



PROSPECTUS

**CHARTER COMMUNICATIONS HOLDINGS, LLC  
and  
CCH I, LLC**

**Offer to Exchange**

**\$462,006,000 Principal Amount of 11.00% Senior Secured Notes due 2015 of CCH I, LLC and CCH I Capital Corp. which have been registered under the Securities Act of 1933 (the “New CCH I Notes”) for any and all outstanding 11.00% Senior Secured Notes due 2015 issued by CCH I, LLC and CCH I Capital Corp. on September 14, 2006 (the “Original CCH I Notes”) and**

**CHARTER COMMUNICATIONS HOLDINGS, LLC  
and  
CCH II, LLC**

**Offer to Exchange**

**\$250,000,000 in Principal Amount of 10.25% Senior Notes due 2013 of CCH II, LLC and CCH II Capital Corp. which have been registered under the Securities Act of 1933 (the “New CCH II Notes”) for any and all outstanding 10.25% Senior Notes due 2013 issued by CCH II, LLC and CCH II Capital Corp. on September 14, 2006 (the “Original CCH II Notes”)**

THE EXCHANGE OFFER WILL EXPIRE AT 5:00 P.M., NEW YORK CITY TIME, ON  
DECEMBER 18, 2006, UNLESS EXTENDED

The offers to exchange are made upon the terms and subject to the conditions set forth in this prospectus (this “Prospectus”) and in the accompanying letter of transmittal (the “Letter of Transmittal” and together with the Prospectus, the “exchange offer” or “exchange offers”). The terms of the New CCH I Notes and the New CCH II Notes (collectively, the “new notes”) to be issued in the exchange offer are identical in all material respects to those of the Original CCH I Notes and the Original CCH II Notes (collectively, the “original notes”), except for certain transfer restrictions and registration rights relating to the outstanding notes. The new notes will be issued pursuant to, and entitled to the benefits of the supplemental indentures under our indentures discussed herein.

Charter Communications Holdings, LLC will unconditionally guarantee the new notes on a senior basis.

**No public market currently exists for the original notes or the new notes. We do not intend to list the new notes on any securities exchange or seek approval for quotation through any automated quotation system.**

**You should carefully consider the risk factors beginning on page 10 of this Prospectus before deciding whether or not to participate in the exchange offer.**

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this Prospectus. Any representation to the contrary is a criminal offense.

The date of this Prospectus is November 15, 2006.

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### ADDITIONAL INFORMATION

We have filed with the Securities and Exchange Commission a registration statement on Form S-4 (Registration No. 333-138319) with respect to the securities we are offering for exchange. This Prospectus, which forms part of this registration statement, does not contain all the information included in the registration statement, including its exhibits and schedules. For further information about us and the securities described in this Prospectus, you should refer to the registration statement and its exhibits and schedules. Statements we make in this Prospectus about certain contracts or other documents are not necessarily complete. When we make such statements, we refer you to the copies of the contracts or documents that are filed as exhibits to the registration statement, because those statements are qualified in all respects by reference to those exhibits. The registration statement, including the exhibits and schedules, is on file at the offices of the Securities and Exchange Commission (the "SEC") and may be inspected without charge. Our SEC filings are also available to the public at the SEC's website at [www.sec.gov](http://www.sec.gov).

You may also obtain this information without charge by writing or telephoning us at the following address and phone number: Charter Plaza, 12405 Powerscourt Drive, St. Louis, Missouri 63131. Our telephone number is (314) 965-0555. To obtain timely delivery, you must request this information no later than five business days before the date you must make your investment decision. Therefore, you must request this information no later than December 11, 2006.

## SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Prospectus includes forward-looking statements regarding, among other things, our plans, strategies and prospects, both business and financial. Although we believe that our plans, intentions and expectations reflected in or suggested by these forward-looking statements are reasonable, we cannot assure you that we will achieve or realize these plans, intentions or expectations. Forward-looking statements are inherently subject to risks, uncertainties and assumptions. Many of the forward-looking statements contained in this Prospectus may be identified by the use of forward-looking words such as “believe,” “expect,” “anticipate,” “should,” “planned,” “will,” “may,” “intend,” “estimated,” “aim,” “on track” and “potential,” among others. Important factors that could cause actual results to differ materially from the forward-looking statements we make in this Prospectus are set forth in this Prospectus and in other reports or documents that we file from time to time with the SEC and include, but are not limited to:

- the availability, in general, of funds to meet interest payment obligations under our debt and to fund our operations and necessary capital expenditures, either through cash flows from operating activities, further borrowings or other sources and, in particular, our ability to be able to provide under applicable debt instruments and applicable law such funds (by dividend, investment or otherwise) to the applicable obligor of such debt;
- our ability to comply with all covenants in our indentures and credit facilities, any violation of which would result in a violation of the applicable facility or indenture and could trigger a default of other obligations under cross-default provisions;
- our ability to pay or refinance debt prior to or when it becomes due and/or to take advantage of market opportunities and market windows to refinance that debt through new issuances, exchange offers or otherwise, including restructuring our balance sheet and leverage position;
- our ability to sustain and grow revenues and cash flows from operating activities by offering video, high-speed Internet, telephone and other services and to maintain and grow a stable customer base, particularly in the face of increasingly aggressive competition from other service providers;
- our ability to obtain programming at reasonable prices or to pass programming cost increases on to our customers;
- general business conditions, economic uncertainty or slowdown; and
- the effects of governmental regulation, including but not limited to local franchise authorities, on our business.

All forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by this cautionary statement. We are under no duty or obligation to update any of the forward-looking statements after the date of this Prospectus.

## SUMMARY

*The following summary is provided solely for the convenience of the holders of the original notes. This summary is not intended to be complete and is qualified in its entirety by reference to the full text and more specific details contained elsewhere in this Prospectus, the Letter of Transmittal and any amendments or supplements hereto or thereto. Holders of the original notes are urged to read this Prospectus in its entirety. Each of the capitalized terms used in this summary and not defined herein has the meaning set forth elsewhere in this Prospectus.*

*Unless otherwise stated, the discussion in this Prospectus of our business and operations includes the business of Charter Communications Holdings, LLC (“Charter Holdings”) and its direct and indirect subsidiaries. Charter Holdings is an indirect subsidiary of Charter Communications, Inc. (“Charter”). Unless otherwise stated or the context otherwise requires, the terms “we,” “us” and “our” refer to Charter Holdings and its direct and indirect subsidiaries on a consolidated basis.*

*CCH I, LLC and CCH II, LLC are wholly-owned indirect subsidiaries of Charter Holdings, CCH I, LLC and CCH II, LLC are holding companies with no operations of their own. CCH II Capital Corp. (together with CCH II, LLC, “CCH II”) is a wholly-owned subsidiary of CCH II, LLC. CCH I Capital Corp. (together with CCH I, LLC, “CCH I”) is a wholly-owned subsidiary of CCH I, LLC. CCH I Capital Corp. and CCH II Capital Corp. are companies with no operations of their own and no subsidiaries. For a chart showing our ownership structure, see page 3.*

## The Company

We are a broadband communications company operating in the United States, with approximately 5.81 million customers at June 30, 2006, pro forma for the asset sales discussed below. Through our broadband network of coaxial and fiber optic cable, we offer our customers traditional cable video programming (analog and digital, which we refer to as “video” service), high-speed Internet access, advanced broadband cable services (such as video on demand (“VOD”), high definition television service, and interactive television) and, in some of our markets, telephone service. See “Business — Products and Services” for further description of these terms, including “customers.”

At June 30, 2006, pro forma for the asset sales discussed below, we served approximately 5.52 million analog video customers, of which approximately 2.73 million were also digital video customers. We also served approximately 2.26 million high-speed Internet customers (including approximately 266,700 who received only high-speed Internet services). We also provided telephone service to approximately 257,600 customers (including approximately 24,100 who received telephone service only).

Our principal executive offices are located at Charter Plaza, 12405 Powerscourt Drive, St. Louis, Missouri 63131. Our telephone number is (314) 965-0555 and we have a website accessible at [www.charter.com](http://www.charter.com). The information posted or linked on this website is not part of the exchange offer or this Prospectus and you should rely solely on the information contained in this Prospectus and the related documents to which we refer herein when deciding whether or not to tender your notes.

## Recent Events

On September 14, 2006, Charter announced the closing of the offer by its subsidiaries, CCHC, LLC (“CCHC”) and CCH II to issue a combination of cash, Class A common stock of Charter, and 10.25% Senior Notes due 2010 issued by CCH II (the “CCH II 2010 notes”) in exchange for \$450.0 million of Charter’s 5.875% Convertible Senior Notes due 2009 (the “CCI Exchange Offer”).

Charter also announced the closing of the offers on September 14, 2006, by CCH II and CCH I, to issue new notes in exchange (the “Private Exchange”) for up to any and all of certain series of the outstanding debt securities of Charter Holdings. CCH II issued the Original CCH II Notes and CCH I issued the Original CCH I Notes in a private exchange for \$797.4 million principal amount of Charter Holdings notes.

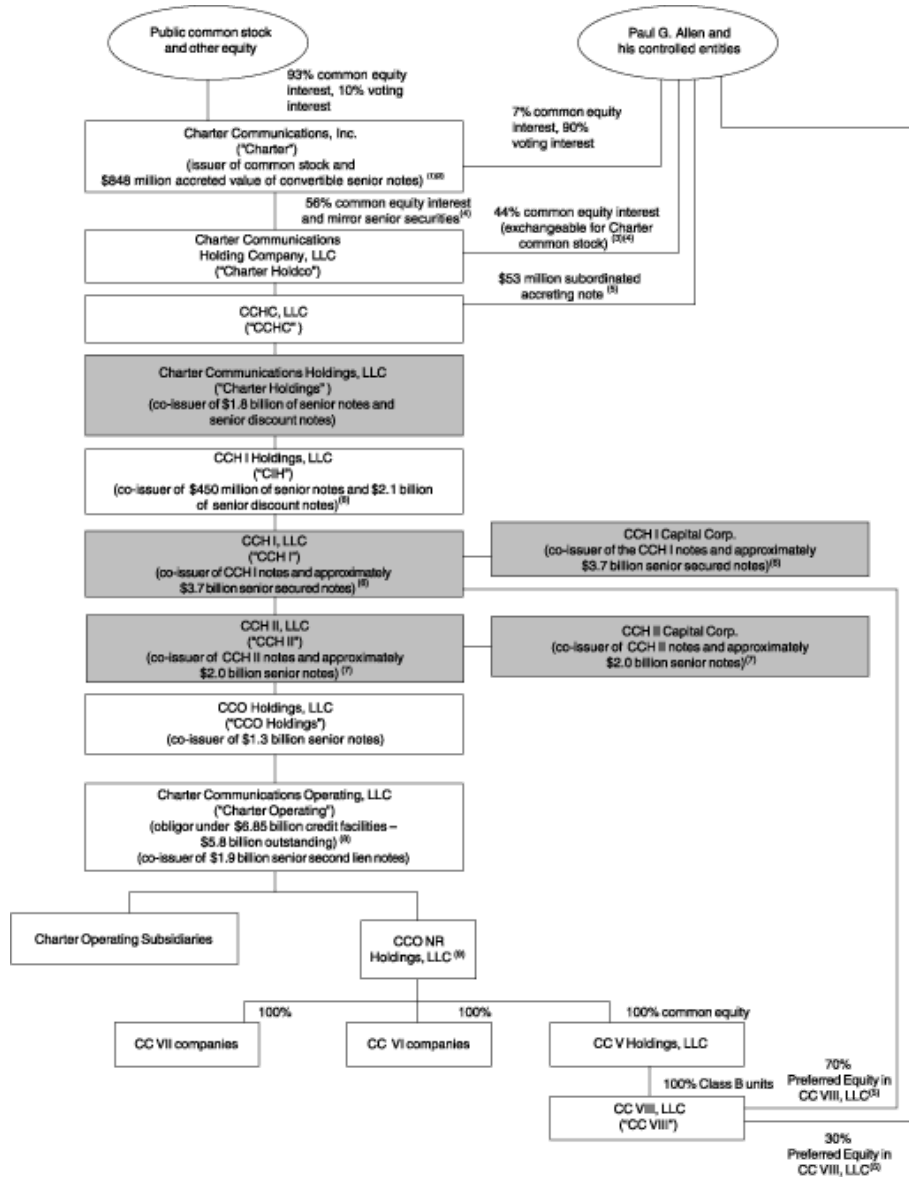
The Original CCH II Notes and the Original CCH I Notes are the subject of the exchange offer as described in this Prospectus.

As part of the Private Exchange, CCHC contributed its 70% interest (the "CC VIII Interest") in the Class A preferred equity interests of CC VIII, LLC ("CC VIII"), a majority-owned indirect subsidiary of Charter Communications Operating, LLC ("Charter Operating"), to CCH I. The CC VIII Interest was pledged as security for all CCH I notes. The CC VIII preferred interests are entitled to a 2% accreting priority return on the priority capital. The CC VIII Interest represents approximately 13% of the total equity interests in CC VIII at June 30, 2006. CC VIII owns systems with approximately 934,000 analog video customers at June 30, 2006.

*Asset Sales.* Earlier in 2006, we signed three separate definitive agreements to sell certain cable television systems serving a total of approximately 356,000 analog video customers in (1) West Virginia and Virginia to Cebridge Connections, Inc. ("Cebridge"), (2) Illinois and Kentucky to Telecommunications Management, LLC, doing business as New Wave Communications ("New Wave") and (3) Nevada, Colorado, New Mexico and Utah to Orange Broadband Holding Company, LLC ("Orange") for a total of approximately \$971 million. The sale of the systems to Cebridge and New Wave closed on July 1, 2006, and the sale of systems to Orange closed in September 2006. Proceeds from the sales were used to reduce the amount outstanding on our revolving credit facility to zero, without reducing commitments, and the remainder to fund our business, including to fund the cash consideration paid in the CCI Exchange Offer. Because the West Virginia and Virginia systems meet the criteria for presentation as discontinued operations, on August 10, 2006, Charter Holdings, filed a current report on Form 8-K reflecting revenues and expenses related to the West Virginia and Virginia systems for each of the three years ended December 31, 2005 as discontinued operations.

### Organizational Structure

The chart below sets forth our organizational structure as of June 30, 2006 and that of our direct and indirect subsidiaries — after giving effect to the contribution by CCHC, LLC of its 70% interest (the “CC VIII Interest”) in the Class A preferred equity interests of CC VIII, LLC to CCH I, LLC. This chart does not include all of our affiliates and subsidiaries and, in some cases, we have combined separate entities for presentation purposes. The equity ownership, voting percentages and indebtedness amounts shown below are approximations as of June 30, 2006 — without giving effect to any exercise, conversion or exchange of then outstanding options, preferred stock, convertible notes and other convertible or exchangeable securities. Indebtedness amounts shown below are accreted values for financial reporting purposes as of June 30, 2006. See “Description of Other Indebtedness,” which also includes the principal amount of the indebtedness described below.



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- (1) Charter acts as the sole manager of Charter Holdco and its direct and indirect limited liability company subsidiaries, including CCH I and CCH II.
- (2) Without giving effect to the CCI Exchange. Concurrently with the CCI Exchange, CCH II and CCH I completed the Private Exchange.
- (3) Held by Charter Investment, Inc. ("CII") and Vulcan Cable III Inc., each of which is 100% owned by Paul G. Allen, Charter's Chairman and controlling shareholder. They are exchangeable at any time on a one-for-one basis for shares of Class A common stock.
- (4) The percentages reflect the issuance of the 116.9 million shares of Class A common stock issued in 2005 and February 2006 and the corresponding issuance of an equal number of mirror membership units by Charter Holdco to Charter. However, for accounting purposes, Charter's common equity interest in Charter Holdco is 48%, and Paul G. Allen's ownership of Charter Holdco is 52%. These percentages exclude the 116.9 million mirror membership units issued to Charter due to the required return of the issued mirror units upon return of the shares offered pursuant to the share lending agreement.
- (5) Represents an exchangeable accreting note issued by CCHC related to the settlement of the CC VIII dispute. See "Certain Relationships and Related Party Transactions — Transactions Arising Out of Our Organizational Structure and Mr. Allen's Investment in Charter and Its Subsidiaries — Equity Put Rights — CC VIII".
- (6) Without giving effect to the Private Exchange. In the Private Exchange, CCH I issued \$462 million aggregate principal amount of Original CCH I Notes in addition to the \$3.525 billion aggregate principal amount currently outstanding.
- (7) Without giving effect to the Private Exchange and the CCI Exchange Offer. In the Private Exchange, CCH II issued \$250 million aggregate principal amount of Original CCH II Notes. In the CCI Exchange Offer, CCH II issued \$146.2 million aggregate principal amount of CCH II 2010 notes.
- (8) Giving pro forma effect to the asset sales described under "— Recent Events — Asset Sales," the aggregate principal amount of loans under Charter Operating's senior credit facilities is \$5.0 billion.
- (9) This subsidiary guarantees the Charter Operating senior credit facilities and senior second lien notes, which guarantee is secured by substantially all assets of this subsidiary.



**The Exchange Offers**

Original CCH I Notes	\$462.0 million of 11.00% Senior Secured Notes due 2015, which CCH I issued on September 14, 2006.
New CCH I Notes	\$462.0 million of CCH I's 11.00% Senior Secured Notes due 2015, the offering and sale of which is registered under the Securities Act of 1933.
Original CCH II Notes	\$250 million of 10.250% Senior Notes due 2013, which CCH II issued on September 14, 2006.
New CCH II Notes	\$250 million of CCH II's 10.250% Senior Notes due 2013, the offering and sale of which is registered under the Securities Act of 1933.
Exchange Offers	Charter Holdings, CCH I and CCH II (the "Offerors") are offering to issue registered new notes in exchange for a like principal amount and like denomination of our original notes. The Offerors are offering to issue these registered new notes to satisfy our obligations under an exchange and registration rights agreement that the Offerors entered into with the initial purchasers of the original notes when the Offerors sold the original notes in a transaction that was exempt from the registration requirements of the Securities Act. You may tender your original notes for exchange by following the procedures described under the caption "The Exchange Offers."
Tenders; Expiration date; Withdrawal	The exchange offers will expire at 5:00 p.m., New York City time, on December 18, 2006, which is within 60 business days after the exchange offers registration statement was declared effective, unless the Offerors extend it. If you decide to exchange your original notes for new notes, you must acknowledge that you are not engaging in, and do not intend to engage in, a distribution of the new notes. You may withdraw any original notes that you tender for exchange at any time prior to the expiration of the exchange offers. If the Offerors decide for any reason not to accept any original notes you have tendered for exchange, those original notes will be returned to you without cost promptly after the expiration or termination of the exchange offers. See "The Exchange Offers — Terms of the Exchange Offers" for a more complete description of the tender and withdrawal provisions.
Accrued Interest on the New Notes and Original Notes	The new notes will bear interest from October 1, 2006 (the date of the last interest payment in respect of the original notes). Holders of original notes that are accepted for exchange will be deemed to have waived the right to receive any payment in respect of interest on such original notes accrued to the date of issuance of the new notes.
Conditions to the Exchange Offers	The exchange offers are subject to customary conditions, some of which the Offerors may waive. See "The Exchange Offers — Conditions to the Exchange Offers" for a description of the conditions. Other than the federal securities laws, we are not

	subject to federal or state regulatory requirements in connection with the exchange offers.
Certain Federal Income Tax Considerations	The exchange of original notes for new notes in the exchange offers will not be a taxable event for United States federal income tax purposes. See “Important United States Federal Income Tax Considerations.”
Exchange Agent Use of Proceeds	The Bank of New York Trust Company, NA is serving as exchange agent. We will not receive any proceeds from the exchange offers.
Consequences of failure to exchange your original notes	Original notes that are not tendered or that are tendered but not accepted will continue to be subject to the restrictions on transfer that are described in the legend on those notes. In general, you may offer or sell your original notes only if they are registered under, or offered or sold under an exemption from, the Securities Act and applicable state securities laws. Except in limited circumstances with respect to specific types of holders of original notes, neither CCH I nor CCH II, however, will have a further obligation to register the original notes. If you do not participate in the exchange offer, the liquidity of your original notes could be adversely affected.
Consequences of exchanging your original notes	<p>Based on interpretations of the staff of the SEC, we believe that you may offer for resale, resell or otherwise transfer the new notes that CCH I or CCH II issues in the exchange offers without complying with the registration and prospectus delivery requirements of the Securities Act if you:</p> <ul style="list-style-type: none"><li>• acquire the new notes issued in the exchange offers in the ordinary course of your business;</li><li>• are not participating, do not intend to participate, and have no arrangement or undertaking with anyone to participate, in the distribution of the new notes issued to you in the exchange offers, and</li><li>• are not an “affiliate” of our company as defined in Rule 405 of the Securities Act.</li></ul> <p>If any of these conditions is not satisfied and you transfer any new notes issued to you in the exchange offers without delivering a proper prospectus or without qualifying for a registration exemption, you may incur liability under the Securities Act. We will not be responsible for or indemnify you against any liability you may incur.</p> <p>Any broker-dealer that acquires new notes in the exchange offers for its own account in exchange for original notes which it acquired through market-making or other trading activities, must acknowledge that it will deliver a prospectus when it resells or transfers any new notes issued in the exchange offers. See “Plan of Distribution” for a description of the prospectus delivery obligations of broker-dealers in the exchange offers.</p>

### Summary of the New Notes

The terms of the new notes we are issuing in this exchange offer and the terms of the outstanding notes of the same series are identical in all material respects, except the new notes offered in the exchange offer:

- will have been registered under the Securities Act;
- will not contain transfer restrictions and registration rights that relate to the outstanding notes; and
- will not contain provisions relating to the payment of additional interest to be made to the holders of the outstanding notes under circumstances related to the timing of the exchange offer.

A brief description of the material terms of the new notes follows:

### Summary of the New CCH I Notes

Issuers	CCH I, LLC and CCH I Capital Corp.
Maturity	October 1, 2005.
Interest	Interest will accrue from and including the settlement date and will be payable in cash semi-annually, in arrears, on April 1 and October 1 of each year, commencing on October 1, 2006.
Interest Rate	The per annum interest rate on the New CCH I Notes will be 11.00%.
Ranking	The New CCH I Notes will be pari passu with, of the same class as, and will vote on any matter submitted to bondholders with and otherwise be substantially identical in all respects to, the Original CCH I Notes, except that (i) the New CCH I Notes will have a separate CUSIP number from the Original CCH I Notes and thus will not be fungible with the Original CCH I Notes. The New CCH I Notes will be the senior secured obligations of CCH I and will rank effectively senior to all of CCH I's future unsecured senior indebtedness. In addition, the New CCH I Notes have been structured to be effectively senior to any indebtedness of any parent of CCH I. The New CCH I Notes will rank equally with all existing and future indebtedness of CCH I that may be secured equally and ratably by the collateral securing the New CCH I Notes, including \$3,525 million aggregate principal amount of CCH I's outstanding CCH I notes. The New CCH I Notes will be effectively subordinated to all existing and future obligations of CCH I's subsidiaries. As of June 30, 2006, CCH I had stand-alone indebtedness and other liabilities of approximately \$3.8 billion, and its consolidated subsidiaries had approximately \$13.2 billion of indebtedness and other liabilities outstanding on their consolidated balance sheet. See "Capitalization".
Guarantee	Charter Holdings will unconditionally guarantee the New CCH I Notes on a senior unsecured basis. If CCH I cannot make payments on the New CCH I Notes, Charter Holdings must make them.
Collateral	The New CCH I Notes will be secured by a pledge of 100% of the equity interests of CCH I's wholly owned subsidiary, CCH II, LLC, and the proceeds thereof, and by a pledge of the CC VIII interests, and the proceeds thereof (collectively, the "collateral").

