2015, as compared to 2014. This increase includes an increase of $7.8 million attributable to the impact of the Choice Acquisition. Excluding the effect of the Choice Acquisition, our SG&A expenses decreased $3.3 million or 7.8%. This decrease includes the following factors:

- An increase in personnel costs of $2.5 million or 17.1%, in part due to annual wage increases;
- A decrease in outsourced labor and professional fees of $2.4 million or 50.2%, primarily due to lower fees associated with legal proceedings;
- A decrease of $2.2 million, due to lower costs associated with the national gross receipts tax that was implemented in Puerto Rico in July 2014. In 2015, it was determined that the tax would not be continued beyond 2014; and
- A net decrease resulting from individually insignificant changes in other SG&A categories.

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

We recognized share-based compensation expense of $1.2 million and $0.3 million during 2015 and 2014, respectively.

Depreciation and amortization expense

Our depreciation and amortization expense increased $10.7 million or 16.7% during 2015, as compared to 2014. This increase is primarily due to (i) an increase from the impact of the Choice Acquisition and (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.

Impairment, restructuring and other operating items, net

We recognized impairment, restructuring and other operating items, net, of $11.9 million during 2015, as compared to $4.6 million during 2014. The charges during 2015 are primarily attributable to (i) restructuring charges of $7.1 million, including (a) contract termination charges of $4.5 million and (b) employee severance and termination costs of $2.6 million related to certain reorganization and integration activities in connection with the Choice Acquisition and (ii) direct acquisition costs of $4.6 million related to the Choice Acquisition. The charges during 2014 are primarily attributable to 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 $7.4 million during 2015, as compared to 2014. This increase is 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 8 to our consolidated financial statements.

Interest expense – related-party

Our related-party interest expense of $1.6 million remained relatively unchanged during 2015, as compared to 2014. For additional information regarding our related-party debt, see note 8 to our 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 2015, we entered into interest rate derivative contracts. Our realized and unrealized losses on derivative instruments, net, were $13.8 million during 2015, primarily due to decreases in market interest rates in the U.S. dollar market. In addition, the loss during 2015 includes a net gain of $0.5 million, resulting from changes in our credit risk valuation adjustments.

For additional information regarding our derivative instruments, see notes 5 and 6 to our consolidated financial statements.

Loss on debt modification and extinguishment, net

During 2015, we did not recognize any losses on debt modification and extinguishment. We recognized a loss on debt modification and extinguishment, net of $9.8 million during 2014. This loss includes (i) third-party costs of $7.1 million, (ii) the write-off of deferred financing costs of $3.6 million and (iii) the write-off of unamortized premiums of $0.9 million.

For additional information regarding our debt, see note 8 to our consolidated financial statements.

Net earnings (loss)

We reported net earnings of $14.2 million and $6.5 million during 2015 and 2014, respectively, including (i) operating income of $79.5 million and $60.1 million, respectively, and (ii) net non-operating expenses of $65.3 million and $53.6 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 does 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 aggregate 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.

Liquidity and Capital Resources

Sources and Uses of Cash

We had $65.7 million of cash and cash equivalents at December 31, 2015. 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 8 to our 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 *Consolidated Statements of Cash Flows* below.

Capitalization

For the year ended December 31, 2015, (i) our consolidated first lien net leverage ratio was 3.63x and (ii) our consolidated total net leverage ratio was 4.55x, each as specified in, and calculated in accordance with, the Liberty Puerto Rico Bank Facility.

At December 31, 2015, our outstanding third-party debt and capital lease obligations aggregated $934.5 million, including $0.5 million that is classified as current in our consolidated balance sheet and $933.9 million that is due in 2022 or thereafter. For additional information concerning our current debt maturities, see note 8 to our 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. In addition, under certain circumstances, it is possible that LiLAC Holdings would increase the amount loaned to our company pursuant to the Shareholder Loan or a similar arrangement. 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 it's 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.

Consolidated Statements of Cash Flows

Summary. Our 2015 and 2014 consolidated statements of cash flows are summarized as follows:

	Year ended December 31,		
	2015	2014	Change
		in millions	
Net cash provided by operating activities	$ 113.4	$ 79.9	$ 33.5
Net cash used by investing activities	(67.2)	(61.3)	(5.9)
Net cash used by financing activities	(2.4)	(6.2)	3.8
Net increase in cash and cash equivalents	$ 43.8	$ 12.4	$ 31.4

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 net cash used by our investing activities is attributable to the net effect of (i) an increase in cash used of $9.5 million related to higher capital expenditures and (ii) a decrease in cash used of $3.6 million due to cash acquired related to the Choice Acquisition.

The capital expenditures that we report in our 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 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 consolidated statements of cash flows is set forth below:

	Year ended December 31,	
	2015	2014
	in millions	
Property and equipment additions	$ 78.1	$ 60.4
Changes in current liabilities related to capital expenditures	(7.3)	0.9
Capital expenditures	$ 70.8	$ 61.3

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 new build and upgrade projects to expand services, (iii) an increase in expenditures for support capital, such as information technology upgrades and general support systems and (iv) an increase in expenditures for the purchase and installation of customer premises equipment. During 2015 and 2014, our property and equipment additions represented 20.6% and 19.7% of our revenue, respectively.

Financing activities. The decrease in net cash used by our financing activities is primarily due to the net impact of (i) an increase in cash used of $20.5 million due to lower borrowings of third-party debt, (ii) a decrease in cash used of $12.8 million due to lower payments of third-party debt and capital lease obligations and (iii) a decrease in cash used of $11.6 million due to lower payments for financing costs.

Commitments and Contingencies

For information regarding our commitments and contingencies, see note 13 to our 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 December 31, 2015. 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, see note 5 to our consolidated financial statements.

	Payments due during:						
	2016	2017	2018	2019	2020	Thereafter	Total
				in millions			
Interest-related (a)	$ —	$ 14.1	$ 14.0	$ 11.9	$ 11.2	$ 13.7	$ 64.9

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