Optional Redemption	<p>The CC VIII interests are entitled to a 2% accreting priority return on the priority capital. The CC VIII interests represented approximately 13% of the total equity interests in CC VIII at June 30, 2006. CC VIII owned systems with approximately 934,000 analog video customers at June 30, 2006. CC VIII and certain other subsidiaries have guaranteed, on a secured basis, the credit facility and senior second lien notes of our subsidiary, Charter Operating. In addition, CC VIII may from time to time be obligated on other secured or unsecured indebtedness, including indebtedness to subsidiaries of CCH I. The New CCH I Notes and the outstanding CCH I notes will be, and all future indebtedness of CCH I that is permitted to be incurred by the CCH I indenture may be, secured equally and ratably by the collateral. The pledge agreement contains certain limitations on the rights of the trustee and the holders to exercise remedies with respect to the collateral.</p> <p>CCH I may redeem, at its option, the New CCH I Notes in whole or in part from time to time as described in the section “Description of the CCH I Notes — Optional Redemption”.</p>
Change of Control	<p>Upon the occurrence of a Change of Control (as defined herein), each holder of the New CCH I Notes will have the right to require CCH I to repurchase all or any part of that holder’s New CCH I Notes at a repurchase price equal to 101% of the aggregate principal amount of the New CCH I Notes repurchased plus accrued and unpaid interest thereon, if any, to the date of purchase. There can be no assurance that CCH I will have sufficient funds available at the time of any Change of Control to make any required debt repayment (including repurchases of the New CCH I Notes and outstanding CCH I notes). See “Description of the CCH I Notes — Repurchase at the Option of Holders — Change of Control”.</p>
Restrictive Covenants	<p>The indenture under which the New CCH I Notes will be issued, which we refer to as the “CCH I indenture”, restricts the ability of CCH I and CCH I’s restricted subsidiaries to: (1) incur indebtedness; (2) create liens; (3) pay dividends or make distributions in respect of capital stock and other restricted payments; (4) make investments; (5) sell assets; (6) create restrictions on the ability of restricted subsidiaries to make certain payments; (7) enter into transactions with affiliates; or (8) consolidate, merge or sell all or substantially all assets. However, such covenants are subject to a number of important qualifications and exceptions as described under “Description of the CCH I Notes — Certain Covenants”, including provisions allowing CCH I and its restricted subsidiaries, as long as CCH I’s leverage ratio is not greater than 7.5 to 1.0, to incur additional indebtedness and make investments. CCH I is also permitted under these covenants to provide funds to its parent companies to pay interest on and, subject to meeting its leverage ratio test, to retire or repurchase their debt obligations.</p>
Events of Default	<p>For a discussion of events that will permit acceleration of the payment of the principal of and accrued interest on the New</p>

CCH I Notes, see “Description of the CCH I Notes — Events of Default and Remedies”.

**Summary of the New CCH II Notes**

Issuers	CCH II, LLC and CCH II Capital Corp.
Maturity	October 1, 2013.
Interest	Interest will accrue from and including the settlement date and will be payable in cash semi-annually, in arrears, on April 1 and October 1 of each year, beginning on April 1, 2007.
Interest Rate	The per annum interest rate on the New CCH II Notes will be 10.25%.
Ranking	The New CCH II Notes will be the senior unsecured obligations of CCH II and will rank pari passu to all of CCH II’s existing and future unsecured senior indebtedness, including \$2.1 billion aggregate principal amount of CCH II’s 10.25% Senior Notes due 2010 that are currently outstanding (the “outstanding CCH II 2010 notes”) and the \$146 million aggregate principal amount of additional CCH II 2010 notes that were issued in the CCI Exchange Offer. In addition, the New CCH II Notes have been structured to be effectively senior to any indebtedness of any parent of CCH II, including the CCH I notes. However, because the CC VIII Interests is held by CCH I, holders of the New CCH II Notes will not have any direct or indirect claim against, or interest in, those preferred equity interests. Furthermore, the New CCH II Notes will be effectively subordinated to all existing and future obligations of CCH II’s subsidiaries. As of June 30, 2006, CCH II had stand-alone indebtedness and other liabilities outstanding of approximately \$2.1 billion, and its consolidated subsidiaries had approximately \$11.3 billion of indebtedness and other liabilities outstanding on their consolidated balance sheet. See “Capitalization”.
Guarantee	Charter Holdings will unconditionally guarantee the New CCH II Notes on a senior unsecured basis. If CCH II cannot make payments on the New CCH II Notes, Charter Holdings must make them.
Optional Redemption	CCH II may redeem, at its option, the New CCH II Notes in whole or in part from time to time as described in the section “Description of the CCH II Notes — Optional Redemption”.
Change of Control	Upon the occurrence of a Change of Control (as defined herein), each holder of the New CCH II Notes will have the right to require CCH II to repurchase all or any part of that holder’s New CCH II Notes at a repurchase price equal to 101% of the aggregate principal amount of the New CCH II Notes repurchased plus accrued and unpaid interest thereon, if any, to the date of purchase. There can be no assurance that CCH II will have sufficient funds available at the time of any Change of Control to make any required debt repayment (including repurchases of the

	New CCH II Notes). See “Description of the CCH II Notes — Repurchase at the Option of Holders — Change of Control”.
Restrictive Covenants	The indenture under which the New CCH II Notes will be issued, which we refer to as the “CCH II indenture”, restricts the ability of CCH II and CCH II’s restricted subsidiaries to: (1) incur indebtedness; (2) create liens; (3) pay dividends or make distributions in respect of capital stock and other restricted payments; (4) make investments; (5) sell assets; (6) create restrictions on the ability of restricted subsidiaries to make certain payments; (7) enter into transactions with affiliates; or (8) consolidate, merge or sell all or substantially all assets. However, such covenants are subject to a number of important qualifications and exceptions as described under “Description of the CCH II Notes — Certain Covenants”, including provisions allowing CCH II and its restricted subsidiaries, as long as CCH II’s leverage ratio is not greater than 5.5 to 1.0, to incur additional indebtedness and make investments. CCH II is also permitted under these covenants to provide funds to its parent companies to pay interest on and, subject to meeting its leverage ratio test, to retire or repurchase their debt obligations.
Events of Default	For a discussion of events that will permit acceleration of the payment of the principal of and accrued interest on the New CCH II Notes, see “Description of the CCH II Notes — Events of Default and Remedies”.

### Summary Consolidated Financial Data

Charter Holdings is a holding company whose primary assets are equity interests in its cable operating subsidiaries. The following table presents summary financial and other data for Charter Holdings and its subsidiaries and has been derived from the audited consolidated financial statements of Charter Holdings and its subsidiaries for the three years ended December 31, 2005 and the unaudited consolidated financial statements of Charter Holdings and its subsidiaries for the six months ended June 30, 2006 and 2005. The consolidated financial statements of Charter Holdings and its subsidiaries for the years ended December 31, 2003 to 2005 have been audited by KPMG LLP, an independent registered public accounting firm:

The pro forma data set forth below represent our unaudited pro forma consolidated financial statements after giving effect to the following transactions as if they occurred on January 1, 2005 for the statement of operations data and other financial data and as of the last day of the respective period for the operating and balance sheet data.

(1) the redemption in March, 2005 of all (approximately \$113 million principal amount) of CC V Holdings, LLC’s outstanding 11.875% senior discount notes due 2008 with cash on hand;

(2) the issuance and sale of \$300 million of 8<sup>3</sup>/<sub>4</sub>% CCO Holdings, LLC senior notes in August, 2005 and the use of a portion of such proceeds to pay financing costs and accrued interest in the September, 2005 exchange transaction referenced below;

(3) the exchange in September, 2005 of approximately \$3.4 billion principal amount of Charter Holdings’ notes scheduled to mature in 2009 and 2010 for CCH I notes and the exchange of approximately \$3.4 billion principal amount of Charter Holdings’ notes scheduled to mature in 2011 and 2012 for CCH I Holdings, LLC (“CIH”) notes and CCH I notes;

(4) the issuance and sale of \$450 million principal amount of CCH II 2010 Notes in January, 2006 and the use of such proceeds to pay down credit facilities;

(5) the refinancing of the Charter Operating credit facilities in April, 2006 and the related reductions in interest rate margins on the term loan;

(6) the acquisition of certain assets in January, 2006 for approximately \$42 million;

(7) the dispositions of certain assets for net proceeds of \$948 million and the use of such proceeds to reduce amounts outstanding under our revolving credit facility to zero;

(8) the issuance of \$146 million principal amount of additional CCH II 2010 Notes, 45 million shares of Charter's Class A common stock and \$188 million in cash in exchange for \$450 million principal amount of outstanding Charter convertible notes pursuant to the CCI Exchange Offer; and

(9) the issuance of \$250 million principal amount of Original CCH II Notes and \$462 million principal amount of Original CCH I Notes in exchange for \$797 million principal amount of Charter Holdings notes and the contribution of the CC VIII interests to CCH I pursuant to the Private Exchange.

The pro forma data are based on information available to us as of the date of this Prospectus and certain assumptions that we believe are reasonable under the circumstances. The financial data required allocation of certain revenues and expenses and such information has been presented for comparative purposes and is not intended to provide any indication of what our actual financial position, including actual cash balances and revolver borrowings, or results of operations would have been had the transactions described above been completed on the dates indicated or to project our results of operations for any future date.

The following information should be read in conjunction with “Selected Historical Consolidated Financial Data,” “Capitalization,” “Unaudited Pro Forma Consolidated Financial Statements,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations of Charter Communications Holdings, LLC” and the historical consolidated financial statements and related notes included elsewhere in this Prospectus.

	Year Ended December 31,				Six Months Ended June 30,	
	2003 Actual	2004 Actual	2005 Actual	2005 Pro Forma(a)	2005 Pro Forma(a)	2006 Pro Forma(a)
(Dollars in millions)						
<b>Statement of Operations Data:</b>						
Revenues:						
Video	\$ 3,306	\$ 3,217	\$ 3,248	\$ 3,195	\$ 1,596	\$ 1,655
High-speed Internet	535	712	875	868	422	499
Telephone	14	18	36	41	17	49
Advertising sales	254	279	284	280	133	145
Commercial	196	227	266	260	125	145
Other	311	307	324	319	153	165
<b>Total revenues</b>	<b>4,616</b>	<b>4,760</b>	<b>5,033</b>	<b>4,963</b>	<b>2,446</b>	<b>2,658</b>
Costs and Expenses:						
Operating (excluding depreciation and amortization)	1,873	1,994	2,203	2,172	1,066	1,191
Selling, general and administrative	909	965	1,012	1,003	476	544
Depreciation and amortization	1,396	1,433	1,443	1,432	730	685
Impairment of franchises	—	2,297	—	—	—	—
Asset impairment charges	—	—	39	—	—	—
Other operating (income) expenses, net	(46)	13	32	32	6	10
<b>Total costs and expenses</b>	<b>4,132</b>	<b>6,702</b>	<b>4,729</b>	<b>4,639</b>	<b>2,278</b>	<b>2,430</b>
Income (loss) from continuing operations	484	(1,942)	304	324	168	228
Interest expense, net	(1,486)	(1,618)	(1,739)	(1,676)	(827)	(880)
Gain (loss) on extinguishment of debt	187	(21)	494	9	9	—
Other income, net	26	91	105	73	41	17
Loss from continuing operations before income taxes and cumulative effect of accounting change	(789)	(3,490)	(836)	(1,270)	(609)	(635)
Income tax benefit (expense)	(13)	35	(9)	(9)	(8)	(4)
Loss from continuing operations before cumulative effect of accounting change	<b>(802)</b>	<b>(3,455)</b>	<b>(845)</b>	<b>(1,279)</b>	<b>(617)</b>	<b>(639)</b>
<b>Other Financial Data:</b>						
Capital expenditures	804	893	1,088	1,051	524	524
Deficiency of earnings to cover fixed charges(b)	728	3,614	830	1,271	603	634
<b>Operating Data:</b>						
(end of period)(c):						
Analog video customers	6,431,300	5,991,500	5,884,500	5,884,500	5,943,100	5,876,100
Digital video customers	2,671,900	2,674,700	2,796,600	2,796,600	2,685,600	2,889,000
Residential high-speed Internet customers	1,565,600	1,884,400	2,196,400	2,196,400	2,022,200	2,375,100
Telephone customers	24,900	45,400	121,500	121,500	67,800	257,600



	Pro Forma as of June 30, 2006
<b>Balance Sheet Data:</b>	
(end of period):	
Cash and cash equivalents	\$ —
Total assets	15,133
Long-term debt(d)	18,274
Loans payable-related party	3
Minority interest(e)	189
Member's deficit	(4,902)

- (a) Pro forma loss from continuing operations before cumulative effect of accounting change exceeded actual loss from continuing operations before cumulative effect of accounting change by \$434 million for the year ended December 31, 2005 and actual loss from continuing operations before cumulative effect of accounting change exceeded pro forma loss from continuing operations before cumulative effect of accounting change by \$59 million and \$154 million and six months ended June 30, 2005 and 2006, respectively.
- (b) Earnings include net loss plus fixed charges. Fixed charges consist of interest expense and an estimated interest component of rent expense.
- (c) See section entitled "Business — Products and Services" included elsewhere in this Prospectus for definitions of the terms contained in this section.
- (d) Certain of the CIH notes and CCH I notes issued in exchange for Charter Holdings' notes in 2005 and certain of the Original CCH I Notes and Original CCH II Notes issued in the Private Exchange are recorded at the historical book values of the Charter Holdings' notes for financial reporting purposes as opposed to the current accreted value for legal purposes and notes indenture purposes (which, for both purposes, is the amount that would become payable if the debt becomes immediately due). As of June 30, 2006, the accreted value of Charter Holdings' debt for legal purposes and notes indenture purposes is approximately \$18.6 billion.
- (e) Minority interest represents preferred membership interests in CC VIII. As part of the Private Exchange, CCHC contributed the CC VIII interest to CCH I

## RISK FACTORS

*The new notes, like the original notes, entail the following risks. You should carefully consider these risk factors, as well as the other information contained in this Prospectus, before making a decision to continue your investment in the notes or to tender your original notes in exchange for the new notes. In this Prospectus, when we refer to “notes,” we are referring to both the original notes and the new notes.*

### **Risks Related to the Exchange Offers and the New Notes**

**There is currently no public market for the new notes, and an active trading market may not develop for the new notes. The failure of a market to develop for the new notes could adversely affect the liquidity and value of the new notes.**

The new notes will be new securities for which there is currently no public market. Further, although we intend to apply for the new notes to be eligible for trading in the PORTAL<sup>SM</sup> Market, we do not intend to apply for listing of the new notes, on any securities exchange or for quotation of the new notes on any automated dealer quotation system. Accordingly, notwithstanding any existing market for the notes, a market may not develop for the new notes, and if a market does develop, it may not be sufficiently liquid for your purposes. If an active, liquid market does not develop for the new notes, the market price and liquidity of the new notes may be adversely affected.

The liquidity of the trading market, if any, and future trading prices of the new notes will depend on many factors, including, among other things, prevailing interest rates, our operating results, financial performance and prospects, the market for similar securities and the overall securities market, and may be adversely affected by unfavorable changes in these factors. The market for the new notes may be subject to disruptions that could have a negative effect on the holders of the new notes, regardless of our operating results, financial performance or prospects.

**We may not have the ability to raise the funds necessary to fulfill our obligations under the new notes following a change of control, which would place us in default under the indenture governing the new notes.**

Under the indenture governing the new notes, upon the occurrence of specified change of control events, we will be required to offer to repurchase all of the outstanding new notes. However, we may not have sufficient funds at the time of the change of control event to make the required repurchases of the new notes. In addition, a change of control would require the repayment of borrowings under credit facilities and publicly held debt of our subsidiaries and our parent companies. Our failure to make or complete an offer to repurchase the new notes would place us in default under the indentures governing the new notes.

**If you do not exchange your original notes for new notes, you will continue to have restrictions on your ability to resell them.**

The original notes were not registered under the Securities Act of 1933 or under the securities laws of any state and may not be resold, offered for resale or otherwise transferred unless they are subsequently registered or resold pursuant to an exemption from the registration requirements of the Securities Act of 1933 and applicable state securities laws. If you do not exchange your original notes for new notes pursuant to the exchange offers, you will not be able to resell, offer to resell or otherwise transfer the original notes unless they are registered under the Securities Act of 1933 or unless you resell them, offer to resell them or otherwise transfer them under an exemption from the registration requirements of, or in a transaction not subject to, the Securities Act of 1933. In addition, once the exchange offers have terminated, we will no longer be under an obligation to register the original notes under the Securities Act of 1933 except in the limited circumstances provided in the exchange and registration rights agreement. In addition, to the extent that original notes are tendered for exchange and accepted in the exchange offers, any trading market for the untendered and tendered but unaccepted original notes could be adversely affected.

## Risks Related to the Original Notes and the New Notes

### **CCH I may secure additional indebtedness by the collateral, and the value of the collateral may be insufficient, which could impair a recovery by holders of the CCH I notes.**

CCH I secures its notes, including the New CCH I Notes, by a pledge of all of the equity interests of CCH II and the proceeds thereof and a pledge of its CC VIII interests and the proceeds thereof. The collateral equally and ratably secures approximately \$4.0 billion aggregate principal amount of outstanding CCH I notes, including the Original CCH I Notes. In addition, the CCH I indenture permits CCH I to grant equal and ratable liens on the collateral to secure future debt permitted under the CCH I indenture. The existence of an equal and ratable claim on the collateral could impair the rights and remedies of and the ultimate recovery by the holders of the CCH I notes.

The value of the collateral may be insufficient to satisfy the claims of the holders of the CCH I notes, including the New CCH I Notes, and other equally and ratably secured indebtedness. Such value may be materially diminished or impaired by any bankruptcy, reorganization or other proceedings or cases involving CCH I or any of their subsidiaries or by the regulatory consequences thereof or by any of the other matters discussed in these risk factors, as well as factors beyond our control and the control of our creditors.

To the extent that the collateral is insufficient to satisfy the claims of holders of CCH I notes, including the New CCH I Notes, and other equally and ratably secured indebtedness, the holders of the CCH I notes will have unsecured claims against CCH I in respect of their CCH I notes. Given that the collateral constitutes substantially all of the assets of CCH I, it is unlikely that there would be any material value available to satisfy any such deficiency.

### **Although the CCH I notes are secured by a pledge of the collateral, the trustee and the holders of CCH I notes will not have a right to sell the collateral.**

The pledge agreement pursuant to which the collateral will be pledged to the trustee for the benefit of the holders of the CCH I notes, including the New CCH I Notes, will provide that the trustee and the holders will not have the right to sell the collateral to satisfy the obligations under the CCH I notes or the right to vote the collateral, even after an event of default. However, the holders of the CCH I notes should be entitled to priority over unsecured creditors in a bankruptcy case and should be treated as secured creditors for purposes of entitlement to post-petition interest in a bankruptcy case. See “Description of the CCH I Notes — Security — Certain Bankruptcy Limitations”. Nonetheless, the restrictions on the ability of the holders of the CCH I notes to sell the collateral may have a material adverse effect on the security interest and the value of the collateral and the rights of the holders of the CCH I notes with respect thereto.

### **The pledge of the collateral could be wholly or partially voided as a preferential transfer.**

If we become the subject of a bankruptcy proceeding within 90 days after we consummated the Private Exchange (or, with respect to any insiders specified in bankruptcy law who are holders of new notes, within one year after consummation of the Private Exchange), and the court determines that we were insolvent at the time of the Private Exchange, the court could find that the issuance of the Original CCH I Notes involved a preferential transfer by altering the status of participants from unsecured to secured creditors. As secured creditors, holders of the Original CCH I Notes could be entitled to receive a greater recovery in liquidation than the same holders would have been entitled to receive if those holders had not participated in the Private Exchange. If the court determined that the CCH I exchange offer were therefore a preferential transfer which did not qualify for a bankruptcy law defense, and avoided the lien and the amounts owing under the Original CCH I Notes, then the value of any consideration holders received with respect to the Original CCH I Notes or the New CCH I Notes could be recovered from such holders and possibly from subsequent transferees, or holders might be returned to the same position they held prior to their participation in the Private Exchange. If liens were avoided, holders of the Original CCH I Notes or the New CCH I Notes would be unsecured creditors with claims that ranked pari passu with all other unsubordinated creditors of CCH I, including trade creditors.

**If we do not fulfill our obligations to you under the new notes, you will not have any recourse against our parent entities, Mr. Allen or their affiliates.**

Except for the guarantees provided by Charter Holdings, none of our direct or indirect equity holders, directors, officers, employees or affiliates, including, without limitation, Charter, Charter Holdco, CCHC and Mr. Allen, are an obligor or guarantor under the new notes or the original notes. The indentures governing the new notes and original notes expressly provide that these parties will not have any liability for our obligations under the new notes or the original notes or the indentures governing these notes. By accepting the new notes, you waive and release all such liability as consideration for issuance of the new notes. If we do not fulfill our obligations to you under the new notes, you will have no recourse against any of our direct or indirect equity holders, directors, officers, employees or affiliates including, without limitation, Charter, Charter Holdco, CCHC and Mr. Allen.

#### **Risks Related to Substantial Indebtedness of Us, Our Subsidiaries and Charter**

**We may not generate (or, in general, have available to the applicable obligor) sufficient cash flow or access to additional external liquidity sources to fund our capital expenditures, ongoing operations and debt obligations, including our payment obligations under the original notes and the new notes, which could have a material adverse effect on you as holders of the original notes and the new notes.**

Our ability to service our debt (including payments on the original notes and the new notes) and to fund our planned capital expenditures and ongoing operations will depend on both our ability to generate cash flow and our access to additional external liquidity sources, and in general our ability to provide (by dividend or otherwise), such funds to the applicable issuer of the debt obligation. Our ability to generate cash flow is dependent on many factors, including:

- our future operating performance;
- the demand for our products and services;
- general economic conditions and conditions affecting customer and advertiser spending;
- competition and our ability to stabilize customer losses; and
- legal and regulatory factors affecting our business.

Some of these factors are beyond our control. If we are unable to generate sufficient cash flow or access additional external liquidity sources, we may not be able to service and repay our debt, operate our business, respond to competitive challenges or fund our other liquidity and capital needs. Although CCH II sold \$450 million principal amount of outstanding CCH II 2010 notes in January 2006 and our subsidiary, Charter Operating, completed a \$6.85 billion refinancing of its credit facilities in April 2006, we may not be able to access additional sources of external liquidity on similar terms, if at all. We expect that cash on hand, cash flows from operating activities, proceeds from sales of assets and the amounts available under our credit facilities will be adequate to meet our and our parent companies' cash needs through 2007. We believe that cash flows from operating activities and amounts available under our credit facilities may not be sufficient to fund our operations and satisfy our and our parent companies' interest and principal repayment obligations in 2008 and will not be sufficient to fund such needs in 2009 and beyond. See "Management's Discussion and Analysis of Financial Condition and Results of Operations of Charter Communications Holdings, LLC — Liquidity and Capital Resources" in this Prospectus.

**Charter Operating may not be able to access funds under its credit facilities if it fails to satisfy the covenant restrictions in its credit facilities, which could adversely affect our financial condition and our ability to conduct our business.**

Our subsidiaries have historically relied on access to credit facilities in order to fund operations and to service parent company debt, and we expect such reliance to continue in the future. Our total potential

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borrowing availability under the Charter Operating credit facilities was approximately \$900 million as of June 30, 2006, none of which was limited by covenant restrictions.

Pro forma for the closing of the asset sales on July 1, 2006, and the related application of net proceeds to repay amounts outstanding under Charter Operating's revolving credit facility, potential availability under Charter Operating's credit facilities as of June 30, 2006 would have been approximately \$1.7 billion, although actual availability would have been limited to \$1.3 billion because of limits imposed by covenant restrictions. In the past, our actual availability under our credit facilities has been limited by covenant restrictions. There can be no assurance that our actual availability under our credit facilities will not be limited by covenant restrictions in the future.

One of the conditions to the availability of funding under Charter Operating's credit facilities is the absence of a default under the credit facilities, including as a result of any failure to comply with the covenants under the facilities. Among other covenants, the facilities require Charter Operating to maintain specific financial ratios. The facilities also provide that Charter Operating has to obtain an unqualified audit opinion from its independent accountants for each fiscal year. There can be no assurance that Charter Operating will be able to continue to comply with these or any other of the covenants under the credit facilities.

An event of default under the credit facilities or indentures, if not waived, could result in the acceleration of those debt obligations and, consequently, other debt obligations. Such acceleration could result in exercise of remedies by our creditors and could force us to seek the protection of the bankruptcy laws, which could materially adversely impact our ability to operate our business and to make payments under our debt instruments.

**Because of our holding company structure, our original notes, and the new notes will be, structurally subordinated in right of payment to all liabilities of our subsidiaries. Restrictions in our subsidiaries' debt instruments limit their ability to provide funds to us.**

Our sole assets are our equity interests in our subsidiaries. Our operating subsidiaries are separate and distinct legal entities and are not obligated to make funds available to us for payments on the original notes or the new notes or other obligations in the form of loans, distributions or otherwise. Our subsidiaries' ability to make distributions to CCH II, CCH I and us is subject to their compliance with the terms of their credit facilities and indentures. There can be no assurance that our subsidiaries will be permitted to make distributions in the future in compliance with these restrictions in amounts needed to service our and our parent companies' indebtedness.

Our direct or indirect subsidiaries include the borrowers and guarantors under the Charter Operating credit facilities. Several of our subsidiaries are also obligors under other senior high yield notes. See "Management's Discussion and Analysis of Financial Conditions and Results of Operations of Charter Communications Holdings, LLC — Liquidity and Capital Resources — Recent Financing Transactions" in this Prospectus. The original notes and the new notes are structurally subordinated in right of payment to all of the debt and other liabilities of the respective subsidiaries. However, because the CC VIII Interests will be held by CCH I, holders of CCH I notes (including the Original CCH I Notes and the New CCH I Notes), through CCH I, will have a preferred equity claim against the CC VIII assets and holders of the CCH II notes (including the Original CCH II Notes and the New CCH II Notes) will not have any claim to those preferred equity interests. As of June 30, 2006, pro forma for the asset sales, Private Exchange and the CCI Exchange Offer on the basis of the assumptions described in "Unaudited Pro Forma Consolidated Financial Statements", our total debt was approximately \$18.3 billion of which approximately \$10.7 billion was structurally senior to the notes of CCH I and approximately \$8.2 billion was structurally senior to the notes of CCH II.

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In the event of bankruptcy, liquidation or dissolution of one or more of our subsidiaries, that subsidiary's assets would first be applied to satisfy its own obligations, and following such payments, such subsidiary may not have sufficient assets remaining to make payments to us as an equity holder or otherwise. In that event:

- the lenders under Charter Operating's credit facilities and the holders of our subsidiaries' other debt instruments will have the right to be paid in full before us from any of our subsidiaries' assets; and
- the other holders of preferred membership interests in CCH I's subsidiary, CC VIII, would have a claim on a portion of its assets that may reduce the amounts available for repayment to holders of our outstanding notes.

**We, our subsidiaries and Charter have a significant amount of existing debt and may incur significant additional debt, including secured debt, in the future, which could adversely affect our financial health and our ability to react to changes in our business.**

We, our subsidiaries and Charter have a significant amount of debt and may (subject to applicable restrictions in their debt instruments) incur additional debt in the future. As of June 30, 2006, Charter Holdings' total debt was approximately \$19.0 billion, its' members' deficit was approximately \$5.3 billion and the deficiency of earnings to cover fixed charges for the six months ended June 30, 2006 was \$740 million. As of June 30, 2006, CCH I's total debt was approximately \$14.7 billion, its members' deficit was approximately \$1.1 billion and the deficiency of earnings to cover fixed charges for the six months ended June 30, 2006 was \$511 million, respectively. CCH I issued \$462 million of Original CCH I Notes in connection with the Private Exchange. As of June 30, 2006, CCH II's total debt was approximately \$11.1 billion, its member's equity was approximately \$2.6 billion and the deficiency of earnings to cover fixed charges for the six months ended June 30, 2006 was \$321 million. CCH II issued \$146 million of CCH II 2010 notes in connection with the CCI Exchange Offer, and \$250 million of the Original CCH II Notes in connection with the Private Exchange.

As of June 30, 2006, Charter had outstanding approximately \$863 million aggregate principal amount of convertible notes, Charter Holdings had outstanding approximately \$1.8 billion aggregate principal amount of notes, CIH had outstanding approximately \$2.5 billion aggregate principal amount of notes, CCH I had outstanding approximately \$3.5 billion aggregate principal amount of notes and CCH II had outstanding approximately \$2.1 billion aggregate principal amount of notes. We will need to raise additional capital and/or receive distributions or payments from our subsidiaries in order to satisfy Charter's and our debt obligations in 2009. However, because of Charter's and our significant indebtedness, the ability for Charter and us to raise additional capital at reasonable rates or at all is uncertain, and the ability of our subsidiaries to make distributions or payments to their parent companies is subject to availability of funds and restrictions under our and our subsidiaries' applicable debt instruments as more fully described in the section entitled "Description of Other Indebtedness. You should note that the indentures governing the original notes currently permit and the indentures governing the new notes will permit, CCH I and CCH II to provide funds to their respective parents to pay interest on debt or to repay, repurchase, redeem or defease debt, subject to certain conditions.

Charter's and our significant amounts of debt could have other important consequences. For example, the debt will or could:

- require us to dedicate a significant portion of our cash flow from operating activities to make payments on our debt, which will reduce our funds available for working capital, capital expenditures and other general corporate expenses;
- limit our flexibility in planning for, or reacting to, changes in our business, the cable and telecommunications industries and the economy at large;
- place us at a disadvantage as compared to our competitors that have proportionately less debt;
- make us vulnerable to interest rate increases, because a significant portion of our borrowings are, and will continue to be, at variable rates of interest;
- expose us to increased interest expense as we refinance all existing lower interest rate instruments;

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- adversely affect our relationship with customers and suppliers;
- limit our ability to borrow additional funds in the future, if we need them, due to applicable financial and restrictive covenants in our debt; and
- make it more difficult for us to satisfy our obligations to the holders of our notes and for our subsidiaries to satisfy their obligations to their lenders under their credit facilities and to their noteholders.

A default by us or one of our subsidiaries under our or its debt obligations could result in the acceleration of those obligations, the obligations of our other subsidiaries, and our obligations under the original notes and the new notes, as well as Charter's obligations under its notes. We may not have the ability to fund our obligations under the original notes and new notes in the event of such a default. We, Charter and our subsidiaries may incur substantial additional debt in the future. If current debt levels increase, the related risks that we and you now face will intensify.

### **Any failure by CCH II's or CCH I's direct and indirect parent companies to satisfy their substantial debt obligation could have a material adverse effect on the original notes and the new notes.**

Because Charter is our sole manager, and because CCH II and CCH I are directly and indirectly wholly owned by certain parent entities, financial or liquidity problems of Charter and their parent companies could cause serious disruption to CCH II's and CCH I's business and could have a material adverse effect on their operations and results. To the extent these entities rely on receiving distributions from their subsidiaries, they are subject to compliance with the terms of their credit facilities and indentures and restrictions under applicable law. Under the Delaware limited liability company act, these subsidiaries may only pay dividends to their parent if they have "surplus" as defined in the act. Under fraudulent transfer laws, these subsidiaries may not pay dividends to their parent if they are insolvent or are rendered insolvent thereby. While we believe that the relevant Charter subsidiaries currently have surplus and are not insolvent, there can be no assurance that these subsidiaries will be permitted to make distributions in the future in compliance with these restrictions in amounts needed to service parent company indebtedness. A failure by Charter Holdings or any parent of CCO Holdings that is a subsidiary of Charter Holdings to satisfy certain of its respective debt payment obligations or a bankruptcy filing with respect to such parent with respect to indebtedness in an outstanding aggregate principal amount which exceeds \$200 million would give the lenders under the Charter Operating credit facilities the right to accelerate the payment obligations under these facilities. Any such acceleration would be a default under the indentures governing the new notes and the old notes. In addition, if such parent companies were to default under their respective debt obligations and that default were to result in a change of control of any of them (whether through a bankruptcy, receivership or other reorganization, or otherwise), such a change of control could result in an event of default under the Charter Operating credit facilities and require a change of control repurchase offer under the new notes, the old notes and our parent companies' and subsidiaries' other outstanding notes. See "— Risks Related to Substantial Indebtedness of Us, Our Subsidiaries and Charter — All of our and our subsidiaries' outstanding debt is subject to change of control provisions. We may not have the ability to raise the funds necessary to fulfill our obligations under our indebtedness following a change of control, which would place us in default under the applicable debt instruments."

Furthermore, the Charter Operating credit facilities provide that an event of default would occur if certain of Charter Operating' parent companies have indebtedness in excess of \$500 million aggregate principal amount which remains undefeased three months prior to its final maturity. The parent company indebtedness subject to this provision will mature in 2009 and 2010, respectively. The inability of those parent companies to refinance or repay their indebtedness would result in a default under those credit facilities.

**The agreements and instruments governing our debt and the debt of our subsidiaries contain restrictions and limitations that could significantly affect ability to operate our business, as well as significantly affect Charter’s liquidity, and adversely affect the holders of the original notes and the new notes.**

The Charter Operating credit facilities and the indentures governing our and our subsidiaries’ debt (including the original notes and the new notes) contain a number of significant covenants that could adversely affect the holders of the original notes and new notes and our ability to operate our business, as well as significantly affect our and Charter’s liquidity, and therefore could adversely affect our results of operations. These covenants will restrict, among other things, our and our subsidiaries’ ability to:

- incur additional debt;
- repurchase or redeem equity interests and debt;
- issue equity;
- make certain investments or acquisitions;
- pay dividends or make other distributions;
- dispose of assets or merge;
- enter into related party transactions; and
- grant liens and pledge assets.

Furthermore, Charter Operating’s credit facilities require our subsidiaries to, among other things, maintain specified financial ratios, meet specified financial tests and provide annual audited financial statements, with an unqualified opinion from our independent auditors. See “Description of Other Indebtedness” for a summary of our outstanding indebtedness and a description of our credit facilities and other indebtedness and for details on our debt covenants and future liquidity. Charter Operating’s ability to comply with these provisions may be affected by events beyond our control.

The breach of any covenants or obligations in the foregoing indentures or credit facilities, not otherwise waived or amended, could result in a default under the applicable debt agreement or instrument and could trigger acceleration of the related debt, which in turn could trigger defaults under other agreements governing our long-term indebtedness. In addition, the secured lenders under the Charter Operating credit facilities and the holders of the Charter Operating senior second-lien notes could foreclose on their collateral, which includes equity interests in our subsidiaries, and exercise other rights of secured creditors. Any default under those credit facilities, or the indentures governing the original notes and new notes or our subsidiaries’ debt could adversely affect our growth, our financial condition and our results of operations and our ability to make payments on the original notes and new notes and Charter Operating’s credit facilities and other debt of our subsidiaries. See “Description of Other Indebtedness” for a summary of our outstanding indebtedness and a description of our credit facilities and other indebtedness and for details on our debt covenants and future liquidity.

**All of our and our subsidiaries’ outstanding debt is subject to change of control provisions. We may not have the ability to raise the funds necessary to fulfill our obligations under our indebtedness following a change of control, which would place us in default under the applicable debt instruments.**

We may not have the ability to raise the funds necessary to fulfill our obligations under our and our subsidiaries’ notes and credit facilities following a change of control. Under the indentures governing the notes issued by Charter and us including the original notes and the new notes, upon the occurrence of specified change of control events, we and Charter are required to offer to repurchase all of these notes. However, we and Charter may not have sufficient funds at the time of the change of control event to make the required repurchase of all the notes issued by Charter and us, including the original notes and the new notes, and our subsidiaries are limited in their ability to make distributions or other payments to fund any required repurchase. In addition, a change of control under our subsidiaries’ credit facilities would result in a default under those credit facilities. Because such credit facilities and our subsidiaries’ notes are obligations of our



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subsidiaries, the credit facilities and our subsidiaries' notes would have to be repaid by our subsidiaries before their assets could be available to CCH II, CCH I or us to repurchase the original notes and new notes. Our failure to make or complete a change of control offer would place us in default under the original notes and new notes. The failure of our subsidiaries to make a change of control offer or repay the amounts accelerated under their credit facilities would place them in default.

### **Paul G. Allen and his affiliates are not obligated to purchase equity from, contribute to or loan funds to us or any of our subsidiaries.**

Paul G. Allen and his affiliates are not obligated to purchase equity from, contribute to or loan funds to us or any of our subsidiaries.

### **Risks Related to Our Business**

#### **We operate in a very competitive business environment, which affects our ability to attract and retain customers and can adversely affect our business and operations. We have lost a significant number of video customers to direct broadcast satellite competition and further loss of video customers could have a material negative impact on our business.**

The industry in which we operate is highly competitive and has become more so in recent years. In some instances, we compete against companies with fewer regulatory burdens, easier access to financing, greater personnel resources, greater brand name recognition and long-established relationships with regulatory authorities and customers. Increasing consolidation in the cable industry and the repeal of certain ownership rules may provide additional benefits to certain of our competitors, either through access to financing, resources or efficiencies of scale.

Our principal competitor for video services throughout our territory is direct broadcast satellite ("DBS"). Competition from DBS, including intensive marketing efforts and aggressive pricing has had an adverse impact on our ability to retain customers. DBS has grown rapidly over the last several years and continues to do so. The cable industry, including us, has lost a significant number of subscribers to DBS competition, and we face serious challenges in this area in the future. We believe that competition from DBS service providers may present greater challenges in areas of lower population density, and that our systems service a higher concentration of such areas than those of other major cable service providers.

Local telephone companies and electric utilities can offer video and other services in competition with us and they increasingly may do so in the future. Certain telephone companies have begun more extensive deployment of fiber in their networks that enable them to begin providing video services, as well as telephone and high bandwidth Internet access services, to residential and business customers and they are now offering such service in limited areas. Some of these telephone companies have obtained, and are now seeking, franchises or operating authorizations that are less burdensome than existing Charter franchises.

The subscription television industry also faces competition from free broadcast television and from other communications and entertainment media. Further loss of customers to DBS or other alternative video and Internet services could have a material negative impact on the value of our business and its performance.

With respect to our Internet access services, we face competition, including intensive marketing efforts and aggressive pricing, from telephone companies and other providers of DSL and "dial-up". DSL service is competitive with high-speed Internet service over cable systems. In addition, DBS providers have entered into joint marketing arrangements with Internet access providers to offer bundled video and Internet service, which competes with our ability to provide bundled services to our customers. Moreover, as we expand our telephone offerings, we will face considerable competition from established telephone companies and other carriers, including VoIP providers.

In order to attract new customers, from time to time we make promotional offers, including offers of temporarily reduced-price or free service. These promotional programs result in significant advertising, programming and operating expenses, and also require us to make capital expenditures to acquire additional

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digital set-top boxes. Customers who subscribe to our services as a result of these offerings may not remain customers for any significant period of time following the end of the promotional period. A failure to retain existing customers and customers added through promotional offerings or to collect the amounts they owe us could have a material adverse effect on our business and financial results.

Mergers, joint ventures and alliances among franchised, wireless or private cable operators, satellite television providers, local exchange carriers and others, may provide additional benefits to some of our competitors, either through access to financing, resources or efficiencies of scale, or the ability to provide multiple services in direct competition with us.

We cannot assure you that our cable systems will allow us to compete effectively. Additionally, as we expand our offerings to include other telecommunications services, and to introduce new and enhanced services, we will be subject to competition from other providers of the services we offer. We cannot predict the extent to which competition may affect our business and operations in the future.

### **We have a history of net losses and expect to continue to experience net losses. Consequently, we may not have the ability to finance future operations.**

We have had a history of net losses and expect to continue to report net losses for the foreseeable future. Our net losses are principally attributable to insufficient revenue to cover the combination of operating costs and interest costs we incur because of our high level of debt and the depreciation expenses that we incur resulting from the capital investments we have made in our cable properties. We expect that these expenses will remain significant, and we expect to continue to report net losses for the foreseeable future. We reported net losses of \$315 million and \$309 million for the three months ended June 30, 2006 and 2005, respectively, and \$754 million and \$657 million for the six months ended June 30, 2006 and 2005, respectively. Continued losses would reduce our cash available from operations to service our indebtedness, as well as limit our ability to finance our operations.

### **We may not have the ability to pass our increasing programming costs on to our customers, which would adversely affect our cash flow and operating margins.**

Programming has been, and is expected to continue to be, our largest operating expense item. In recent years, the cable industry has experienced a rapid escalation in the cost of programming, particularly sports programming. We expect programming costs to continue to increase because of a variety of factors, including inflationary or negotiated annual increases, additional programming being provided to customers and increased costs to purchase programming. The inability to fully pass these programming cost increases on to our customers has had an adverse impact on our cash flow and operating margins. As measured by programming costs, and excluding premium services (substantially all of which were renegotiated and renewed in 2003), as of July 7, 2006, approximately 11% of our current programming contracts were expired, and approximately another 4% were scheduled to expire at or before the end of 2006. There can be no assurance that these agreements will be renewed on favorable or comparable terms. Our programming costs increased by approximately 13% and 11% in the three and six months ended June 30, 2006 compared to the corresponding periods in 2005, respectively. We expect our programming costs in 2006 to continue to increase at a higher rate than in 2005. To the extent that we are unable to reach agreement with certain programmers on terms that we believe are reasonable we may be forced to remove such programming channels from our line-up, which could result in a further loss of customers.

### **If our required capital expenditures in 2006, 2007 and beyond exceed our projections, we may not have sufficient funding, which could adversely affect our growth, financial condition and results of operations.**

During the three and six months ended June 30, 2006, we spent approximately \$298 million and \$539 million, respectively, on capital expenditures. During 2006, we expect capital expenditures to be approximately \$1.0 billion to \$1.1 billion. The actual amount of our capital expenditures depends on the level of growth in high-speed Internet and telephone customers and in the delivery of other advanced services, as well as the cost of introducing any new services. We may need additional capital in 2006, 2007 and beyond if

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there is accelerated growth in high-speed Internet customers, telephone customers or in the delivery of other advanced services. If we cannot obtain such capital from increases in our cash flow from operating activities, additional borrowings, proceeds from asset sales or other sources, our growth, financial condition and results of operations could suffer materially.

### **Our inability to respond to technological developments and meet customer demand for new products and services could limit our ability to compete effectively.**

Our business is characterized by rapid technological change and the introduction of new products and services. We cannot assure you that we will be able to fund the capital expenditures necessary to keep pace with unanticipated technological developments, or that we will successfully anticipate the demand of our customers for products and services requiring new technology. Our inability to maintain and expand our upgraded systems and provide advanced services in a timely manner, or to anticipate the demands of the marketplace, could materially adversely affect our ability to attract and retain customers. Consequently, our growth, financial condition and results of operations could suffer materially.

### **Malicious and abusive Internet practices could impair our high-speed Internet services**

Our high-speed Internet customers utilize our network to access the Internet and, as a consequence, we or they may become victim to common malicious and abusive Internet activities, such as unsolicited mass advertising (i.e., "spam") and dissemination of viruses, worms and other destructive or disruptive software. These activities could have adverse consequences on our network and our customers, including degradation of service, excessive call volume to call centers and damage to our or our customers' equipment and data. Significant incidents could lead to customer dissatisfaction and, ultimately, loss of customers or revenue, in addition to increased costs to us to service our customers and protect our network. Any significant loss of high-speed Internet customers or revenue or significant increase in costs of serving those customers could adversely affect our growth, financial condition and results of operations.

## **Risks Related to Mr. Allen's Controlling Position**

### **The failure by Mr. Allen to maintain a minimum voting and economic interest in us could trigger a change of control default under our subsidiary's credit facilities.**

The Charter Operating credit facilities provide that the failure by (a) Mr. Allen, (b) his estate, spouse, immediate family members and heirs and (c) any trust, corporation, partnership or other entity, the beneficiaries, stockholders, partners or other owners of which consist exclusively of Mr. Allen or such other persons referred to in (b) above or a combination thereof, to maintain a 35% direct or indirect voting interest in the applicable borrower would result in a change of control default. Such a default could result in the acceleration of repayment of the original notes and the new notes and our subsidiaries' and our parent companies' other indebtedness, including borrowings under the Charter Operating credit facilities.

### **Mr. Allen controls our stockholder voting and may have interests that conflict with your interests.**

Mr. Allen has the ability to control us. Through his control as of June 30, 2006 of approximately 90% of the voting power of our capital stock of our manager, Charter, Mr. Allen is entitled to elect all but one of our board members and effectively has the voting power to elect the remaining board member as well. Mr. Allen thus has the ability to control fundamental corporate transactions requiring equity holder approval, including, but not limited to, the election of all of our directors, approval of merger transactions involving us and the sale of all or substantially all of our assets.

Mr. Allen is not restricted from investing in, and has invested in, and engaged in, other businesses involving or related to the operation of cable television systems, video programming, high-speed Internet service, telephone or business and financial transactions conducted through broadband interactivity and Internet services. Mr. Allen may also engage in other businesses that compete or may in the future compete with us.

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Mr. Allen's control over our management and affairs could create conflicts of interest if he is faced with decisions that could have different implications for him, us and the holders of the original notes and new notes. Further, Mr. Allen could effectively cause us to enter into contracts with another entity in which he owns an interest or to decline a transaction into which he (or another entity in which he owns an interest) ultimately enters.

Current and future agreements between us and either Mr. Allen or his affiliates may not be the result of arm's-length negotiations. Consequently, such agreements may be less favorable to us than agreements that we could otherwise have entered into with unaffiliated third parties.

**We are not permitted to engage in any business activity other than the cable transmission of video, audio and data unless Mr. Allen authorizes us to pursue that particular business activity, which could adversely affect our ability to offer new products and services outside of the cable transmission business and to enter into new businesses, and could adversely affect our growth, financial condition and results of operations.**

Charter's certificate of incorporation and Charter Holdco's limited liability company agreement provide that Charter and Charter Holdco and their subsidiaries, including us and our subsidiaries, cannot engage in any business activity outside the cable transmission business except for specified businesses. This will be the case unless Mr. Allen consents to our engaging in the business activity. The cable transmission business means the business of transmitting video, audio (including telephone services), and data over cable television systems owned, operated or managed by us from time to time. These provisions may limit our ability to take advantage of attractive business opportunities.

**The loss of Mr. Allen's services could adversely affect our ability to manage our business.**

Mr. Allen is Chairman of Charter's board of directors and provides strategic guidance and other services to Charter. If Charter were to lose his services, our growth, financial condition and results of operations could be adversely impacted.

**The issuance of the Class A common stock offered in the CCI Exchange Offer and the possible return of shares of such stock in connection with the unwinding of hedge positions as well as the recent issuance of Class A common stock pursuant to a share lending agreement and possible future conversions of Charter's convertible notes significantly increase the risk that Charter will experience an ownership change in the future for tax purposes, resulting in a material limitation of the use of a substantial amount of its existing net operating loss carryforwards.**

As of June 30, 2006, Charter had approximately \$6.4 billion of tax net operating losses (resulting in a gross deferred tax asset of approximately \$2.6 billion) expiring in the years 2007 through 2026. Due to uncertainties in projected future taxable income, valuation allowances have been established against the gross deferred tax assets for book accounting purposes except for deferred benefits available to offset certain deferred tax liabilities. Currently such tax net operating losses can accumulate and be used to offset any of Charter future taxable income. An "ownership change" as defined in Section 382 of the Internal Revenue Code of 1986, as amended, would place significant limitations, on an annual basis, on the use of such net operating losses to offset any future taxable income Charter may generate. Such limitations, in conjunction with the net operating loss expiration provisions, could effectively eliminate Charter's ability to use a substantial portion of its net operating losses to offset future taxable income.

The issuance of the Class A common stock in the CCI Exchange Offer and the possible return of shares of Class A common stock in connection with the unwinding of hedge positions undertaken by holders of Charter's convertible notes who participated in the CCI Exchange Offer as well as the issuance of up to a total of 150 million shares of Class A common stock (of which a total of 116.9 million have been issued through June 2006) offered pursuant to a share lending agreement executed by Charter in connection with the issuance of Charter's convertible notes in November 2004 and possible future conversions of Charter's convertible notes significantly increase the risk that we will experience an ownership change in the future for

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tax purpose, resulting in a material limitation on the use of a substantial amount of Charter's existing net operating loss carryforwards. Such future transactions include additional issuances of Class A common stock by Charter (including but not limited to issuances upon future conversion of Charter's convertible notes), reacquisition's, by Charter of shares borrowed pursuant to the share lending agreement, or acquisitions or sales of shares by certain holders of Charter's shares, including persons who have held, currently hold, or accumulate in the future five percent or more of Charter's outstanding stock (including upon an exchange by Mr. Allen or his affiliates, directly or indirectly, of membership units of Charter Holdco into Class A common stock). Many of the foregoing transactions are beyond our control.

### **Risks Related to Regulatory and Legislative Matters**

#### **Our business is subject to extensive governmental legislation and regulation, which could adversely affect our business.**

Regulation of the cable industry has increased cable operators' administrative and operational expenses and limited their revenues. Cable operators are subject to, among other things:

- rules governing the provision of cable equipment and compatibility with new digital technologies;
- rules and regulations relating to subscriber privacy;
- limited rate regulation;
- requirements governing when a cable system must carry a particular broadcast station and when it must first obtain consent to carry a broadcast station;
- rules and regulations relating to provision of voice communications;
- rules for franchise renewals and transfers; and
- other requirements covering a variety of operational areas such as equal employment opportunity, technical standards and customer service requirements.

Additionally, many aspects of these regulations are currently the subject of judicial proceedings and administrative or legislative proposals. There are also ongoing efforts to amend or expand the federal, state and local regulation of some of our cable systems, which may compound the regulatory risks we already face. Certain states and localities are considering new telecommunications taxes that could increase operating expenses.

#### **Our cable systems are operated under franchises that are subject to non-renewal or termination. The failure to renew a franchise in one or more key markets could adversely affect our business.**

Our cable systems generally operate pursuant to franchises, permits and similar authorizations issued by a state or local governmental authority controlling the public rights-of-way. Many franchises establish comprehensive facilities and service requirements, as well as specific customer service standards and monetary penalties for non-compliance. In many cases, franchises are terminable if the franchisee fails to comply with significant provisions set forth in the franchise agreement governing system operations. Franchises are generally granted for fixed terms and must be periodically renewed. Local franchising authorities may resist granting a renewal if either past performance or the prospective operating proposal is considered inadequate. Franchise authorities often demand concessions or other commitments as a condition to renewal. In some instances, franchises have not been renewed at expiration, and we have operated and are operating under either temporary operating agreements or without a license while negotiating renewal terms with the local franchising authorities. Approximately 12% of our franchises, covering approximately 13% of our analog video customers, were expired as of June 30, 2006. Approximately 4% of additional franchises, covering approximately an additional 6% of our analog video customers, will expire on or before December 31, 2006, if not renewed prior to expiration.

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We cannot assure you that we will be able to comply with all significant provisions of our franchise agreements and certain of our franchisors have from time to time alleged that we have not complied with these agreements. Additionally, although historically we have renewed our franchises without incurring significant costs, we cannot assure you that we will be able to renew, or to renew as favorably, our franchises in the future. A termination of or a sustained failure to renew a franchise in one or more key markets could adversely affect our business in the affected geographic area.

**Our cable systems are operated under franchises that are non-exclusive. Accordingly, local franchising authorities can grant additional franchises and create competition in market areas where none existed previously, resulting in overbuilds, which could adversely affect results of operations.**

Our cable systems are operated under non-exclusive franchises granted by local franchising authorities. Consequently, local franchising authorities can grant additional franchises to competitors in the same geographic area or operate their own cable systems. In addition, certain telephone companies are seeking authority to operate in local communities without first obtaining a local franchise. As a result, competing operators may build systems in areas in which we hold franchises. In some cases municipal utilities may legally compete with us without obtaining a franchise from the local franchising authority.

Different legislative proposals have been introduced in the United States Congress and in some state legislatures that would greatly streamline cable franchising. This legislation is intended to facilitate entry by new competitors, particularly local telephone companies. Such legislation has passed in at least six states in which we have operations and one of these newly enacted statutes is subject to court challenge. Although various legislative proposals provide some regulatory relief for incumbent cable operators, these proposals are generally viewed as being more favorable to new entrants due to a number of factors, including provisions withholding streamlined cable franchising from incumbents until after the expiration of their existing franchises. To the extent incumbent cable operators are not able to avail themselves of this streamlined franchising process, such operators may continue to be subject to more onerous franchise requirements at the local level than new entrants. A proceeding is pending at the Federal Communications Commission ("FCC") to determine whether local franchising authorities are impeding the deployment of competitive cable services through unreasonable franchising requirements and whether such impediments should be preempted. We are not yet able to determine what impact such proceeding may have on us.

The existence of more than one cable system operating in the same territory is referred to as an overbuild. These overbuilds could adversely affect our growth, financial condition and results of operations by creating or increasing competition. As of June 30, 2006, we are aware of overbuild situations impacting approximately 8% of our estimated homes passed, and potential overbuild situations in areas servicing approximately an additional 5% of our estimated homes passed. Additional overbuild situations may occur in other systems.

**Local franchise authorities have the ability to impose additional regulatory constraints on our business, which could further increase our expenses.**

In addition to the franchise agreement, cable authorities in some jurisdictions have adopted cable regulatory ordinances that further regulate the operation of cable systems. This additional regulation increases the cost of operating our business. We cannot assure you that the local franchising authorities will not impose new and more restrictive requirements. Local franchising authorities also generally have the power to reduce rates and order refunds on the rates charged for basic services.

**Further regulation of the cable industry could cause us to delay or cancel service or programming enhancements or impair our ability to raise rates to cover our increasing costs, resulting in increased losses.**

Currently, rate regulation is strictly limited to the basic service tier and associated equipment and installation activities. However, the FCC and the U.S. Congress continue to be concerned that cable rate increases are exceeding inflation. It is possible that either the FCC or the U.S. Congress will again restrict the

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ability of cable system operators to implement rate increases. Should this occur, it would impede our ability to raise our rates. If we are unable to raise our rates in response to increasing costs, our losses would increase.

There has been considerable legislative and regulatory interest in requiring cable operators to offer historically bundled programming services on an á la carte basis or to at least offer a separately available child-friendly “Family Tier.” It is possible that new marketing restrictions could be adopted in the future. Such restrictions could adversely affect our operations.

### **Actions by pole owners might subject us to significantly increased pole attachment costs.**

Pole attachments are cable wires that are attached to poles. Cable system attachments to public utility poles historically have been regulated at the federal or state level, generally resulting in favorable pole attachment rates for attachments used to provide cable service. The FCC clarified that a cable operator’s favorable pole rates are not endangered by the provision of Internet access, and that approach ultimately was upheld by the Supreme Court of the United States. Despite the existing regulatory regime, utility pole owners in many areas are attempting to raise pole attachment fees and impose additional costs on cable operators and others. The favorable pole attachment rates afforded cable operators under federal law can be increased by utility companies if the operator provides telecommunications services, in addition to cable service, over cable wires attached to utility poles. To date, Voice over Internet Protocol, or VoIP, service has not been classified as either a telecommunications service or cable service under the Communications Act. If VoIP were classified as a telecommunications service under the Communications Act by the FCC, a state Public Utility Commission, or an appropriate court, it might result in significantly increased pole attachment costs for us, which could adversely affect our financial condition and results of operations. Any significant increased costs could have a material adverse impact on our profitability and discourage system upgrades and the introduction of new products and services.

### **We may be required to provide access to our networks to other Internet service providers which could significantly increase our competition and adversely affect our ability to provide new products and services.**

A number of companies, including independent Internet service providers, or ISPs, have requested local authorities and the FCC to require cable operators to provide non-discriminatory access to cable’s broadband infrastructure, so that these companies may deliver Internet services directly to customers over cable facilities. In a June 2005 ruling, commonly referred to as *Brand X*, the Supreme Court upheld an FCC decision (and overruled a conflicting Ninth Circuit opinion) making it less likely that any nondiscriminatory “open access” requirements (which are generally associated with common carrier regulation of “telecommunications services”) will be imposed on the cable industry by local, state or federal authorities. The Supreme Court held that the FCC was correct in classifying cable provided Internet service as an “information service,” rather than a “telecommunications service.” Notwithstanding *Brand X*, there has been increasing advocacy by certain internet content providers and consumer groups for new federal laws or regulations to limiting the ability of broadband network owners (like Charter) to manage and control their own networks. The proposals might prevent network owners, for example, from charging bandwidth intensive content providers, such as certain online gaming, music, and video service providers, an additional fee to ensure quality delivery of the services to consumers. If we were required to allocate a portion of our bandwidth capacity to other Internet service providers, or were prohibited from charging heavy bandwidth intensive services a fee for use of our networks, we believe that it could impair our ability to use our bandwidth in ways that would generate maximum revenues.

### **Changes in channel carriage regulations could impose significant additional costs on us.**

Cable operators also face significant regulation of their channel carriage. They currently can be required to devote substantial capacity to the carriage of programming that they would not carry voluntarily, including certain local broadcast signals, local public, educational and government access programming, and unaffiliated commercial leased access programming. This carriage burden could increase in the future, particularly if cable systems were required to carry both the analog and digital versions of local broadcast signals (dual

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carriage) or to carry multiple program streams included with a single digital broadcast transmission (multicast carriage). Additional government-mandated broadcast carriage obligations could disrupt existing programming commitments, interfere with our preferred use of limited channel capacity and limit our ability to offer services that would maximize customer appeal and revenue potential. Although the FCC issued a decision in February 2005, confirming an earlier ruling against mandating either dual carriage or multicast carriage, that decision has been appealed. In addition, the FCC could reverse its own ruling or Congress could legislate additional carriage obligations.

### **Offering voice communications service may subject us to additional regulatory burdens, causing us to incur additional costs.**

In 2002, we began to offer voice communications services on a limited basis over our broadband network. We continue to develop and deploy Voice over Internet Protocol or VoIP services. The FCC has declared that certain VoIP services are not subject to traditional state public utility regulation. The full extent of the FCC preemption of state and local regulation of VoIP services is not yet clear. Expanding our offering of these services may require us to obtain certain authorizations, including federal and state licenses. We may not be able to obtain such authorizations in a timely manner, or conditions could be imposed upon such licenses or authorizations that may not be favorable to us. The FCC has extended certain traditional telecommunications requirements, such as E911 and Universal Service requirements, to many VoIP providers, such as Charter. The FCC has also required that these VoIP providers comply with obligations applied to traditional telecommunications carriers to ensure their networks can accommodate law enforcement wiretaps by May 2007. Telecommunications companies generally are subject to other significant regulation which could also be extended to VoIP providers. If additional telecommunications regulations are applied to our VoIP service, it could cause us to incur additional costs.

### **USE OF PROCEEDS**

These exchange offers are intended to satisfy our obligations under the exchange and registration rights agreement that was executed in connection with the issuance of the original notes. We will not receive any proceeds from the exchange offers. You will receive, in exchange for the original notes tendered by you and accepted by the Offerors in the exchange offers, new notes in the same principal amount. The original notes surrendered in exchange for the new notes will be retired and will not result in any increase in our outstanding debt. Any tendered-but-unaccepted original notes will be returned to you and will remain outstanding.



**CAPITALIZATION**

The following table sets forth, as of June 30, 2006, on a consolidated basis:

- cash and cash equivalents;
- the actual as adjusted capitalization after giving effect to: (1) the disposition of certain assets to Cebridge, New Wave and Orange for total proceeds of \$971 million and the use of such proceeds to reduce amounts outstanding under our revolving credit facility to zero; and (2) the CCI Exchange Offer;
- the capitalization on a pro forma basis to reflect the transactions above and the consummation of the CCI Exchange Offer and the Private Exchange on the basis of the assumptions described in “Unaudited Pro Forma Consolidated Financial Statements”.

The following information should be read in conjunction with “Selected Historical Consolidated Financial Data,” “Unaudited Pro Forma Consolidated Financial Statements,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations of Charter Communications Holdings, LLC” and the historical consolidated financial statements and related notes of Charter Holdings included elsewhere in this Prospectus.

This table should be read in conjunction with the “Summary — Summary Consolidated Financial Data” and the historical consolidated financial statements and related notes that are included elsewhere in this Prospectus. The financial data is not intended to provide any indication of what our actual financial position, including actual cash balances and revolver borrowings, or results of operations would have been had the transactions described above been completed on the dates indicated or to project our results of operations for any future date.

	As of June 30, 2006		
	Actual	As Adjusted (Dollars in millions, unaudited)	Pro Forma
Cash and cash equivalents	\$ 48	\$ 1	\$ —
Long-Term Debt:			
Charter Communications Holdings, LLC:			
Senior and senior discount notes(a)	1,757	1,757	960
CCH I Holdings, LLC:			
Senior and senior discount notes(b)(c)	2,520	2,520	2,520
CCH I, LLC:			
11.000% senior notes due 2015	3,678	3,678	4,097
CCH II, LLC:			
10.250% senior notes due 2010	2,042	2,190	2,452
CCO Holdings:			
8¾% senior notes due 2013	795	795	795
Senior floating rate notes due 2010	550	550	550

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	As of June 30, 2006		
	Actual	As Adjusted	Pro Forma
(Dollars in millions, unaudited)			
<b>Charter Operating:</b>			
8.000% senior second lien notes due 2012	1,100	1,100	1,100
8 <sup>3</sup> / <sub>8</sub> % senior second lien notes due 2014	770	770	770
<b>Credit Facilities:</b>			
Charter Operating(d)	5,800	5,000	5,030
Total long-term debt	19,012	18,360	18,274
Loan Payable — Related Party	3	3	3
Minority Interest(e)	631	631	189
Member's Deficit	(5,316)	(5,452)	(4,902)
Total Capitalization	<u>\$ 14,330</u>	<u>\$ 13,542</u>	<u>\$ 13,564</u>

(a) Represents the following Charter Holdings notes:

	As of June 30, 2006	
	(Dollars in millions)	
8.250% senior notes due 2007	\$	105
8.625% senior notes due 2009		292
9.920% senior discount notes due 2011		198
10.000% senior notes due 2009		154
10.250% senior notes due 2010		49
11.750% senior discount notes due 2010		43
10.750% senior notes due 2009		131
11.125% senior notes due 2011		217
13.500% senior discount notes due 2011		94
9.625% senior notes due 2009		107
10.000% senior notes due 2011		136
11.750% senior discount notes due 2011		125
12.125% senior discount notes due 2012		106
Total	<u>\$</u>	<u>1,757</u>

(b) Represents the following CIH notes:

	As of June 30, 2006	
	(Dollars in millions)	
11.125% senior notes due 2014	\$	151
9.920% senior discount notes due 2014		471
10.000% senior notes due 2014		299
11.750% senior discount notes due 2014		815
13.500% senior discount notes due 2014		581
12.125% senior discount notes due 2015		203
Total	<u>\$</u>	<u>2,520</u>

(c) Certain of the CIH notes and CCH I notes issued in exchange for Charter Holdings notes in 2005 and certain of the Original CCH I Notes and Original CCH II Notes issued in the Private Exchange are recorded at the historical book values of the Charter Holdings notes for financial reporting purposes as

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opposed to the current accreted value for legal purposes and notes indenture purposes (which, for both purposes, is the amount that would become payable if the debt becomes immediately due). As of June 30, 2006, the accreted value of Charter Holdings' debt for legal purposes and notes indenture purposes is approximately \$18.6 billion.

- (d) As of June 30, 2006, our potential availability under our credit facilities totaled approximately \$900 million, none of which was limited by covenant restrictions. However, pro forma for the closing of the asset sales on July 1, 2006, and the related application of net proceeds to repay amounts outstanding under our revolving credit facility, potential availability under our credit facilities as of June 30, 2006 would have been approximately \$1.7 billion, although actual availability would have been limited to \$1.3 billion because of limits imposed by covenant restrictions.
- (e) Minority interest represents preferred membership interests in CC VIII. As part of the Private Exchange, CCHC contributed the CC VIII Interest to CCH I.

## UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS

The following unaudited pro forma consolidated financial statements are based on the historical consolidated financial statements of Charter Holdings, adjusted to reflect the following transactions as if they occurred on January 1, 2005 for the statement of operations data and other financial data and as of June 30, 2006 for the balance sheet data:

(1) the redemption in March, 2005 of all (approximately \$113 million principal amount) of CC V Holdings, LLC's outstanding 11.875% senior discount notes due 2008 with cash on hand;

(2) the issuance and sale of \$300 million of 8<sup>3</sup>/<sub>4</sub>% CCO Holdings senior notes in August, 2005 and the use of a portion of such proceeds to pay financing costs and accrued interest in the September, 2005 exchange transaction referenced below;

(3) the exchange in September, 2005 of approximately \$3.4 billion principal amount of Charter Holdings' notes scheduled to mature in 2009 and 2010 for outstanding CCH I notes and the exchange of approximately \$3.4 billion principal amount of Charter Holdings' notes scheduled to mature in 2011 and 2012 for CIH notes and outstanding CCH I notes;

(4) the issuance and sale of \$450 million principal amount of outstanding CCH II 2010 notes in January, 2006 and the use of such proceeds to pay down credit facilities;

(5) the refinancing of the Charter Operating credit facilities in April, 2006 and the related reductions in interest rate margins on the term loan;

(6) the acquisition of certain assets in January, 2006 for approximately \$42 million;

(7) the dispositions of certain assets to Cebridge, New Wave and Orange for net proceeds of \$948 million and the use of such proceeds to reduce amounts outstanding under our revolving credit facility to zero;

(8) the issuance of \$146 million principal amount of additional CCH II 2010 Notes, 45 million shares of Charter's Class A common stock and \$188 million in cash in exchange for \$450 million principal amount of outstanding Charter convertible notes pursuant to the CCI Exchange Offer; and

(9) the issuance of \$250 million principal amount of Original CCH II Notes and \$462 million principal amount of Original CCH I Notes in exchange for \$797 million principal amount of Charter Holdings notes and the contribution of the CC VIII interests to CCH I pursuant to the Private Exchange.

The unaudited pro forma adjustments are based on information available to us as of the date of this Prospectus and certain assumptions that we believe are reasonable under the circumstances. The unaudited pro forma consolidated financial statements required allocation of certain revenues and expenses and such information has been presented for comparative purposes and is not intended to provide any indication of what our actual financial position, including actual cash balances and revolver borrowings, or results of operations would have been had the transactions described above been completed on the dates indicated or to project our results of operations for any future date.

**CHARTER COMMUNICATIONS HOLDINGS, LLC**  
**Unaudited Pro Forma Condensed Consolidated Statement of Operations**  
**For the Six Months Ended June 30, 2006**

	<u>Historical</u>	<u>Acquisition/ Dispositions(a)</u>	<u>Prior Financing Transactions(b)</u>	<u>Convert Transaction(c)</u> (Dollars in millions)	<u>Sub Total</u>	<u>CCH Exchange(d)</u>	<u>Pro Forma</u>
<b>REVENUES</b>							
Video	\$ 1,684	\$ (29)	\$ —	\$ —	\$ 1,655	\$ —	\$ 1,655
High-speed Internet	506	(7)	—	—	499	—	499
Telephone	49	—	—	—	49	—	49
Advertising sales	147	(2)	—	—	145	—	145
Commercial	149	(4)	—	—	145	—	145
Other	168	(3)	—	—	165	—	165
	<u>2,703</u>	<u>(45)</u>	<u>—</u>	<u>—</u>	<u>2,658</u>	<u>—</u>	<u>2,658</u>
<b>COSTS AND EXPENSES:</b>							
Operating (excluding depreciation and amortization)	1,215	(24)	—	—	1,191	—	1,191
Selling, general and administrative	551	(7)	—	—	544	—	544
Depreciation and amortization	690	(5)	—	—	685	—	685
Asset impairment charges	99	(99)	—	—	—	—	—
Other operating expenses, net	10	—	—	—	10	—	10
	<u>2,565</u>	<u>(135)</u>	<u>—</u>	<u>—</u>	<u>2,430</u>	<u>—</u>	<u>2,430</u>
Operating income from continuing operations	138	90	—	—	228	—	228
Interest expense, net	(907)	26	7	(8)	(882)	2	(880)
Other income (expense), net	(19)	—	27	—	8	9	17
	<u>(926)</u>	<u>26</u>	<u>34</u>	<u>(8)</u>	<u>(874)</u>	<u>11</u>	<u>(863)</u>
Loss from continuing operations before income taxes	(788)	116	34	(8)	(646)	11	(635)
Income tax expense	(4)	—	—	—	(4)	—	(4)
Loss from continuing operations	<u>\$ (792)</u>	<u>\$ 116</u>	<u>\$ 34</u>	<u>\$ (8)</u>	<u>\$ (650)</u>	<u>\$ 11</u>	<u>\$ (639)</u>

(a) Represents the elimination of operating results related to the disposition of certain cable systems in July and September 2006 and the inclusion of operating results related to the acquisition of certain cable systems in January 2006.

(b) Represents the adjustment to interest expense associated with the completion of the financing transactions discussed in pro forma assumptions four and five (in millions):

Reduction in interest expense on the April 2006 refinancing of Charter Operating credit facilities	\$ (9)
Interest on \$450 million principal amount of CCH II 2010 notes issued in January 2006	<u>2</u>
Net decrease in interest expense	<u>\$ (7)</u>

Adjustment to other income (expense), net represents the elimination of the write-off of deferred financing fees and third party costs related to the Charter Operating refinancing in April 2006.

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(c) Represents the adjustment to interest expense to reflect interest on the CCH II 2010 notes associated with the CCI Exchange Offer discussed in pro forma assumption eight.

(d) Represents the adjustment to interest expense associated with the Private Exchange discussed in pro forma assumption nine (in millions):

Interest on Original CCH I Notes and Original CCH II Notes issued in September 2006	\$ 40	
Historical interest expense on Charter Holdings notes exchanged for Original CCH I Notes and Original CCH II Notes	<u>(42)</u>	
Net decrease in interest expense		<u>\$ (2)</u>

Adjustment to other income (expense), net represents the elimination of minority interest as a result of transferring the CC VIII Interest to CCH I.

**CHARTER COMMUNICATIONS HOLDINGS, LLC**  
**Unaudited Pro Forma Condensed Consolidated Statement of Operations**  
**For the Year Ended December 31, 2005**

	<u>Historical</u>	<u>Acquisition/ Dispositions(a)</u>	<u>Prior Financing Transactions(b)</u>	<u>Convert Transaction(c)</u>	<u>Sub Total</u>	<u>CCH Exchange(d)</u>	<u>Pro Forma</u>
(Dollars in millions)							
<b>REVENUES</b>							
Video	\$ 3,248	\$ (53)	\$ —	\$ —	\$ 3,195	\$ —	\$ 3,195
High-speed Internet	875	(7)	—	—	868	—	868
Telephone	36	5	—	—	41	—	41
Advertising sales	284	(4)	—	—	280	—	280
Commercial	266	(6)	—	—	260	—	260
Other	324	(5)	—	—	319	—	319
	<u>5,033</u>	<u>(70)</u>	<u>—</u>	<u>—</u>	<u>4,963</u>	<u>—</u>	<u>4,963</u>
<b>COSTS AND EXPENSES:</b>							
Operating (excluding depreciation and amortization)	2,203	(31)	—	—	2,172	—	2,172
Selling, general and administrative	1,012	(9)	—	—	1,003	—	1,003
Depreciation and amortization	1,443	(11)	—	—	1,432	—	1,432
Asset impairment charges	39	(39)	—	—	—	—	—
Other operating expenses, net	32	—	—	—	32	—	32
	<u>4,729</u>	<u>(90)</u>	<u>—</u>	<u>—</u>	<u>4,639</u>	<u>—</u>	<u>4,639</u>
Operating income from continuing operations	304	20	—	—	324	—	324
Interest expense, net	(1,739)	34	40	(16)	(1,681)	5	(1,676)
Other income (expense), net	599	—	(485)	—	114	(32)	82
	<u>(1,140)</u>	<u>34</u>	<u>(445)</u>	<u>(16)</u>	<u>(1,567)</u>	<u>(27)</u>	<u>(1,594)</u>
Loss from continuing operations before income taxes	(836)	54	(445)	(16)	(1,243)	(27)	(1,270)
Income tax expense	(9)	—	—	—	(9)	—	(9)
Loss from continuing operations	<u>\$ (845)</u>	<u>\$ 54</u>	<u>\$ (445)</u>	<u>\$ (16)</u>	<u>\$ (1,252)</u>	<u>\$ (27)</u>	<u>\$ (1,279)</u>

(a) Represents the elimination of operating results related to the disposition of certain cable systems in July 2005, July 2006 and September 2006 and the inclusion of operating results related to the acquisition of certain cable systems in January 2006.

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(b) Represents the adjustment to interest expense associated with the completion of the financing transactions discussed in pro forma assumptions (1) through (5) (in millions):

Reduction in interest expense on the Charter Operating refinancing in April 2006		\$ (26)
Interest on \$450 million principal amount of CCH II 2010 notes issued in January 2006	48	
Amortization of deferred financing costs	2	
Historical interest expense for Charter Operating's revolving credit facility	<u>(32)</u>	
Interest on CCH I notes issued in September 2005 in exchange for Charter Holdings notes		18
	279	
Amortization of deferred financing costs	5	
Historical interest expense on Charter Holdings notes exchanged for CCH I notes	<u>(327)</u>	
Interest on \$300 million of CCO Holdings 8 <sup>3</sup> / <sub>4</sub> % senior notes issued in August 2005		(43)
	16	
Amortization of deferred financing costs	<u>1</u>	
		17
Historical interest expense on Charter Operating's revolving credit facility repaid with cash on hand in February 2005		(3)
Historical interest expense on CC V Holdings, LLC 8.75% senior discount notes repaid with cash on hand in March 2005		<u>(3)</u>
Net decrease in interest expense		<u>\$ (40)</u>

Adjustment to other income (expense), net represents the elimination of gains related to the exchange of Charter Holdings notes for CCH I and CIH notes issued in September 2005 and the elimination of losses related to the redemption of CC V Holdings, LLC 11.875% notes due 2008.

(c) Represents the adjustment to interest expense associated with the CCI Exchange Offer discussed in pro forma assumption eight (in millions):

Interest on CCH II 2010 notes issued September 2006	\$ 14	
Amortization of deferred financing costs	<u>2</u>	
Net increase in interest expense		<u>\$ 16</u>

(d) Represents the adjustment to interest expense associated with the Private Exchange discussed in pro forma assumption nine (in millions):

Interest on Original CCH I Notes and Original CCH II Notes issued in September 2006	\$ 79	
Amortization of deferred financing costs	1	
Historical interest expense on Charter Holdings notes exchanged for Original CCH I Notes and Original CCH II Notes	<u>(85)</u>	
Net decrease in interest expense		<u>\$ (5)</u>

Adjustment to other income (expense), net represents the elimination of minority interest as a result of transferring the CC VIII Interest to CCH I.



**CHARTER COMMUNICATIONS HOLDINGS, LLC**  
**Unaudited Pro Forma Condensed Consolidated Statement of Operations**  
**For the Six Months Ended June 30, 2005**

	<u>Historical</u>	<u>Acquisition/ Dispositions(a)</u>	<u>Prior Financing Transactions(b)</u>	<u>Convert Transaction(c)</u>	<u>Sub Total</u>	<u>CCH Exchange(d)</u>	<u>Pro Forma</u>
	(Dollars in millions)						
<b>REVENUES</b>							
Video	\$ 1,623	\$ (27)	\$ —	\$ —	\$ 1,596	\$ —	\$ 1,596
High-speed Internet	425	(3)	—	—	422	—	422
Telephone	14	3	—	—	17	—	17
Advertising sales	135	(2)	—	—	133	—	133
Commercial	128	(3)	—	—	125	—	125
Other	156	(3)	—	—	153	—	153
	<u>2,481</u>	<u>(35)</u>	<u>—</u>	<u>—</u>	<u>2,446</u>	<u>—</u>	<u>2,446</u>
<b>COSTS AND EXPENSES:</b>							
Operating (excluding depreciation and amortization)	1,081	(15)	—	—	1,066	—	1,066
Selling, general and administrative	483	(7)	—	—	476	—	476
Depreciation and amortization	730	—	—	—	730	—	730
Asset impairment charges	39	(39)	—	—	—	—	—
Other operating expenses, net	6	—	—	—	6	—	6
	<u>2,339</u>	<u>(61)</u>	<u>—</u>	<u>—</u>	<u>2,278</u>	<u>—</u>	<u>2,278</u>
Operating income from continuing operations	142	26	—	—	168	—	168
Interest expense, net	(855)	11	23	(8)	(829)	2	(827)
Other income (expense), net	45	—	5	—	50	—	50
	<u>(810)</u>	<u>11</u>	<u>28</u>	<u>(8)</u>	<u>(779)</u>	<u>2</u>	<u>(777)</u>
Loss from continuing operations before income taxes	(668)	37	28	(8)	(611)	2	(609)
Income tax expense	(8)	—	—	—	(8)	—	(8)
Loss from continuing operations	<u>\$ (676)</u>	<u>\$ 37</u>	<u>\$ 28</u>	<u>\$ (8)</u>	<u>\$ (619)</u>	<u>\$ 2</u>	<u>\$ (617)</u>

(a) Represents the elimination of operating results related to the disposition of certain cable systems in July 2005, July 2006 and September 2006 and the inclusion of operating results related to the acquisition of certain cable systems in January 2006.

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(b) Represents the adjustment to interest expense associated with the completion of the financing transactions discussed in pro forma assumptions (1) through (5) (in millions):		
Reduction in interest expense on the Charter Operating refinancing in April 2006		\$ (13)
Interest on \$450 million principal amount of CCH II 2010 notes issued in January 2006	24	
Amortization of deferred financing costs	1	
Historical interest expense for Charter Operating's revolving credit facility	<u>(14)</u>	
		11
Interest on CCH I notes issued in September 2005 in exchange for Charter Holdings notes	186	
Amortization of deferred financing costs	3	
Historical interest expense on Charter Holdings notes exchanged for CCH I notes	<u>(217)</u>	
		(28)
Interest on \$300 million of CCO Holdings 8 <sup>3</sup> / <sub>4</sub> % senior notes issued in August 2005		13
Historical interest expense on Charter Operating's revolving credit facility repaid with cash on hand in February 2005		(3)
Historical interest expense on CC V Holdings, LLC 8.75% senior discount notes repaid with cash on hand in March 2005		<u>(3)</u>
Net decrease in interest expense		<u>\$ (23)</u>
Adjustment to other income (expense), net represents the elimination of losses related to the redemption of CC V Holdings, LLC 11.875% notes due 2008.		
(c) Represents the adjustment to interest expense to reflect interest on the CCH II 2010 notes associated with the financing transaction discussed in pro forma assumption eight.		
(d) Represents the adjustment to interest expense associated with the financing transaction discussed in pro forma assumption nine (in millions):		
Interest on Original CCH I Notes and Original CCH II Notes issued in September 2006	\$ 40	
Historical interest expense on Charter Holdings notes exchanged for Original CCH I Notes and Original CCH II Notes	<u>(42)</u>	
Net decrease in interest expense		<u>\$ (2)</u>

**CHARTER COMMUNICATIONS HOLDINGS, LLC**  
**Unaudited Pro Forma Condensed Consolidated Balance Sheet**  
**As of June 30, 2006**

	<u>Historical</u>	<u>Dispositions(a)</u>	<u>Convert Transaction(b)</u> (Dollars in millions)	<u>Sub Total</u>	<u>CCH Exchange(c)</u>	<u>Pro Forma</u>
<b>ASSETS</b>						
<b>CURRENT ASSETS:</b>						
Cash and cash equivalents	\$ 48	\$ 148	\$ (195)	\$ 1	\$ (1)	\$ —
Accounts receivable, net	178	—	—	178	—	178
Prepaid expenses and other current assets	20	—	—	20	—	20
Assets held for sale	768	(768)	—	—	—	—
Total current assets	<u>1,014</u>	<u>(620)</u>	<u>(195)</u>	<u>199</u>	<u>(1)</u>	<u>198</u>
<b>INVESTMENT IN CABLE PROPERTIES:</b>						
Property, plant and equipment, net	5,354	—	—	5,354	—	5,354
Franchises, net	9,280	—	—	9,280	—	9,280
Total investment in cable properties, net	<u>14,634</u>	<u>—</u>	<u>—</u>	<u>14,634</u>	<u>—</u>	<u>14,634</u>
<b>OTHER NONCURRENT ASSETS</b>						
	294	—	7	301	—	301
Total assets	<u>\$ 15,942</u>	<u>\$ (620)</u>	<u>\$ (188)</u>	<u>\$ 15,134</u>	<u>\$ (1)</u>	<u>\$ 15,133</u>

**LIABILITIES AND MEMBER'S DEFICIT**

<b>CURRENT LIABILITIES:</b>						
Accounts payable and accrued expenses	\$ 1,129	\$ —	\$ —	\$ 1,129	\$ (23)	\$ 1,106
Payables to related parties	90	—	—	90	—	90
Liabilities held for sale	20	(20)	—	—	—	—
Total current liabilities	<u>1,239</u>	<u>(20)</u>	<u>—</u>	<u>1,219</u>	<u>(23)</u>	<u>1,196</u>
<b>LONG-TERM DEBT</b>						
	19,012	(800)	148	18,360	(86)	18,274
<b>NOTE PAYABLE — RELATED PARTY</b>						
	3	—	—	3	—	3
<b>DEFERRED MANAGEMENT FEES — RELATED PARTY</b>						
	14	—	—	14	—	14
<b>OTHER LONG-TERM LIABILITIES</b>						
	359	—	—	359	—	359
<b>MINORITY INTEREST</b>						
	631	—	—	631	(442)	189
<b>MEMBER'S DEFICIT:</b>						
Member's deficit	(5,318)	200	(336)	(5,454)	550	(4,904)
Accumulated other comprehensive income	2	—	—	2	—	2
Total member's deficit	<u>(5,316)</u>	<u>200</u>	<u>(336)</u>	<u>(5,452)</u>	<u>550</u>	<u>(4,902)</u>
Total liabilities and member's deficit	<u>\$ 15,942</u>	<u>\$ (620)</u>	<u>\$ (188)</u>	<u>\$ 15,134</u>	<u>\$ (1)</u>	<u>\$ 15,133</u>

(a) Represents the elimination of assets and liabilities related to the disposition of certain cable systems in July and September 2006 and the related use of the proceeds to repay amounts outstanding under our revolving credit facility and for general corporate purposes. Adjustment to equity represents the expected gain on the sale of the assets.

(b) Adjustment to cash represents use of cash to pay the cash portion of the consideration paid to repurchase the Charter convertible notes in the CCI Exchange Offer. Adjustment to other assets represents the payment of approximately \$7 million of fees. Adjustment to long-term debt represents the fair value of CCH II 2010 notes issued in the CCI Exchange Offer. Adjustments to member's equity are detailed below.

Fair value of CCH II 2010 notes issued	\$ 148
Cash consideration distributed	<u>188</u>
Net increase in deficit	<u>\$ 336</u>

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(c) Adjustment to accounts payable and accrued expenses represents payment of accrued interest related to the Charter Holdings notes. Adjustment to minority interest represents the contribution of the CC VIII Interest to CCH I. Adjustment to long-term debt and member's deficit are detailed below.

Accreted value of Charter Holdings notes exchanged	\$	(797)
Fair value of CCH II notes issued		262
Fair value of CCH I notes issued		419
Drawdown on credit facility for payment of transaction fees and accrued interest on notes exchanged		30
Net decrease in long-term debt	\$	<u>(86)</u>
Net gain on exchange	\$	108
Contribution of CC VIII Interest to CCH I		442
Net decrease in member's deficit	\$	<u>550</u>

**SELECTED HISTORICAL CONSOLIDATED FINANCIAL DATA**

The following tables present summary financial and other data for Charter Holdings and its subsidiaries and has been derived from the audited consolidated financial statements of Charter Holdings and its subsidiaries for the five years ended December 31, 2005 and the unaudited consolidated financial statements of Charter Holdings and its subsidiaries for the six months ended June 30, 2005 and 2006. The following information should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations of Charter Communications Holdings, LLC — Liquidity and Capital Resources — Recent Financing Transactions,” and the historical consolidated financial statements and related notes included elsewhere in this Prospectus.

	Year Ended December 31,					Six Months Ended June 30,	
	2001(a)	2002(a)	2003(a)	2004(a)	2005(a)	2005(a)	2006(a)
(Dollars in millions)							
<b>Statement of Operations Data:</b>							
Revenues	\$ 3,648	\$ 4,377	\$ 4,616	\$ 4,760	\$ 5,033	\$ 2,481	\$ 2,703
Costs and Expenses:							
Operating (excluding depreciation and amortization)	1,430	1,736	1,873	1,994	2,203	1,081	1,215
Selling, general and administrative	789	932	909	965	1,012	483	551
Depreciation and amortization	2,638	1,364	1,396	1,433	1,443	730	690
Impairment of franchises	—	4,220	—	2,297	—	—	—
Asset impairment charges	—	—	—	—	39	39	99
Other operating (income) expenses, net	28	39	(46)	13	32	6	10
	4,885	8,291	4,132	6,702	4,729	2,339	2,565
Operating income (loss) from continuing operations	(1,237)	(3,914)	484	(1,942)	304	142	138
Interest expense, net	(1,247)	(1,425)	(1,486)	(1,618)	(1,739)	(855)	(907)
Gain (loss) on extinguishment of debt	—	—	187	(21)	494	4	(27)
Other income (expense), net	(118)	(128)	26	91	105	41	8
Loss from continuing operations before income taxes and cumulative effect of accounting change	(2,602)	(5,467)	(789)	(3,490)	(836)	(668)	(788)
Income tax benefit (expense)	27	216	(13)	35	(9)	(8)	(4)
Loss from continuing operations before cumulative effect of accounting change	(2,575)	(5,251)	(802)	(3,455)	(845)	(676)	(792)
Income (loss) from discontinued operations, net of tax	26	(408)	32	(104)	39	19	38
Loss before cumulative effect of accounting change	(2,549)	(5,659)	(770)	(3,559)	(806)	(657)	(754)
Cumulative effect of accounting change, net of tax	(24)	(540)	—	(840)	—	—	—
Net loss	\$ (2,573)	\$ (6,199)	\$ (770)	\$ (4,399)	\$ (806)	\$ (657)	\$ (754)
<b>Other Data:</b>							
Deficiencies of earnings to cover fixed charges(b)	\$ 2,560	\$ 5,859	\$ 728	\$ 3,614	\$ 830	\$ 643	\$ 740
<b>Balance Sheet Data (end of period):</b>							
Cash and cash equivalents	\$ 2	\$ 310	\$ 85	\$ 546	\$ 14	\$ 24	\$ 48
Total assets	26,220	22,156	21,148	17,084	16,192	16,442	15,942
Long-term debt	14,960	17,288	17,873	18,474	18,525	18,384	19,012
Laon payable — related party	189	73	37	29	25	62	3
Minority interest(c)	655	693	719	656	622	662	631
Member’s equity (deficit)	8,122	1,906	639	(3,713)	(4,562)	(4,420)	(5,316)

(a) In 2006, we signed three separate definitive agreements to sell certain cable television systems serving a total of approximately 356,000 analog video customers in 1) West Virginia and Virginia to Cebridge Connections, Inc. (the “Cebridge Transaction”); 2) Illinois and Kentucky to Telecommunications Management, LLC, doing business as New Wave Communications (the “New Wave Transaction”) and 3) Nevada, Colorado, New Mexico and Utah to Orange Broadband Holding Company, LLC (the “Orange

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Transaction”) for a total of approximately \$971 million. These cable systems met the criteria for assets held for sale. As such, the assets were written down to fair value less estimated costs to sell resulting in asset impairment charges during the six months ended June 30, 2006 of approximately \$99 million related to the New Wave Transaction and the Orange Transaction. In the third quarter of 2006, we expect to record a gain of approximately \$200 million on the Cebridge Transaction. In addition, assets and liabilities to be sold have been presented as held for sale. We have also determined that the West Virginia and Virginia cable systems comprise operations and cash flows that for financial reporting purposes meet the criteria for discontinued operations. Accordingly, the results of operations for the West Virginia and Virginia cable systems have been presented as discontinued operations, net of tax for the six months ended June 30, 2006 and all prior periods presented herein have been reclassified to conform to the current presentation.

- (b) Earnings include net loss plus fixed charges. Fixed charges consist of interest expense and an estimated interest component of rent expense.
- (c) Minority interest represents preferred membership interests in our indirect subsidiary, CC VIII, and since June 6, 2003, the pro rata share of the profits and losses of CC VIII. This preferred membership interest arises from approximately \$630 million of preferred membership units issued by CC VIII in connection with an acquisition in February 2000 and was the subject of a dispute between Charter and Mr. Allen, Charter’s Chairman and controlling shareholder that was settled October 31, 2005. As part of the Private Exchange, CCHC contributed the CC VIII Interest to CCH I. See “Certain Relationships and Related Party Transactions — Transactions Arising Out of Our Organizational Structure and Mr. Allen’s Investment in Charter and Its Subsidiaries — Equity Put Rights — CC VIII.”

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
OF FINANCIAL CONDITION AND  
RESULTS OF OPERATIONS OF CHARTER COMMUNICATIONS HOLDINGS, LLC**

*Unless otherwise stated, the terms "we," "us" and "our" used in this "Management's Discussion and Analysis of Financial Condition and Results of Operations of Charter Communications Holdings, LLC" refer to Charter Holdings and its direct and indirect subsidiaries on a consolidated basis.*

Reference is made to "Risk Factors" and "Special Note Regarding Forward-Looking Statements," which describe important factors that could cause actual results to differ from expectations and non-historical information contained herein. In addition, the following discussion should be read in conjunction with the audited consolidated financial statements of Charter Holdings and subsidiaries as of and for the years ended December 31, 2005, 2004 and 2003 and the unaudited consolidated financial statements of Charter Holdings, and its subsidiaries as of and for the six months ended June 30, 2006. Charter Holdings is a holding company whose primary assets are equity interests in its cable operating subsidiaries. Charter Holdings is a wholly owned subsidiary of CCHC which is a subsidiary of Charter Holdco. Charter Holdco is a subsidiary of Charter. See "Summary Organizational Structure." Our "parent companies" are CCHC, Charter Holdco and Charter. "We," "us" and "our" refer to Charter Holdings and its subsidiaries.

**Introduction**

We continue to pursue opportunities to improve our liquidity. Our efforts in this regard have resulted in the completion of a number of financing transactions in 2005 and 2006, as follows:

- the July and September 2006 sale of cable systems to Cebridge, New Wave and Orange for a total sales price of approximately \$971 million;
- the April 2006 refinancing of our existing credit facilities (See "— Liquidity and Capital Resources — Recent Financing Transactions");
- the January 2006 sale by our subsidiaries, CCH II and CCH II Capital Corp., of an additional \$450 million principal amount of their 10.250% senior notes due 2010;
- the October 2005 entry by our subsidiaries, CCO Holdings and CCO Holdings Capital Corp., as guarantor thereunder, into a \$600 million senior bridge loan agreement with various lenders (which was reduced to \$435 million as a result of the issuance of CCH II notes);
- the September 2005 exchange by Charter Holdings, CCH I and CIH of approximately \$6.8 billion in total principal amount of outstanding debt securities of Charter Holdings in a private placement for new debt securities;
- the August 2005 sale by our subsidiaries, CCO Holdings and CCO Holdings Capital Corp., of \$300 million of 8<sup>3</sup>/<sub>4</sub>% senior notes due 2013;
- the March and June 2005 issuance of \$333 million of Charter Operating notes in exchange for \$346 million of Charter Holdings notes;
- the repurchase during 2005 of \$136 million of Charter's 4.75% convertible senior notes due 2006 leaving \$20 million in principal amount outstanding; and
- the March 2005 redemption of all of CC V Holdings, LLC's outstanding 11.875% senior discount notes due 2008 at a total cost of \$122 million.

During the years 1999 through 2001, we grew significantly, principally through acquisitions of other cable businesses financed by debt and, to a lesser extent, equity. We have no current plans to pursue any significant acquisitions. However, we may pursue exchanges of non-strategic assets or divestitures, such as the sale of cable systems discussed above. We therefore do not believe that our historical growth rates are accurate indicators of future growth.

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The industry's and our most significant operational challenges include competition from DBS providers and DSL service providers. See "Business — Competition." We believe that competition from DBS has resulted in net analog video customer losses and decreased growth rates for digital video customers. Competition from DSL providers combined with limited opportunities to expand our customer base now that approximately 36% of our analog video customers subscribe to our high-speed Internet services has resulted in decreased growth rates for high-speed Internet customers. In the recent past, we have grown revenues by offsetting video customer losses with price increases and sales of incremental advanced services such as high-speed Internet, video on demand, digital video recorders and high definition television. We expect to continue to grow revenues through price increases and through continued growth in high-speed Internet and incremental new services including telephone, high definition television, VOD and DVR service.

Historically, our ability to fund operations and investing activities has depended on our continued access to credit under our credit facilities. We expect we will continue to borrow under our credit facilities from time to time to fund cash needs. The occurrence of an event of default under our credit facilities could result in borrowings from these credit facilities being unavailable to us and could, in the event of a payment default or acceleration, also trigger events of default under the indentures governing our outstanding notes and would have a material adverse effect on us. See "— Liquidity and Capital Resources."

### **Sale of Assets**

In 2006, we signed three separate definitive agreements to sell certain cable television systems serving a total of approximately 356,000 analog video customers in 1) West Virginia and Virginia to Cebridge Connections, Inc. (the "Cebridge Transaction"); 2) Illinois and Kentucky to Telecommunications Management, LLC, doing business as New Wave Communications (the "New Wave Transaction") and 3) Nevada, Colorado, New Mexico and Utah to Orange Broadband Holding Company, LLC (the "Orange Transaction") for a total of approximately \$971 million. These cable systems met the criteria for assets held for sale. As such, the assets were written down to fair value less estimated costs to sell resulting in asset impairment charges during the six months ended June 30, 2006 of approximately \$99 million related to the New Wave Transaction and the Orange Transaction. In the third quarter of 2006, we expect to record a gain of approximately \$200 million on the Cebridge Transaction. In addition, assets and liabilities to be sold have been presented as held for sale. We have also determined that the West Virginia and Virginia cable systems comprise operations and cash flows that for financial reporting purposes meet the criteria for discontinued operations. Accordingly, the results of operations for the West Virginia and Virginia cable systems have been presented as discontinued operations, net of tax for the six months ended June 30, 2006 and all prior periods presented herein have been reclassified to conform to the current presentation.

### **Overview of Operations**

Approximately 86% of our revenues for the six months ended June 30, 2006 and year ended December 31, 2005 are attributable to monthly subscription fees charged to customers for our video, high-speed Internet, telephone and commercial services provided by our cable systems. Generally, these customer subscriptions may be discontinued by the customer at any time. The remaining 14% of revenue for the six months ended June 30, 2006 and year ended December 31, 2005 is derived primarily from advertising revenues, franchise fee revenues, which are collected by us but then paid to local franchising authorities, pay-per-view and VOD programming where users are charged a fee for individual programs viewed, installation or reconnection fees charged to customers to commence or reinstate service, and commissions related to the sale of merchandise by home shopping services. We have increased revenues during the past three years, primarily through the sale of digital video and high-speed Internet services to new and existing customers and price increases on video services offset in part by dispositions of systems. Going forward, our goal is to increase revenues by offsetting video customer losses with price increases and sales of incremental advanced services such as telephone, high-speed Internet, video on demand, digital video recorders and high definition television. See "Business — Sales and Marketing."

Our success in our efforts to grow revenues and improve margins will be impacted by our ability to compete against companies with easier access to financing, greater personnel resources, greater brand name



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recognition, long-established relationships with regulatory authorities and customers, and, often fewer regulatory burdens. Additionally, controlling our cost of operations is critical, particularly cable programming costs, which have historically increased at rates in excess of inflation and are expected to continue to increase. See “Business — Programming.” We are attempting to control our costs of operations by maintaining strict controls on expenses. More specifically, we are focused on managing our cost structure by managing our workforce to control cost increases and improve productivity, and leveraging our size in purchasing activities.

Our expenses primarily consist of operating costs, selling, general and administrative expenses, depreciation and amortization expense and interest expense. Operating costs primarily include programming costs, the cost of our workforce, cable service related expenses, advertising sales costs, franchise fees and expenses related to customer billings. For the six months ended June 30, 2006 and 2005, our operating income from continuing operations, which includes depreciation and amortization expense and asset impairment charges but excludes interest expense, was \$138 million and \$142 million, respectively. We had operating margins of 5% and 6% for the six months ended June 30, 2006 and 2005, respectively. The decrease in operating income from continuing operations and operating margins for the six months ended June 30, 2006 compared to 2005 was principally due to an increase in operating costs and asset impairment charges of \$60 million. Our operating loss from continuing operations decreased from \$1.9 billion for year ended December 31, 2004 to income of \$304 million for the year ended December 31, 2005. We had a positive operating margin (defined as operating income (loss) from continuing operations divided by revenues) of 6% and a negative operating margin of 40% for the years ended December 31, 2005 and 2004, respectively. The improvement from an operating loss from continuing operations and negative operating margin to operating income from continuing operations and positive operating margin for the year end December 31, 2005 is principally due to the impairment of franchises of \$2.3 billion recorded in the third quarter of 2004 which did not recur in 2005. For the year ended December 31, 2003, operating income from continuing operations was \$484 million and for the year ended December 31, 2004, our operating loss from continuing operations was \$1.9 billion. We had a negative operating margin of 40% for the year ended December 31, 2004, whereas for the year ending December 31, 2003, we had positive operating margin of 10%. The decline in operating income from continuing operations and operating margin for the year end December 31, 2004 is principally due to the impairment of franchises of \$2.3 billion recorded in the third quarter of 2004. The year ended December 31, 2004 also includes a gain on the sale of certain cable systems to Atlantic Broadband Finance, LLC which is substantially offset by an increase in option compensation expense and special charges when compared to the year ended December 31, 2003. Although we do not expect charges for impairment in the future of comparable magnitude, potential charges could occur due to changes in market conditions.

We have a history of net losses. Our net losses are principally attributable to insufficient revenue to cover the combination of operating costs and interest costs we incur because of our high level of debt and depreciation expenses that we incur resulting from the capital investments we have made and continue to make in our cable properties. We expect that these expenses will remain significant, and we therefore expect to continue to report net losses for the foreseeable future. We had net losses of \$754 million and \$657 million for the six months ended June 30, 2006 and 2005, respectively.

### **Critical Accounting Policies and Estimates**

Certain of our accounting policies require our management to make difficult, subjective or complex judgments. Management has discussed these policies with the Audit Committee of Charter’s Board of Directors and the Audit Committee has reviewed the following disclosure. We consider the following policies to be the most critical in understanding the estimates, assumptions and judgments that are involved in preparing our financial statements and the uncertainties that could affect our results of operations, financial condition and cash flows:

- Capitalization of labor and overhead costs;
- Useful lives of property, plant and equipment;
- Impairment of property, plant, and equipment, franchises, and goodwill;

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- Income taxes; and
- Litigation.

In addition, there are other items within our financial statements that require estimates or judgment but are not deemed critical, such as the allowance for doubtful accounts, but changes in judgment, or estimates in these other items could also have a material impact on our financial statements.

**Capitalization of labor and overhead costs.** The cable industry is capital intensive, and a large portion of our resources are spent on capital activities associated with extending, rebuilding, and upgrading our cable network. As of June 30, 2006, December 31, 2005 and 2004, the net carrying amount of our property, plant and equipment (consisting primarily of cable network assets) was approximately \$5.4 billion (representing 34% of total assets), \$5.8 billion (representing 36% of total assets) and \$6.1 billion (representing 36% of total assets), respectively. Total capital expenditures for the six months ended June 30, 2006 and the years ended December 31, 2005, 2004 and 2003 were approximately \$539 million, \$1.1 billion, \$893 million and \$804 million, respectively.

Costs associated with network construction, initial customer installations (including initial installations of new or advanced services), installation refurbishments and the addition of network equipment necessary to provide new or advanced services are capitalized. While our capitalization is based on specific activities, once capitalized, we track these costs by fixed asset category at the cable system level and not on a specific asset basis. Costs capitalized as part of initial customer installations include materials, direct labor, and certain indirect costs (“overhead”). These indirect costs are associated with the activities of personnel who assist in connecting and activating the new service and consist of compensation and overhead costs associated with these support functions. The costs of disconnecting service at a customer’s dwelling or reconnecting service to a previously installed dwelling are charged to operating expense in the period incurred. Costs for repairs and maintenance are charged to operating expense as incurred, while equipment replacement and betterments, including replacement of cable drops from the pole to the dwelling, are capitalized.

We make judgments regarding the installation and construction activities to be capitalized. We capitalize direct labor and overhead using standards developed from actual costs and applicable operational data. We calculate standards for items such as the labor rates, overhead rates and the actual amount of time required to perform a capitalizable activity. For example, the standard amounts of time required to perform capitalizable activities are based on studies of the time required to perform such activities. Overhead rates are established based on an analysis of the nature of costs incurred in support of capitalizable activities and a determination of the portion of costs that is directly attributable to capitalizable activities. The impact of changes that resulted from these studies were not significant in the periods presented.

Labor costs directly associated with capital projects are capitalized. We capitalize direct labor costs associated with personnel based upon the specific time devoted to network construction and customer installation activities. Capitalizable activities performed in connection with customer installations include such activities as:

- Dispatching a “truck roll” to the customer’s dwelling for service connection;
- Verification of serviceability to the customer’s dwelling (i.e., determining whether the customer’s dwelling is capable of receiving service by our cable network and/or receiving advanced or Internet services);
- Customer premise activities performed by in-house field technicians and third-party contractors in connection with customer installations, installation of network equipment in connection with the installation of expanded services and equipment replacement and betterment; and
- Verifying the integrity of the customer’s network connection by initiating test signals downstream from the headend to the customer’s digital set-top box.

Judgment is required to determine the extent to which overhead is incurred as a result of specific capital activities, and therefore should be capitalized. The primary costs that are included in the determination of the

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overhead rate are (i) employee benefits and payroll taxes associated with capitalized direct labor, (ii) direct variable costs associated with capitalizable activities, consisting primarily of installation and construction vehicle costs, (iii) the cost of support personnel, such as dispatch, that directly assist with capitalizable installation activities, and (iv) indirect costs directly attributable to capitalizable activities.

While we believe our existing capitalization policies are appropriate, a significant change in the nature or extent of our system activities could affect management's judgment about the extent to which we should capitalize direct labor or overhead in the future. We monitor the appropriateness of our capitalization policies, and perform updates to our internal studies on an ongoing basis to determine whether facts or circumstances warrant a change to our capitalization policies. We capitalized internal direct labor and overhead of \$100 million, \$185 million, \$159 million and \$166 million, respectively, for the six months ended June 30, 2006 and the years ended December 31, 2005, 2004 and 2003. Capitalized internal direct labor and overhead costs have increased in 2005 as a result of the use of more internal labor for capitalizable installations rather than third party contractors.

**Useful lives of property, plant and equipment.** We evaluate the appropriateness of estimated useful lives assigned to our property, plant and equipment, based on annual analyses of such useful lives, and revise such lives to the extent warranted by changing facts and circumstances. Any changes in estimated useful lives as a result of these analyses, which were not significant in the periods presented, will be reflected prospectively beginning in the period in which the study is completed. The effect of a one-year decrease in the weighted average remaining useful life of our property, plant and equipment would be an increase in depreciation expense for the year ended December 31, 2005 of approximately \$232 million. The effect of a one-year increase in the weighted average useful life of our property, plant and equipment would be a decrease in depreciation expense for the year ended December 31, 2005 of approximately \$172 million.

Depreciation expense related to property, plant and equipment totaled \$687 million, \$1.4 billion, \$1.4 billion and \$1.4 billion, representing approximately 27%, 30%, 21% and 34% of costs and expenses, for the six months ended June 30, 2006 and the years ended December 31, 2005, 2004 and 2003, respectively. Depreciation is recorded using the straight-line composite method over management's estimate of the estimated useful lives of the related assets as listed below:

Cable distribution systems	7-20 years
Customer equipment and installations	3-5 years
Vehicles and equipment	1-5 years
Buildings and leasehold improvements	5-15 years
Furniture, fixtures and equipment	5 years

**Impairment of property, plant and equipment, franchises and goodwill.** As discussed above, the net carrying value of our property, plant and equipment is significant. We also have recorded a significant amount of cost related to franchises, pursuant to which we are granted the right to operate our cable distribution network throughout our service areas. The net carrying value of franchises as of June 30, 2006, December 31, 2005 and 2004 was approximately \$9.3 billion (representing 58% of total assets), \$9.8 billion (representing 61% of total assets) and \$9.9 billion (representing 58% of total assets), respectively. Furthermore, our noncurrent assets include approximately \$61 million of goodwill.

We adopted SFAS No. 142, *Goodwill and Other Intangible Assets*, on January 1, 2002. SFAS No. 142 requires that franchise intangible assets that meet specified indefinite-life criteria no longer be amortized against earnings, but instead must be tested for impairment annually based on valuations, or more frequently as warranted by events or changes in circumstances. In determining whether our franchises have an indefinite-life, we considered the exclusivity of the franchise, the expected costs of franchise renewals, and the technological state of the associated cable systems with a view to whether or not we are in compliance with any technology upgrading requirements. We have concluded that as of June 30, 2006, December 31, 2005, 2004 and 2003 more than 99% of our franchises qualify for indefinite-life treatment under SFAS No. 142, and that less than one percent of our franchises do not qualify for indefinite-life treatment due to technological or operational factors that limit their lives. Costs of finite-lived franchises, along with costs associated with

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franchise renewals, are amortized on a straight-line basis over 10 years, which represents management's best estimate of the average remaining useful lives of such franchises. Franchise amortization expense was approximately \$1 million, \$4 million, \$3 million and \$7 million for the six months ended June 30, 2006 and the years ended December 31, 2005, 2004 and 2003, respectively. We expect that amortization expense on franchise assets will be approximately \$2 million annually for each of the next five years. Actual amortization expense in future periods could differ from these estimates as a result of new intangible asset acquisitions or divestitures, changes in useful lives and other relevant factors. Our goodwill is also deemed to have an indefinite life under SFAS No. 142.

SFAS No. 144, *Accounting for Impairment or Disposal of Long-Lived Assets*, requires that we evaluate the recoverability of our property, plant and equipment and franchise assets which did not qualify for indefinite-life treatment under SFAS No. 142 upon the occurrence of events or changes in circumstances which indicate that the carrying amount of an asset may not be recoverable. Such events or changes in circumstances could include such factors as the impairment of our indefinite-life franchises under SFAS No. 142, changes in technological advances, fluctuations in the fair value of such assets, adverse changes in relationships with local franchise authorities, adverse changes in market conditions or a deterioration of operating results. Under SFAS No. 144, a long-lived asset is deemed impaired when the carrying amount of the asset exceeds the projected undiscounted future cash flows associated with the asset. No impairments of long-lived assets were recorded in the six months ended June 30, 2006 and the years ended December 31, 2005, 2004 or 2003, however, approximately \$99 million and \$39 million of impairment on assets held for sale was recorded for the six months ended June 30, 2006 and the year ended December 31, 2005. We were also required to evaluate the recoverability of our indefinite-life franchises, as well as goodwill, as of January 1, 2002 upon adoption of SFAS No. 142, and on an annual basis or more frequently as deemed necessary.

Under both SFAS No. 144 and SFAS No. 142, if an asset is determined to be impaired, it is required to be written down to its estimated fair market value. We determine fair market value based on estimated discounted future cash flows, using reasonable and appropriate assumptions that are consistent with internal forecasts. Our assumptions include these and other factors: penetration rates for analog and digital video, high-speed Internet and telephone, revenue growth rates, expected operating margins and capital expenditures. Considerable management judgment is necessary to estimate future cash flows, and such estimates include inherent uncertainties, including those relating to the timing and amount of future cash flows and the discount rate used in the calculation.

Based on the guidance prescribed in Emerging Issues Task Force ("EITF") Issue No. 02-7, *Unit of Accounting for Testing of Impairment of Indefinite-Lived Intangible Assets*, franchises were aggregated into essentially inseparable asset groups to conduct the valuations. The asset groups generally represent geographic clustering of our cable systems into groups by which such systems are managed. Management believes such groupings represent the highest and best use of those assets.

Our valuations, which are based on the present value of projected after tax cash flows, result in a value of property, plant and equipment, franchises, customer relationships and our total entity value. The value of goodwill is the difference between the total entity value and amounts assigned to the other assets. The use of different valuation assumptions or definitions of franchises or customer relationships, such as our inclusion of the value of selling additional services to our current customers within customer relationships versus franchises, could significantly impact our valuations and any resulting impairment.

Franchises, for valuation purposes, are defined as the future economic benefits of the right to solicit and service potential customers (customer marketing rights), and the right to deploy and market new services such as interactivity and telephone to the potential customers (service marketing rights). Fair value is determined based on estimated discounted future cash flows using assumptions consistent with internal forecasts. The franchise after-tax cash flow is calculated as the after-tax cash flow generated by the potential customers obtained and the new services added to those customers in future periods. The sum of the present value of the franchises' after-tax cash flow in years 1 through 10 and the continuing value of the after-tax cash flow beyond year 10 yields the fair value of the franchise. Prior to the adoption of EITF Topic D-108,

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*Use of the Residual Method to Value Acquired Assets Other than Goodwill*, discussed below, we followed a residual method of valuing our franchise assets, which had the effect of including goodwill with the franchise assets.

We follow the guidance of EITF Issue 02-17, *Recognition of Customer Relationship Intangible Assets Acquired in a Business Combination*, in valuing customer relationships. Customer relationships, for valuation purposes, represent the value of the business relationship with our existing customers and are calculated by projecting future after-tax cash flows from these customers including the right to deploy and market additional services such as interactivity and telephone to these customers. The present value of these after-tax cash flows yields the fair value of the customer relationships. Substantially all our acquisitions occurred prior to January 1, 2002. We did not record any value associated with the customer relationship intangibles related to those acquisitions. For acquisitions subsequent to January 1, 2002, we did assign a value to the customer relationship intangible, which is amortized over its estimated useful life.

In September 2004, EITF Topic D-108, *Use of the Residual Method to Value Acquired Assets Other than Goodwill*, was issued, which requires the direct method of separately valuing all intangible assets and does not permit goodwill to be included in franchise assets. We performed an impairment assessment as of September 30, 2004, and adopted Topic D-108 in that assessment resulting in a total franchise impairment of approximately \$3.3 billion. We recorded a cumulative effect of accounting change of \$840 million (approximately \$875 million before tax effects of \$16 million and minority interest effects of \$19 million) for the year ended December 31, 2004 representing the portion of our total franchise impairment attributable to no longer including goodwill with franchise assets. The effect of the adoption was to increase net loss and loss per share by \$765 million and \$2.55, respectively, for the year ended December 31, 2004. The remaining \$2.4 billion of the total franchise impairment was attributable to the use of lower projected growth rates and the resulting revised estimates of future cash flows in our valuation and was recorded as impairment of franchises in our consolidated statements of operations for the year ended December 31, 2004. Sustained analog video customer losses by us and our industry peers in the third quarter of 2004 primarily as a result of increased competition from DBS providers and decreased growth rates in our and our industry peers' high-speed Internet customers in the third quarter of 2004, in part as a result of increased competition from DSL providers, led us to lower our projected growth rates and accordingly revise our estimates of future cash flows from those used at October 1, 2003. See "Business — Competition."

The 2003 and 2005 valuations showed franchise values in excess of book value and thus resulted in no impairment.

The valuations used in our impairment assessments involve numerous assumptions as noted above. While economic conditions, applicable at the time of the valuation, indicate the combination of assumptions utilized in the valuations are reasonable, as market conditions change so will the assumptions with a resulting impact on the valuation and consequently the potential impairment charge.

**Sensitivity Analysis.** The effect on franchise values as of October 1, 2005 of the indicated increase/decrease in the selected assumptions is shown below:

<u>Assumption</u>	<u>Percentage/ Percentage Point Change</u>	<u>Franchise Value Increase/(Decrease) (Dollars in millions)</u>
Annual Operating Cash Flow(1)	+/-5%	\$ 1,200/\$(1,200)
Long-Term Growth Rate(2)	+/-1pts(3)	1,700/(1,300)
Discount Rate	+/-0.5pts(3)	(1,300)/1,500

(1) Operating Cash Flow is defined as revenues less operating expenses and selling general and administrative expenses.

(2) Long-Term Growth Rate is the rate of cash flow growth beyond year ten.

(3) A percentage point change of one point equates to 100 basis points.

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**Income taxes.** All operations are held through Charter Holdco and its direct and indirect subsidiaries. Charter Holdco and the majority of its subsidiaries are not subject to income tax. However, certain of these subsidiaries are corporations and are subject to income tax. All of the taxable income, gains, losses, deductions and credits of Charter Holdco are passed through to its members: Charter, CII and Vulcan Cable III Inc. Charter is responsible for its share of taxable income or loss of Charter Holdco allocated to it in accordance with the Charter Holdco limited liability company agreement (“LLC Agreement”) and partnership tax rules and regulations.

The LLC Agreement provides for certain special allocations of net tax profits and net tax losses (such net tax profits and net tax losses being determined under the applicable federal income tax rules for determining capital accounts). Under the LLC Agreement, through the end of 2003, net tax losses of Charter Holdco that would otherwise have been allocated to Charter based generally on its percentage ownership of outstanding common units were allocated instead to membership units held by Vulcan Cable III Inc. and CII (the “Special Loss Allocations”) to the extent of their respective capital account balances. After 2003, under the LLC Agreement, net tax losses of Charter Holdco are allocated to Charter, Vulcan Cable III Inc. and CII based generally on their respective percentage ownership of outstanding common units to the extent of their respective capital account balances. Allocations of net tax losses in excess of the members’ aggregate capital account balances are allocated under the rules governing Regulatory Allocations, as described below. Subject to the Curative Allocation Provisions described below, the LLC Agreement further provides that, beginning at the time Charter Holdco generates net tax profits, the net tax profits that would otherwise have been allocated to Charter based generally on its percentage ownership of outstanding common membership units will instead generally be allocated to Vulcan Cable III Inc. and CII (the “Special Profit Allocations”). The Special Profit Allocations to Vulcan Cable III Inc. and CII will generally continue until the cumulative amount of the Special Profit Allocations offsets the cumulative amount of the Special Loss Allocations. The amount and timing of the Special Profit Allocations are subject to the potential application of, and interaction with, the Curative Allocation Provisions described in the following paragraph. The LLC Agreement generally provides that any additional net tax profits are to be allocated among the members of Charter Holdco based generally on their respective percentage ownership of Charter Holdco common membership units.

Because the respective capital account balance of each of Vulcan Cable III Inc. and CII was reduced to zero by December 31, 2002, certain net tax losses of Charter Holdco that were to be allocated for 2002, 2003, 2004 and 2005, to Vulcan Cable III Inc. and CII instead have been allocated to Charter (the “Regulatory Allocations”). As a result of the allocation of net tax losses to Charter in 2005, Charter’s capital account balance was reduced to zero during 2005. The LLC Agreement provides that once the capital account balances of all members have been reduced to zero, net tax losses are to be allocated to Charter, Vulcan Cable III Inc. and CII based generally on their respective percentage ownership of outstanding common units. Such allocations are also considered to be Regulatory Allocations. The LLC Agreement further provides that, to the extent possible, the effect of the Regulatory Allocations is to be offset over time pursuant to certain curative allocation provisions (the “Curative Allocation Provisions”) so that, after certain offsetting adjustments are made, each member’s capital account balance is equal to the capital account balance such member would have had if the Regulatory Allocations had not been part of the LLC Agreement. The cumulative amount of the actual tax losses allocated to Charter as a result of the Regulatory Allocations through the year ended December 31, 2005 is approximately \$4.1 billion.

As a result of the Special Loss Allocations and the Regulatory Allocations referred to above (and their interaction with the allocations related to assets contributed to Charter Holdco with differences between book and tax basis), the cumulative amount of losses of Charter Holdco allocated to Vulcan Cable III Inc. and CII is in excess of the amount that would have been allocated to such entities if the losses of Charter Holdco had been allocated among its members in proportion to their respective percentage ownership of Charter Holdco common membership units. The cumulative amount of such excess losses was approximately \$977 million through December 31, 2005.

In certain situations, the Special Loss Allocations, Special Profit Allocations, Regulatory Allocations and Curative Allocation Provisions described above could result in Charter paying taxes in an amount that is more or less than if Charter Holdco had allocated net tax profits and net tax losses among its members based

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generally on the number of common membership units owned by such members. This could occur due to differences in (i) the character of the allocated income (e.g., ordinary versus capital), (ii) the allocated amount and timing of tax depreciation and tax amortization expense due to the application of section 704(c) under the Internal Revenue Code, (iii) the potential interaction between the Special Profit Allocations and the Curative Allocation Provisions, (iv) the amount and timing of alternative minimum taxes paid by Charter, if any, (v) the apportionment of the allocated income or loss among the states in which Charter Holdco does business, and (vi) future federal and state tax laws. Further, in the event of new capital contributions to Charter Holdco, it is possible that the tax effects of the Special Profit Allocations, Special Loss Allocations, Regulatory Allocations and Curative Allocation Provisions will change significantly pursuant to the provisions of the income tax regulations or the terms of a contribution agreement with respect to such contributions. Such change could defer the actual tax benefits to be derived by Charter with respect to the net tax losses allocated to it or accelerate the actual taxable income to Charter with respect to the net tax profits allocated to it. As a result, it is possible under certain circumstances, that Charter could receive future allocations of taxable income in excess of its currently allocated tax deductions and available tax loss carryforwards. The ability to utilize net operating loss carryforwards is potentially subject to certain limitations as discussed below.

In addition, under their exchange agreement with Charter, Vulcan Cable III Inc. and CII may exchange some or all of their membership units in Charter Holdco for Charter's Class B common stock, be merged with Charter, or be acquired by Charter in a non-taxable reorganization. If such an exchange were to take place prior to the date that the Special Profit Allocation provisions had fully offset the Special Loss Allocations, Vulcan Cable III Inc. and CII could elect to cause Charter Holdco to make the remaining Special Profit Allocations to Vulcan Cable III Inc. and CII immediately prior to the consummation of the exchange. In the event Vulcan Cable III Inc. and CII choose not to make such election or to the extent such allocations are not possible, Charter would then be allocated tax profits attributable to the membership units received in such exchange pursuant to the Special Profit Allocation provisions. Mr. Allen has generally agreed to reimburse Charter for any incremental income taxes that Charter would owe as a result of such an exchange and any resulting future Special Profit Allocations to Charter. The ability of Charter to utilize net operating loss carryforwards is potentially subject to certain limitations (See "Risk Factors — Risks Related to Charter's Future Ability to Utilize Net Operating Loss Carryforwards"). If Charter were to become subject to such limitations (whether as a result of an exchange described above or otherwise), and as a result were to owe taxes resulting from the Special Profit Allocations, then Mr. Allen may not be obligated to reimburse Charter for such income taxes. Charter's ability to make such income tax payments, if any, will depend on its liquidity or its ability to raise additional capital and/or on receipt of payments or distributions from Charter Holdco and its subsidiaries, including us.

As of June 30, 2006 and December 31, 2005 and 2004, we have recorded net deferred income tax liabilities of \$213 million, \$213 million and \$208 million, respectively. Additionally, as of June 30, 2006, December 31, 2005 and 2004, we have deferred tax assets of \$86 million, \$86 million and \$103 million, respectively, which primarily relate to financial and tax losses allocated to Charter from Charter Holdco. We are required to record a valuation allowance when it is more likely than not that some portion or all of the deferred income tax assets will not be realized. Given the uncertainty surrounding our ability to utilize our deferred tax assets, these items have been offset with a corresponding valuation allowance of \$51 million, \$51 million and \$71 million at June 30, 2006, December 31, 2005 and 2004, respectively.

Charter Holdco is currently under examination by the Internal Revenue Service for the tax years ending December 31, 2002 and 2003. Our results (excluding Charter and our indirect corporate subsidiaries) for these years are subject to this examination. Management does not expect the results of this examination to have a material adverse effect on our consolidated financial condition, results of operations or our liquidity, including our ability to comply with our debt covenants.

**Litigation.** Legal contingencies have a high degree of uncertainty. When a loss from a contingency becomes estimable and probable, a reserve is established. The reserve reflects management's best estimate of the probable cost of ultimate resolution of the matter and is revised accordingly as facts and circumstances change and, ultimately when the matter is brought to closure. We have established reserves for certain

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matters and if any of these matters are resolved unfavorably resulting in payment obligations in excess of management's best estimate of the outcome, such resolution could have a material adverse effect on our consolidated financial condition, results of operations or our liquidity.

**RESULTS OF OPERATIONS***Six Months Ended June 30, 2006 Compared to Six Months Ended June 30, 2005*

The following table sets forth the percentages of revenues that items in the accompanying condensed consolidated statements of operations constituted for the periods presented (dollars in millions, except per share and share data):

	Six Months Ended June 30,			
	2006		2005	
Revenues	\$ 2,703	100%	\$ 2,481	100%
Costs and expenses:				
Operating (excluding depreciation and amortization)	1,215	45%	1,081	44%
Selling, general and administrative	551	20%	483	19%
Depreciation and amortization	690	26%	730	29%
Asset impairment charges	99	4%	39	2%
Other operating expenses, net	10	—	6	—
	<u>2,565</u>	<u>95%</u>	<u>2,339</u>	<u>94%</u>
Operating income from continuing operations	<u>138</u>	<u>5%</u>	<u>142</u>	<u>6%</u>
Interest expense, net	(907)		(855)	
Other income (expenses), net	(19)		45	
	<u>(926)</u>		<u>(810)</u>	
Loss before income taxes	<u>(788)</u>		<u>(668)</u>	
Income tax expense	(4)		(8)	
Loss from continuing operations	<u>(792)</u>		<u>(676)</u>	
Income from discontinued operations, net of tax	38		19	
Net loss	<u>\$ (754)</u>		<u>\$ (657)</u>	

**Revenues.** The overall increase in revenues from continuing operations in 2006 compared to 2005 is principally the result of an increase from June 30, 2005 of 343,800 high-speed Internet customers, 194,300 digital video customers and 189,800 telephone customers, as well as price increases for video and high-speed Internet services, and is offset partially by a decrease of 41,400 analog video customers. Our goal is to increase revenues by improving customer service, which we believe will stabilize our analog video customer base, implementing price increases on certain services and packages and increasing the number of customers who purchase high-speed Internet services, digital video and advanced products and services such as telephone, VOD, high definition television and digital video recorder service.

Average monthly revenue per analog video customer increased to \$79.73 for the six months ended June 30, 2006 from \$72.47 for the six months ended June 30, 2005 primarily as a result of incremental revenues from advanced services and price increases. Average monthly revenue per analog video customer represents total revenue for the six months ended during the respective period, divided by six, divided by the average number of analog video customers during the respective period.



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Revenues by service offering were as follows (dollars in millions):

	Six Months Ended June 30,					
	2006		2005		2006 over 2005	
	Revenues	% of Revenues	Revenues	% of Revenues	Change	% Change
Video	\$ 1,684	62%	\$ 1,623	66%	\$ 61	4%
High-speed Internet	506	19%	425	17%	81	19%
Telephone	49	2%	14	1%	35	250%
Advertising sales	147	5%	135	5%	12	9%
Commercial	149	6%	128	5%	21	16%
Other	168	6%	156	6%	12	8%
	<u>\$ 2,703</u>	<u>100%</u>	<u>\$ 2,481</u>	<u>100%</u>	<u>\$ 222</u>	<u>9%</u>

Video revenues consist primarily of revenues from analog and digital video services provided to our non-commercial customers. Approximately \$58 million of the increase was the result of price increases and incremental video revenues from existing customers and approximately \$24 million was the result of an increase in digital video customers. The increases were offset by decreases of approximately \$21 million related to a decrease in analog video customers.

Approximately \$73 million of the increase in revenues from high-speed Internet services provided to our non-commercial customers related to the increase in the average number of customers receiving high-speed Internet services, whereas approximately \$8 million related to the increase in average price of the service.

Revenues from telephone services increased primarily as a result of an increase of 189,800 telephone customers in 2006.

Advertising sales revenues consist primarily of revenues from commercial advertising customers, programmers and other vendors. Advertising sales revenues increased primarily as a result of an increase in local advertising sales and a one-time ad buy by a programmer. For the six months ended June 30, 2006 and 2005, we received \$10 million and \$6 million, respectively, in advertising sales revenues from programmers.

Commercial revenues consist primarily of revenues from video and high-speed Internet services provided to our commercial customers. Commercial revenues increased primarily as a result of an increase in commercial high-speed Internet revenues.

Other revenues consist of revenues from franchise fees, equipment rental, customer installations, home shopping, dial-up Internet service, late payment fees, wire maintenance fees and other miscellaneous revenues. For the six months ended June 30, 2006 and 2005, franchise fees represented approximately 53% of total other revenues. The increase in other revenues was primarily the result of an increase in franchise fees of \$5 million, installation revenue of \$3 million and wire maintenance fees of \$4 million.

**Operating expenses.** Programming costs represented 62% and 63% of operating expenses for the six months ended June 30, 2006 and 2005, respectively. Key expense components as a percentage of revenues were as follows (dollars in millions):

	Six Months Ended June 30,					
	2006		2005		2006 over 2005	
	Expenses	% of Revenues	Expenses	% of Revenues	Change	% Change
Programming	\$ 755	28%	\$ 678	27%	\$ 77	11%
Service	408	15%	356	15%	52	15%
Advertising sales	52	2%	47	2%	5	11%
	<u>\$ 1,215</u>	<u>45%</u>	<u>\$ 1,081</u>	<u>44%</u>	<u>\$ 134</u>	<u>12%</u>

Programming costs consist primarily of costs paid to programmers for analog, premium, digital channels, VOD and pay-per-view programming. The increase in programming costs was primarily a result of rate

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increases and increases in digital video customers. Programming costs were offset by the amortization of payments received from programmers in support of launches of new channels of \$8 million and \$17 million for the six months ended June 30, 2006 and 2005, respectively.

Our cable programming costs have increased in every year we have operated in excess of customary inflationary and cost-of-living increases. We expect them to continue to increase due to a variety of factors, including annual increases imposed by programmers and additional programming being provided to customers as a result of system rebuilds and bandwidth reallocation, both of which increase channel capacity. In 2006, programming costs have increased and we expect will continue to increase at a higher rate than in 2005. These costs will be determined in part on the outcome of programming negotiations in 2006 and may be subject to offsetting events. Our increasing programming costs have resulted in declining operating margins on our video services because we have been unable to pass on all cost increases to our customers. We expect to partially offset the resulting margin compression on our traditional video services with revenue from advanced video services, increased telephone revenues, high-speed Internet revenues, advertising revenues and commercial service revenues.

Service costs consist primarily of service personnel salaries and benefits, franchise fees, system utilities, costs of providing high-speed Internet service and telephone service, maintenance and pole rent expense. The increase in service costs resulted primarily from increased costs of providing high-speed Internet and telephone service of \$16 million, an increase in service personnel salaries and benefits of \$14 million, higher fuel and utility prices of \$8 million, increased labor and maintenance costs to support improved service levels and our advanced products of \$7 million and franchise fees of \$5 million. Advertising sales expenses consist of costs related to traditional advertising services provided to advertising customers, including salaries, benefits and commissions. Advertising sales expenses increased primarily as a result of increased salary, benefit and commission costs.

**Selling, general and administrative expenses.** Key components of expense as a percentage of revenues were as follows (dollars in millions):

	Six Months Ended June 30,					
	2006		2005		2006 over 2005	
	Expenses	% of Revenues	Expenses	% of Revenues	Change	% Change
General and administrative	\$ 471	17%	\$ 418	17%	\$ 53	13%
Marketing	80	3%	65	2%	15	23%
	<u>\$ 551</u>	<u>20%</u>	<u>\$ 483</u>	<u>19%</u>	<u>\$ 68</u>	<u>14%</u>

General and administrative expenses consist primarily of salaries and benefits, rent expense, billing costs, customer care center costs, internal network costs, bad debt expense and property taxes. The increase in general and administrative expenses resulted primarily from a rise in salaries and benefits of \$34 million, increases in billing costs of \$7 million, computer maintenance of \$5 million, bad debt expense of \$5 million, telephone expense of \$4 million, contractor labor of \$3 million and property and casualty insurance of \$2 million partially offset by decreases in consulting services of \$8 million.

Marketing expenses increased as a result of increased spending in targeted marketing campaigns consistent with management's strategy to increase revenues.

**Depreciation and amortization.** Depreciation and amortization expense decreased by \$40 million for the six months ended June 30, 2006 compared to the six months ended June 30, 2005. The decrease in depreciation was primarily the result of assets becoming fully depreciated.

**Asset impairment charges.** Asset impairment charges for the six months ended June 30, 2006 and 2005 represent the write-down of assets related to cable asset sales to fair value less costs to sell. See Note 3 to the condensed consolidated financial statements.

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**Other operating expenses, net.** Other operating expenses, net increased \$4 million as a result of an \$8 million increase in special charges primarily related to severance associated with closing call centers and divisional restructuring and a \$4 million decrease related to losses on sales of assets.

**Interest expense, net.** Net interest expense increased by \$52 million, or 6%, for the six months ended June 30, 2006 compared to the six months ended June 30, 2005. The increase in net interest expense was a result of an increase in our average borrowing rate from 9.04% in the six months ended June 30, 2005 to 9.58% in the six months ended June 30, 2006 and an increase of \$286 million in average debt outstanding from \$18.4 billion for the six months ended June 30, 2005 compared to \$18.7 billion for the six months ended June 30, 2006.

**Other income (expenses), net.** Other income decreased \$64 million from other income of \$45 million for the six months ended June 30, 2005 to other expense of \$19 million for the six months ended June 30, 2006 primarily as a result of a \$35 million decrease in the gain (loss) on extinguishment of debt from a \$4 million gain for the six months ended June 30, 2005 to a loss of \$27 million for the six months ended June 30, 2006. See Note 6 to the condensed consolidated financial statements. Other income also decreased as a result of a \$15 million decrease in net gains on derivative instruments and hedging activities as a result of decreases in gains on interest rate agreements that do not qualify for hedge accounting under Statement of Financial Accounting Standards (“SFAS”) No. 133, *Accounting for Derivative Instruments and Hedging Activities*. In addition, the six months ended June 30, 2005 included a \$20 million gain on investments for the six months ended June 30, 2005 recognized as a result of a gain realized on an exchange of our interest in an equity investee for an investment in a larger enterprise. Other income also includes the 2% accretion of the preferred membership interests in our indirect subsidiary, CC VIII, and the pro rata share of the profits and losses of CC VIII.

**Income tax expense.** Income tax expense was recognized through increases in deferred tax liabilities and current federal and state income tax expenses of certain of our indirect corporate subsidiaries.

**Income from discontinued operations, net of tax.** Income from discontinued operations, net of tax increased from \$19 million for the six months ended June 30, 2005 to \$38 million for the six months ended June 30, 2006 primarily due to a decrease in depreciation for the six months ended June 30, 2006 as we ceased recognizing depreciation on the West Virginia and Virginia cable systems when we classified them as assets held for sale in the first quarter of 2006.

**Net loss.** Net loss increased by \$97 million, or 15%, for the six months ended June 30, 2006 compared to the six months ended June 30, 2005 as a result of the factors described above.

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The following table sets forth the percentage of revenues that items in the accompanying consolidated statements of operations constitute for the indicated periods (dollars in millions).

	Year Ended December 31,					
	2005		2004		2003	
Revenues	\$ 5,033	100%	\$ 4,760	100%	\$ 4,616	100%
Costs and Expenses:						
Operating (excluding depreciation and amortization)	2,203	44%	1,994	42%	1,873	41%
Selling, general and administrative	1,012	20%	965	20%	909	20%
Depreciation and amortization	1,443	29%	1,433	30%	1,396	30%
Impairment of franchises	—	—	2,297	48%	—	—
Asset impairment charges	39	1%	—	—	—	—
Other operating (income) expenses, net	32	—	13	—	(46)	(1)%
	<u>4,729</u>	<u>94%</u>	<u>6,702</u>	<u>140%</u>	<u>4,132</u>	<u>90%</u>
Operating income (loss) from continuing operations	304	6%	(1,942)	(40)%	484	10%
Interest expense, net	(1,739)		(1,618)		(1,486)	
Gain (loss) on extinguishment of debt	494		(21)		187	
Other income, net	<u>105</u>		<u>91</u>		<u>26</u>	
Loss from continuing operations before income taxes and cumulative effect of accounting change	(836)		(3,490)		(789)	
Income tax benefit (expense)	<u>(9)</u>		<u>35</u>		<u>(13)</u>	
Loss from continuing operations before cumulative effect of accounting change	(845)		(3,455)		(802)	
Income (loss) from discontinued operations, net of tax	39		(104)		32	
Loss before cumulative effect of accounting change	(806)		(3,559)		(770)	
Cumulative effect of accounting change, net of tax	—		(840)		—	
Net loss	<u>\$ (806)</u>		<u>\$ (4,399)</u>		<u>\$ (770)</u>	

**Year Ended December 31, 2005 Compared to Year Ended December 31, 2004**

**Revenues.** The overall increase in revenues in 2005 compared to 2004 is principally the result of an increase from December 31, 2004 of 306,000 and 124,600 high-speed Internet customers and digital video customers, respectively, as well as price increases for video and high-speed Internet services, and is offset partially by a decrease of 79,100 analog video customers and \$12 million of credits issued to hurricane Katrina and Rita impacted customers related to service outages. We have restored service to our impacted customers. Included in the reduction in analog video customers and reducing the increase in digital video and high-speed Internet customers are 26,800 analog video customers, 12,000 digital video customers and 600 high-speed Internet customers sold in the cable system sales in Texas and West Virginia, which closed in July 2005. The cable system sales to Atlantic Broadband Finance, LLC, which closed in March and April 2004

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and the cable system sales in Texas and West Virginia, which closed in July 2005 (collectively referred to in this section as the “Systems Sales”) reduced the increase in revenues by approximately \$30 million.

Average monthly revenue per analog video customer increased from \$67.37 for the year ended December 31, 2004 to \$73.73 for the year ended December 31, 2005 primarily as a result of price increases and incremental revenues from advanced services. Average monthly revenue per analog video customer represents total annual revenue, divided by twelve, divided by the average number of analog video customers during the respective period. Revenues by service offering were as follows (dollars in millions):

	2005		2004		2005 over 2004	
	Revenues	% of Revenues	Revenues	% of Revenues	Change	% Change
Video	\$ 3,248	65%	\$ 3,217	68%	\$ 31	1%
High-speed Internet	875	17%	712	15%	163	23%
Telephone	36	1%	18	—	18	100%
Advertising sales	284	6%	279	6%	5	2%
Commercial	266	5%	227	5%	39	17%
Other	324	6%	307	6%	17	6%
	<u>\$ 5,033</u>	<u>100%</u>	<u>\$ 4,760</u>	<u>100%</u>	<u>\$ 273</u>	<u>6%</u>

Video revenues consist primarily of revenues from analog and digital video services provided to our non-commercial customers. Approximately \$119 million of the increase in video revenues was the result of price increases and incremental video revenues from existing customers and approximately \$18 million was the result of an increase in digital video customers. The increases were offset by decreases of approximately \$76 million related to a decrease in analog video customers, approximately \$21 million resulting from the System Sales and approximately \$9 million of credits issued to hurricanes Katrina and Rita impacted customers related to service outages.

Approximately \$135 million of the increase in revenues from high-speed Internet services provided to our non-commercial customers related to the increase in the average number of customers receiving high-speed Internet services, whereas approximately \$34 million related to the increase in average price of the service. The increase was offset by approximately \$3 million of credits issued to hurricanes Katrina and Rita impacted customers related to service outages and \$3 million resulting from the System Sales.

Revenues from telephone services increased primarily as a result of an increase of 76,100 telephone customers in 2005.

Advertising sales revenues consist primarily of revenues from commercial advertising customers, programmers and other vendors. Advertising sales revenues increased primarily as a result of an increase in local advertising sales and offset by a decline in national advertising sales. In addition, the increase was offset by a decrease of \$1 million as a result of the System Sales. For the years ended December 31, 2005 and 2004, we received \$15 million and \$16 million, respectively, in advertising sales revenues from programmers.

Commercial revenues consist primarily of revenues from cable video and high-speed Internet services provided to our commercial customers. Commercial revenues increased primarily as a result of an increase in commercial high-speed Internet revenues. The increase was reduced by approximately \$3 million as a result of the System Sales.

Other revenues consist of revenues from franchise fees, equipment rental, customer installations, home shopping, dial-up Internet service, late payment fees, wire maintenance fees and other miscellaneous revenues. For the years ended December 31, 2005 and 2004, franchise fees represented approximately 54% and 52%, respectively, of total other revenues. The increase in other revenues was primarily the result of an increase in franchise fees of \$14 million and installation revenue of \$8 million offset by a decrease of \$2 million in equipment rental and \$2 million in processing fees. In addition, other revenues were offset by approximately \$2 million as a result of the System Sales.

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**Operating expenses.** The overall increase in operating expenses was reduced by approximately \$12 million as a result of the System Sales. Programming costs were \$1.4 billion and \$1.3 billion, representing 62% and 63% of total operating expenses for the years ended December 31, 2005 and 2004, respectively. Key expense components as a percentage of revenues were as follows (dollars in millions):

	Year Ended December 31,					
	2005		2004		2005 over 2004	
	Expenses	% of Revenues	Expenses	% of Revenues	Change	% Change
Programming	\$ 1,359	27%	\$ 1,264	27%	\$ 95	8%
Service	748	15%	638	13%	110	17%
Advertising sales	96	2%	92	2%	4	4%
	<u>\$ 2,203</u>	<u>44%</u>	<u>\$ 1,994</u>	<u>42%</u>	<u>\$ 209</u>	<u>10%</u>

Programming costs consist primarily of costs paid to programmers for analog, premium, digital channels and pay-per-view programming. The increase in programming was a result of price increases, particularly in sports programming, partially offset by a decrease in analog video customers. Additionally, the increase in programming costs was reduced by \$9 million as a result of the Systems Sales. Programming costs were offset by the amortization of payments received from programmers in support of launches of new channels of \$40 million and \$59 million for the year ended December 31, 2005 and 2004, respectively. Programming costs for the year ended December 31, 2004 also include a \$5 million reduction related to the settlement of a dispute with TechTV, Inc., a related party. See Note 25 to the accompanying consolidated financial statements included in this Prospectus.

Service costs consist primarily of service personnel salaries and benefits, franchise fees, system utilities, cost of providing high-speed Internet and telephone service, maintenance and pole rental expense. The increase in service costs resulted primarily from increased labor and maintenance costs to support improved service levels and our advanced products, increased costs of providing high-speed Internet and telephone service as a result of the increase in these customers and higher fuel prices. The increase in service costs was reduced by \$3 million as a result of the System Sales. Advertising sales expenses consist of costs related to traditional advertising services provided to advertising customers, including salaries, benefits and commissions. Advertising sales expenses increased primarily as a result of increased salary, benefit and commission costs.

**Selling, general and administrative expenses.** The overall increase in selling, general and administrative expenses was reduced by \$4 million as a result of the System Sales. Key components of expense as a percentage of revenues were as follows (dollars in millions):

	Year Ended December 31,					
	2005		2004		2005 over 2004	
	Expenses	% of Revenues	Expenses	% of Revenues	Change	% Change
General and administrative	\$ 870	17%	\$ 846	18%	\$ 24	3%
Marketing	142	3%	119	2%	23	19%
	<u>\$ 1,012</u>	<u>20%</u>	<u>\$ 965</u>	<u>20%</u>	<u>\$ 47</u>	<u>5%</u>

General and administrative expenses consist primarily of salaries and benefits, rent expense, billing costs, call center costs, internal network costs, bad debt expense and property taxes. The increase in general and administrative expenses resulted primarily from increases in salaries and benefits of \$24 million and professional fees associated with consulting services of \$18 million both related to investments to improve service levels in our customer care centers as well as an increase of \$13 million in legal and other professional fees offset by decreases in bad debt expense of \$16 million related to a reduction in the use of discounted pricing, property taxes of \$5 million, property and casualty insurance of \$6 million and the System Sales of \$4 million.

Marketing expenses increased as a result of an increased investment in targeted marketing campaigns.

**Depreciation and amortization.** Depreciation and amortization expense increased by \$10 million in 2005. The increase in depreciation is related to an increase in capital expenditures, which was partially offset by lower depreciation as the result of the Systems Sales and certain assets becoming fully depreciated.

**Impairment of franchises.** We performed an impairment assessment during the third quarter of 2004. The use of lower projected growth rates and the resulting revised estimates of future cash flows in our valuation, primarily as a result of increased competition, led to the recognition of a \$2.3 billion impairment charge for the year ended December 31, 2004. Our annual assessment in 2005 did not result in an impairment.

**Asset impairment charges.** Asset impairment charges for the year ended December 31, 2005 represent the write-down of assets related to cable asset sales to fair value less costs to sell. See Note 4 to the accompanying consolidated financial statements included in this Prospectus.

**Other operating (income) expenses, net.** Other operating expenses increased \$19 million primarily as a result of a \$19 million hurricane asset retirement loss recorded in 2005 associated with the write-off of the net book value of assets destroyed by hurricanes Katrina and Rita. This was coupled with a decrease in gain on sale of assets of \$92 million primarily as a result of the gain realized on the sale of systems to Atlantic Broadband Finance, LLC which closed in 2004. This was offset by a decrease in special charges of \$97 million primarily as a result of a decrease in severance and related costs of our management reduction and realignment in 2004, litigation costs and costs incurred as part of a settlement of the consolidated federal class actions, state derivative actions and federal derivative actions.

**Interest expense, net.** Net interest expense increased by \$121 million, or 7%, for the year ended December 31, 2005 compared to the year ended December 31, 2004. The increase in net interest expense was a result of an increase in our average borrowing rate from 8.79% in the year ended December 31, 2004 to 9.19% in the year ended December 31, 2005 and an increase of \$502 million in average debt outstanding from \$17.8 billion in 2004 to \$18.3 billion in 2005.

**Gain (loss) on extinguishment of debt.** Gain on extinguishment of debt for the year ended December 31, 2005 represents \$490 million related to the exchange of approximately \$6.8 billion total principal amount of outstanding debt securities of Charter Holdings for new CCH I and CIH debt securities and approximately \$10 million related to the issuance of Charter Operating notes in exchange for Charter Holdings notes. These gains were offset by approximately \$5 million of losses related to the redemption of our subsidiary's CC V Holdings, LLC 11.875% notes due 2008. See Note 9 to the accompanying consolidated financial statements included in this Prospectus. Loss on extinguishment of debt for the year ended December 31, 2004 represents the write-off of deferred financing fees and third party costs related to the Charter Communications Operating refinancing in April 2004.

**Other income, net.** Net other income for the year ended December 31, 2005 represents the gain realized on an exchange of our interest in an equity investee for an investment in a larger enterprise. Net other income for the year ended December 31, 2004 represents gains realized on equity investments.

**Income tax benefit (expense).** Income tax expense for the year ended December 31, 2005 was recognized through increases in deferred tax liabilities and current federal and state income tax expenses of certain of our indirect corporate subsidiaries. Income tax benefit for the year ended December 31, 2004 was directly related to the impairment of franchises. The deferred tax liabilities of our indirect corporate subsidiaries decreased as a result of the write-down of franchise assets for financial statement purposes. We do not expect to recognize a similar benefit associated with the impairment of franchises in future periods. However, the actual tax provision calculations in future periods will be the result of current and future temporary differences, as well as future operating results.

**Income (loss) from discontinued operations, net of tax.** Loss from discontinued operations, net of tax decreased from \$104 million for the year ended December 31, 2004 to income from discontinued operations,

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net of tax of \$39 million for the year ended December 31, 2005 primarily due to the impairment of franchises recognized in 2004 described above.

**Cumulative effect of accounting change, net of tax.** Cumulative effect of accounting change of \$840 million (net of minority interest effects of \$19 million and tax effects of \$16 million) in 2004 represents the impairment charge recorded as a result of our adoption of Topic D-108.

**Net loss.** Net loss decreased by \$3.6 billion in 2005 compared to 2004 as a result of the factors described above. The impact to net loss in 2005 of the asset impairment charges and extinguishment of debt was to decrease net loss by approximately \$455 million. The impact to net loss in 2004 of the impairment of franchises and cumulative effect of accounting change was to increase net loss by approximately \$3.0 billion.

#### Year Ended December 31, 2004 Compared to Year Ended December 31, 2003

**Revenues.** The overall increase in revenues in 2004 compared to 2003 is principally the result of an increase of 311,600 from December 31, 2003 and 2,300 high-speed Internet customers and digital video customers, respectively, as well as price increases for video and high-speed Internet services, and is offset partially by a decrease of 425,300 analog video customers. Included in the reduction in analog video customers and reducing the increase in digital video and high-speed Internet customers are 230,800 analog video customers, 83,300 digital video customers and 37,800 high-speed Internet customers sold in the cable system sales to Atlantic Broadband Finance, LLC, which closed in March and April 2004 (collectively, with the cable system sale to WaveDivision Holdings, LLC in October 2003, referred to in this section as the "Systems Sales"). The Systems Sales reduced the increase in revenues by \$161 million.

Average monthly revenue per analog video customer increased from \$61.84 for the year ended December 31, 2003 to \$67.37 for the year ended December 31, 2004 primarily as a result of price increases and incremental revenues from advanced services. Average monthly revenue per analog video customer represents total annual revenue, divided by twelve, divided by the average number of analog video customers during the respective period.

Revenues by service offering were as follows (dollars in millions):

	Year Ended December 31,					
	2004		2003		2004 over 2003	
	Revenues	% of Revenues	Revenues	% of Revenues	Change	% Change
Video	\$ 3,217	68%	\$ 3,306	72%	\$ (89)	(3)%
High-speed Internet	712	15%	535	12%	177	33%
Telephone	18	—	14	—	4	29%
Advertising sales	279	6%	254	5%	25	10%
Commercial	227	5%	196	4%	31	16%
Other	307	6%	311	7%	(4)	(1)%
	<u>\$ 4,760</u>	<u>100%</u>	<u>\$ 4,616</u>	<u>100%</u>	<u>\$ 144</u>	<u>3%</u>

Video revenues consist primarily of revenues from analog and digital video services provided to our non-commercial customers. Approximately \$116 million of the decrease in video revenues was the result of the Systems Sales and approximately an additional \$58 million related to a decline in analog video customers. These decreases were offset by increases of approximately \$59 million resulting from price increases and incremental video revenues from existing customers and approximately \$26 million resulting from an increase in digital video customers.

Approximately \$159 million of the increase in revenues from high-speed Internet services provided to our non-commercial customers related to the increase in the average number of customers receiving high-speed Internet services, whereas approximately \$31 million related to the increase in average price of the service.



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The increase in high-speed Internet revenues was reduced by approximately \$13 million as a result of the Systems Sales.

Revenues from telephone services increased primarily as a result of an increase of 20,500 telephone customers.

Advertising sales revenues consist primarily of revenues from commercial advertising customers, programmers and other vendors. Advertising sales revenues increased primarily as a result of an increase in national advertising campaigns and election related advertising. The increase was offset by a decrease of \$7 million as a result of the System Sales. For the years ended December 31, 2004 and 2003, we received \$16 million and \$15 million, respectively, in advertising revenue from programmers.

Commercial revenues consist primarily of revenues from cable video and high-speed Internet services to our commercial customers. Commercial revenues increased primarily as a result of an increase in commercial high-speed Internet revenues. The increase was reduced by approximately \$14 million as a result of the Systems Sales.

Other revenues consist of revenues from franchise fees, equipment rental, customer installations, home shopping, dial-up Internet service, late payment fees, wire maintenance fees and other miscellaneous revenues. For the year ended December 31, 2004 and 2003, franchise fees represented approximately 52% and 50%, respectively, of total other revenues. Approximately \$11 million of the decrease in other revenues was the result of the Systems Sales offset by an increase in home shopping and infomercial revenue.

**Operating expenses.** The overall increase in operating expenses was reduced by approximately \$59 million as a result of the System Sales. Programming costs were \$1.3 billion and \$1.2 billion, representing 63% and 64% of total operating expenses for the years ended December 31, 2004 and 2003, respectively. Key expense components as a percentage of revenues were as follows (dollars in millions):

	Year Ended December 31,					
	2004		2003		2004 over 2003	
	Expenses	% of Revenues	Expenses	% of Revenues	Change	% Change
Programming	\$ 1,264	27%	\$ 1,195	26%	\$ 69	6%
Service	638	13%	595	13%	43	7%
Advertising sales	92	2%	83	2%	9	11%
	<u>\$ 1,994</u>	<u>42%</u>	<u>\$ 1,873</u>	<u>41%</u>	<u>\$ 121</u>	<u>6%</u>

Programming costs consist primarily of costs paid to programmers for analog, premium and digital channels and pay-per-view programming. The increase in programming costs was a result of price increases, particularly in sports programming, an increased number of channels carried on our systems, and an increase in digital video customers, partially offset by a decrease in analog video customers. Additionally, the increase in programming costs was reduced by \$45 million as a result of the Systems Sales. Programming costs were offset by the amortization of payments received from programmers in support of launches of new channels of \$59 million and \$63 million for the year ended December 31, 2004 and 2003, respectively. Programming costs for the year ended December 31, 2004 also include a \$5 million reduction related to the settlement of a dispute with TechTV, Inc., a related party. See Note 25 to the accompanying consolidated financial statements included in this Prospectus.

Service costs consist primarily of service personnel salaries and benefits, franchise fees, system utilities, Internet service provider fees, maintenance and pole rental expense. The increase in service costs resulted primarily from additional activity associated with ongoing infrastructure maintenance. The increase in service costs was reduced by \$12 million as a result of the System Sales. Advertising sales expenses consist of costs related to traditional advertising services provided to advertising customers, including salaries, benefits and commissions. Advertising sales expenses increased primarily as a result of increased salary, benefit and commission costs. The increase in advertising sales expenses was reduced by \$2 million as a result of the System Sales.

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**Selling, general and administrative expenses.** The overall increase in selling, general and administrative expenses was reduced by \$22 million as a result of the System Sales. Key components of expense as a percentage of revenues were as follows (dollars in millions):

	Year Ended December 31, 2003					
	2004		2003		2004 over 2003	
	Expenses	% of Revenues	Expenses	% of Revenues	Change	% Change
General and administrative	\$ 846	17%	\$ 806	18%	\$ 40	5%
Marketing	119	3%	103	2%	16	16%
	<u>\$ 965</u>	<u>20%</u>	<u>\$ 909</u>	<u>20%</u>	<u>\$ 56</u>	<u>6%</u>

General and administrative expenses consist primarily of salaries and benefits, rent expense, billing costs, call center costs, internal network costs, bad debt expense and property taxes. The increase in general and administrative expenses resulted primarily from increases in costs associated with our commercial business of \$21 million, third party call center costs resulting from increased emphasis on customer service of \$9 million, bad debt expense of \$9 million and costs associated with salaries and benefits of \$11 million offset by decreases in and rent expense of \$3 million.

Marketing expenses increased as a result of an increased investment in marketing and branding campaigns.

**Depreciation and amortization.** Depreciation and amortization expense increased by \$37 million, or 3%. The increase in depreciation related to an increase in capital expenditures, which was partially offset by lower depreciation as the result of the Systems Sales.

**Impairment of franchises.** We performed an impairment assessment during the third quarter of 2004. The use of lower projected growth rates and the resulting revised estimates of future cash flows in our valuation, primarily as a result of increased competition, led to the recognition of a \$2.3 billion impairment charge for the year ended December 31, 2004.

**Other operating (income) expenses, net.** Other operating income decreased \$59 million primarily as a result of an increase in special charges of \$83 million related to severance and related costs of our management reduction and realignment in 2004, litigation costs and costs incurred as part of a settlement of the consolidated federal class actions, state derivative actions and federal derivative actions. This was coupled with a decrease of \$67 million in the settlement of estimated liabilities recorded in connection with prior business combinations, which based on current facts and circumstances, are no longer required. This was offset by an increase of \$91 million in gain on sale of assets as a result of the gain realized on the sale of systems to Atlantic Broadband Finance, LLC which closed in 2004.

**Interest expense, net.** Net interest expense increased by \$132 million, or 9%, for the year ended December 31, 2004 compared to the year ended December 31, 2003. The increase in net interest expense was a result of an increase in our average borrowing rate from 8.17% in the year ended December 31, 2003 to 8.79% in the year ended December 31, 2004 partially offset by a decrease in average debt outstanding from \$17.9 billion in 2003 to \$17.8 billion in 2004.

**Gain (loss) on extinguishment of debt.** Loss on extinguishment of debt for the year ended December 31, 2004 represents the write-off of deferred financing fees and third party costs related to the Charter Communications Operating refinancing in April 2004. Gain on extinguishment of debt for the year ended December 31, 2003 represents the gain realized on the purchase of an aggregate \$1.3 billion principal amount of Charter Holdings' senior notes and senior discount notes in consideration for an aggregate of \$1.1 billion principal amount of 10.25% notes due 2010 issued by our indirect subsidiary, CCH II. The gain is net of the write-off of deferred financing costs associated with the retired debt of \$18 million.

**Other income, net.** Other income increased \$65 million primarily as a result of a \$49 million increase in minority interest and an increase in net gains on derivative instruments and hedging activities as a result of

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increases in gains on interest rate agreements that do not qualify for hedge accounting under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*. In addition, other income in 2003 included losses of \$11 million associated with amending a revolving credit facility of our subsidiaries and costs associated with terminated debt transactions that did not recur in 2004. Minority interest includes the 2% accretion of the preferred membership interests in our indirect subsidiary, CC VIII, and the pro rata share of the profits and losses of CC VIII.

**Income tax benefit.** Income tax benefit for the year ended December 31, 2004 was directly related to the impairment of franchises. The deferred tax liabilities of our indirect corporate subsidiaries decreased as a result of the write-down of franchise assets for financial statement purposes. We do not expect to recognize a similar benefit associated with the impairment of franchises in future periods. However, the actual tax provision calculations in future periods will be the result of current and future temporary differences, as well as future operating results. The income tax expense recognized in the year ended December 31, 2003 represents increases in the deferred tax liabilities and current federal and state income tax expenses of certain of our indirect corporate subsidiaries.

**Income (loss) from discontinued operations, net of tax.** Income from discontinued operations, net of tax decreased from \$32 million for the year ended December 31, 2003 to loss from discontinued operations, net of tax of \$104 million for the year ended December 31, 2004 primarily due to the impairment of franchises recognized in 2004 described above.

**Cumulative effect of accounting change, net of tax.** Cumulative effect of accounting change of \$840 million (net of minority interest effects of \$19 million and tax effects of \$16 million) in 2004 represents the impairment charge recorded as a result of our adoption of Topic D-108.

**Net loss.** Net loss increased by \$3.6 billion in 2004 compared to 2003 as a result of the factors described above. The impact to net loss in 2004 of the impairment of franchises and cumulative effect of accounting change was to increase net loss by approximately \$3.1 billion. The impact to net loss in 2003 of the gain on the sale of systems, unfavorable contracts and settlements and gain on debt exchange, net of income tax impact, was to decrease net loss by \$276 million.

## **Liquidity and Capital Resources**

### **Introduction**

This section contains a discussion of our liquidity and capital resources, including a discussion of our cash position, sources and uses of cash, access to credit facilities and other financing sources, historical financing activities, cash needs, capital expenditures and outstanding debt.

### **Recent Financing Transactions**

In January 2006, CCH II, LLC ("CCH II") and CCH II Capital Corp. issued \$450 million in debt securities, the proceeds of which were provided, directly or indirectly, to Charter Communications Operating, LLC ("Charter Operating"), which used such funds to reduce borrowings, but not commitments, under the revolving portion of its credit facilities.

In April 2006, Charter Operating completed a \$6.85 billion refinancing of its credit facilities including a new \$350 million revolving/term facility (which converts to a term loan no later than April 2007), a \$5.0 billion term loan due in 2013 and certain amendments to the existing \$1.5 billion revolving credit facility. In addition, the refinancing reduced margins on Eurodollar rate term loans to 2.625% from a weighted average of 3.15% previously and margins on base rate term loans to 1.625% from a weighted average of 2.15% previously. Concurrent with this refinancing, the CCO Holdings, LLC ("CCO Holdings") bridge loan was terminated.

We have a significant level of debt. Our long-term financing as of June 30, 2006 consists of \$5.8 billion of credit facility debt and \$13.2 billion accreted value of high-yield notes. For the remainder of 2006, none of the

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Company's debt matures, and in 2007 and 2008, \$130 million and \$50 million mature, respectively. In 2009 and beyond, significant additional amounts will become due under our remaining long-term debt obligations.

Our business requires significant cash to fund debt service costs, capital expenditures and ongoing operations. We have historically funded these requirements through cash flows from operating activities, borrowings under our credit facilities, sales of assets, issuances of debt and equity securities and cash on hand. However, the mix of funding sources changes from period to period. For the six months ended June 30, 2006, we generated \$204 million of net cash flows from operating activities after paying cash interest of \$765 million. In addition, we used approximately \$539 million for purchases of property, plant and equipment. Finally, we had net cash flows from financing activities of \$383 million. We expect that our mix of sources of funds will continue to change in the future based on overall needs relative to our cash flow and on the availability of funds under our credit facilities, our access to the debt and equity markets, the timing of possible asset sales and our ability to generate cash flows from operating activities. We continue to explore asset dispositions as one of several possible actions that we could take in the future to improve our liquidity, but we do not presently believe unannounced future asset sales to be a significant source of liquidity.

We expect that cash on hand, cash flows from operating activities, proceeds from sale of assets and the amounts available under our credit facilities will be adequate to meet our cash needs through 2007. We believe that cash flows from operating activities and amounts available under our credit facilities may not be sufficient to fund our operations and satisfy our interest and principal repayment obligations in 2008 and will not be sufficient to fund such needs in 2009 and beyond. See "Risk Factors — Risks Related to Substantial Indebtedness of Us, Our Subsidiaries and Charter — We may not generate (or, in general, have available to the applicable obligor) sufficient cash flow or access to additional external liquidity sources to fund our capital expenditures, ongoing operations and debt obligations, including our payment obligations under the original notes and the new notes, which could have a material adverse effect on you as holders of the original notes and the new notes." We continue to work with our financial advisors in our approach to addressing liquidity, debt maturities and our overall balance sheet leverage.

### ***Debt Covenants***

Our ability to operate depends upon, among other things, our continued access to capital, including credit under the Charter Operating credit facilities. The Charter Operating credit facilities, along with our indentures, contain certain restrictive covenants, some of which require us to maintain specified financial ratios and meet financial tests and to provide annual audited financial statements with an unqualified opinion from our independent auditors. As of June 30, 2006, we are in compliance with the covenants under our indentures and credit facilities, and we expect to remain in compliance with those covenants for the next twelve months. As of June 30, 2006, our potential availability under our credit facilities totaled approximately \$900 million, none of which was limited by covenant restrictions. In the past, our actual availability under our credit facilities has been limited by covenant restrictions. There can be no assurance that our actual availability under our credit facilities will not be limited by covenant restrictions in the future. However, pro forma for the closing of the asset sales on July 1, 2006, and the related application of net proceeds to repay amounts outstanding under our revolving credit facility, potential availability under our credit facilities as of June 30, 2006 would have been approximately \$1.7 billion, although actual availability would have been limited to \$1.3 billion because of limits imposed by covenant restrictions. Continued access to our credit facilities is subject to our remaining in compliance with these covenants, including covenants tied to our operating performance. If any events of non-compliance occur, funding under the credit facilities may not be available and defaults on some or potentially all of our debt obligations could occur. An event of default under any of our debt instruments could result in the acceleration of our payment obligations under that debt and, under certain circumstances, in cross-defaults under our other debt obligations, which could have a material adverse effect on our consolidated financial condition and results of operations. See "Risk Factors — Risks Related to Substantial Indebtedness of Us, Our and Our Subsidiaries and Charter — Charter Operating may not be able to access funds under its credit facilities if it fails to satisfy the covenant restrictions in its credit facilities, which could adversely affect our financial condition and our ability to conduct our business."

### ***Parent Company Debt Obligations***

Any financial or liquidity problems of our parent companies could cause serious disruption to our business and have a material adverse effect on our business and results of operations. Charter's ability to make interest payments on its convertible senior notes, and, in 2009, to repay the outstanding principal of its convertible senior notes of \$863 million will depend on its ability to raise additional capital and/or on receipt of payments or distributions from Charter Holdco and its subsidiaries. As of June 30, 2006, Charter Holdco was owed \$3 million in intercompany loans from its subsidiaries, which were available to pay interest and principal on Charter's convertible senior notes. In addition, Charter has \$74 million of U.S. government securities pledged as security for the next three scheduled semi-annual interest payments on Charter's 5.875% convertible senior notes.

Distributions by Charter's subsidiaries to a parent company (including Charter, Charter Holdco, CCHC, LLC and Charter Holdings) for payment of principal on parent company notes are restricted under the indentures governing the CIH notes, CCH I notes, CCH II notes, CCO Holdings notes and Charter Operating notes unless there is no default under the applicable indenture, each applicable subsidiary's leverage ratio test is met at the time of such distribution and, in the case of Charter's convertible senior notes, other specified tests are met. For the quarter ended June 30, 2006, there was no default under any of these indentures and each such subsidiary met its applicable leverage ratio tests based on June 30, 2006 financial results. Such distributions would be restricted, however, if any such subsidiary fails to meet these tests at such time. In the past, certain subsidiaries have from time to time failed to meet their leverage ratio test. There can be no assurance that they will satisfy these tests at the time of such distribution. Distributions by Charter Operating for payment of principal on parent company notes are further restricted by the covenants in the credit facilities.

Distributions by CIH, CCH I, CCH II, CCO Holdings and Charter Operating to a parent company for payment of parent company interest are permitted if there is no default under the aforementioned indentures. However, distributions for payment of interest on Charter's convertible senior notes are further limited to when each applicable subsidiary's leverage ratio test is met and other specified tests are met. There can be no assurance that the subsidiary will satisfy these tests at the time of such distribution.

### ***Specific Limitations***

The indentures governing the Charter Holdings notes permit Charter Holdings to make distributions to Charter Holdco for payment of interest or principal on Charter's convertible senior notes, only if, after giving effect to the distribution, Charter Holdings can incur additional debt under the leverage ratio of 8.75 to 1.0, there is no default under Charter Holdings' indentures and other specified tests are met. For the quarter ended June 30, 2006, there was no default under Charter Holdings' indentures and Charter Holdings met its leverage ratio test based on June 30, 2006 financial results. Such distributions would be restricted, however, if Charter Holdings fails to meet these tests at such time. In the past, Charter Holdings has from time to time failed to meet this leverage ratio test. There can be no assurance that Charter Holdings will satisfy these tests at the time of such distribution. During periods in which distributions are restricted, the indentures governing the Charter Holdings notes permit Charter Holdings and its subsidiaries to make specified investments (that are not restricted payments) in Charter Holdco or Charter up to an amount determined by a formula, as long as there is no default under the indentures.

Our significant amount of debt could negatively affect our ability to access additional capital in the future. Additionally, our ability to incur additional debt may be limited by the restrictive covenants in our indentures and credit facilities. No assurances can be given that we will not experience liquidity problems if we do not obtain sufficient additional financing on a timely basis as our debt becomes due or because of adverse market conditions, increased competition or other unfavorable events. If, at any time, additional capital or borrowing capacity is required beyond amounts internally generated or available under our credit facilities or through additional debt or equity financings, we would consider:

- issuing equity at the Charter or Charter Holdco level, the proceeds of which could be loaned or contributed to us;

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- issuing debt securities that may have structural or other priority over our existing notes;
- further reducing our expenses and capital expenditures, which may impair our ability to increase revenue;
- selling assets; or
- requesting waivers or amendments with respect to our credit facilities, the availability and terms of which would be subject to market conditions.

If the above strategies are not successful, we could be forced to restructure our obligations or seek protection under the bankruptcy laws. In addition, if we need to raise additional capital through the issuance of equity or find it necessary to engage in a recapitalization or other similar transaction, our shareholders could suffer significant dilution and our noteholders might not receive principal and interest payments to which they are contractually entitled.

### Sale of Assets

In July 2006, we closed the Cebridge Transaction and New Wave Transaction for a sales price of approximately \$896 million. We used the net proceeds from the asset sales to repay (but not reduce permanently) amounts outstanding under our revolving credit facility. In September 2006, we closed the Orange Transaction, for a sales price of \$75 million.

In July 2005, we closed the sale of certain cable systems in Texas and West Virginia and closed the sale of an additional cable system in Nebraska in October 2005 for a total sales price of approximately \$37 million, representing a total of approximately 33,000 customers.

### Acquisition

In January 2006, we closed the purchase of certain cable systems in Minnesota from Seren Innovations, Inc. We acquired approximately 17,500 analog video customers, 8,000 digital video customers, 13,200 high-speed Internet customers and 14,500 telephone customers for a total purchase price of approximately \$42 million.

### Summary of Outstanding Contractual Obligations

The following table summarizes our payment obligations as of December 31, 2005 under our long-term debt and certain other contractual obligations and commitments (dollars in millions).

	Payments by Period				
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
<b>Contractual Obligations</b>					
Long-Term Debt Principal Payments(1)	\$ 18,453	\$ 30	\$ 1,129	\$ 4,918	\$ 12,376
Long-Term Debt Interest Payments(2)	11,325	1,469	3,173	3,016	3,667
Payments on Interest Rate Instruments(3)	18	8	10	—	—
Capital and Operating Lease Obligations(1)	94	20	27	23	24
Programming Minimum Commitments(4)	1,253	342	678	233	—
Other(5)	301	146	70	42	43
Total	<u>\$ 31,444</u>	<u>\$ 2,015</u>	<u>\$ 5,087</u>	<u>\$ 8,232</u>	<u>\$ 16,110</u>

- (1) The table presents maturities of long-term debt outstanding as of December 31, 2005. Refer to Notes 9 and 26 to our accompanying consolidated financial statements contained in "Item 8. Financial Statements and Supplementary Data" in our 2005 Annual Report on Form 10-K for a description of our long-term debt and other contractual obligations and commitments.

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- (2) Interest payments on variable debt are estimated using amounts outstanding at December 31, 2005 and the average implied forward London Interbank Offering Rate (LIBOR) rates applicable for the quarter during the interest rate reset based on the yield curve in effect at December 31, 2005. Actual interest payments will differ based on actual LIBOR rates and actual amounts outstanding for applicable periods.
- (3) Represents amounts we will be required to pay under our interest rate hedge agreements estimated using the average implied forward LIBOR applicable rates for the quarter during the interest rate reset based on the yield curve in effect at December 31, 2005.
- (4) We pay programming fees under multi-year contracts ranging from three to ten years typically based on a flat fee per customer, which may be fixed for the term or may in some cases, escalate over the term. Programming costs included in the accompanying statement of operations were \$1.4 billion, \$1.3 billion and \$1.2 billion for the years ended December 31, 2005, 2004 and 2003, respectively. Certain of our programming agreements are based on a flat fee per month or have guaranteed minimum payments. The table sets forth the aggregate guaranteed minimum commitments under our programming contracts.
- (5) "Other" represents other guaranteed minimum commitments, which consist primarily of commitments to our billing services vendors.

The following items are not included in the contractual obligations table because the obligations are not fixed and/ or determinable due to various factors discussed below. However, we incur these costs as part of our operations:

- We also rent utility poles used in our operations. Generally, pole rentals are cancelable on short notice, but we anticipate that such rentals will recur. Rent expense incurred for pole rental attachments related to continuing operations for the years ended December 31, 2005, 2004 and 2003, was \$44 million, \$42 million and \$38 million, respectively.
- We pay franchise fees under multi-year franchise agreements based on a percentage of revenues earned from video service per year. We also pay other franchise related costs, such as public education grants under multi-year agreements. Franchise fees and other franchise-related costs related to continuing operations included in the accompanying statement of operations were \$165 million, \$159 million and \$157 million for the years ended December 31, 2005, 2004 and 2003, respectively.
- We also have \$165 million in letters of credit, primarily to our various worker's compensation, property casualty and general liability carriers as collateral for reimbursement of claims. These letters of credit reduce the amount we may borrow under our credit facilities.

### ***Historical Operating, Financing and Investing Activities***

Our cash flows include the cash flows related to our discontinued operations for all periods presented.

We held \$48 million in cash and cash equivalents as of June 30, 2006 compared to \$14 million as of December 31, 2005. For the six months ended June 30, 2006, we generated \$204 million of net cash flows from operating activities after paying cash interest of \$765 million. In addition, we used approximately \$539 million for purchases of property, plant and equipment. Finally, we had net cash flows from financing activities of \$383 million.

***Operating Activities.*** Net cash provided by operating activities increased \$40 million, or 24%, from \$164 million for the six months ended June 30, 2005 to \$204 million for the six months ended June 30, 2006. For the six months ended June 30, 2006, net cash provided by operating activities increased primarily as a result of changes in operating assets and liabilities that provided \$128 million more cash during the six months ended June 30, 2006 than the corresponding period in 2005 coupled with an increase in revenue over cash costs offset by an increase in cash interest expense of \$106 million over the corresponding prior period.

Net cash provided by operating activities decreased \$177 million, or 41%, from \$431 million for the year ended December 31, 2004 to \$254 million for the year ended December 31, 2005. For the year ended December 31, 2005, net cash provided by operating activities decreased primarily as a result of an increase in cash interest expense of \$179 million over the corresponding prior period.

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Net cash provided by operating activities decreased \$315 million, or 42%, from \$746 million for the year ended December 31, 2003 to \$431 million for the year ended December 31, 2004. For the year ended December 31, 2004, net cash provided by operating activities decreased primarily as a result of an increase in cash interest expense of \$227 million over the corresponding prior period and changes in operating assets and liabilities that provided \$84 million less cash during the year ended December 31, 2004 than the corresponding period in 2003. The change in operating assets and liabilities is primarily the result of the benefit in the year ended December 31, 2003 from collection of receivables from programmers related to network launches, while accounts receivable remained essentially flat in the year ended December 31, 2004.

**Investing Activities.** Net cash used by investing activities for the six months ended June 30, 2006 and 2005 was \$553 million and \$472 million, respectively. Investing activities used \$81 million more cash during the six months ended June 30, 2006 than the corresponding period in 2005 primarily as a result of increased cash used for the purchase of cable systems discussed above coupled with a decrease in our liabilities related to capital expenditures.

Net cash used in investing activities for the years ended December 31, 2005 and 2004 was \$1.0 billion and \$191 million, respectively. Investing activities used \$827 million more cash during the year ended December 31, 2005 than the corresponding period in 2004 primarily as a result of cash provided by proceeds from the sale of certain cable systems to Atlantic Broadband Finance, LLC in 2004 which did not recur in 2005 combined with increased cash used for capital expenditures.

Net cash used in investing activities for the years ended December 31, 2004 and 2003 was \$191 million and \$765 million, respectively. Investing activities used \$574 million less cash during the year ended December 31, 2004 than the corresponding period in 2003 primarily as a result of cash provided by proceeds from the sale of certain cable systems to Atlantic Broadband Finance, LLC offset by increased cash used for capital expenditures.

**Financing Activities.** Net cash provided by financing activities was \$383 million for the six months ended June 30, 2006 and net cash used in financing activities was \$214 million for the six months ended June 30, 2005. The increase in cash provided during the six months ended June 30, 2006 as compared to the corresponding period in 2005, was primarily the result of proceeds from the issuance of debt.

Net cash provided by financing activities was \$232 million and \$221 million for the years ended December 31, 2005 and 2004, respectively. The increase in cash provided during the year ended December 31, 2005, as compared to the corresponding period in 2004, was primarily the result of a decrease in net borrowings of long-term debt and in payments for debt issuance costs.

Net cash provided by financing activities for the year ended December 31, 2004 was \$221 million and the net cash used in financing activities for the year ended December 31, 2003 was \$206 million. The increase in cash provided during the year ended December 31, 2004, as compared to the corresponding period in 2003, was primarily the result of an increase in borrowings of long-term debt and proceeds from issuance of debt reduced by repayments of long-term debt.

### **Capital Expenditures**

We have significant ongoing capital expenditure requirements. Capital expenditures were \$539 million, \$542 million, \$1.1 billion, \$893 million and \$804 million for the six months ended June 30, 2006 and 2005 and the years ended December 31, 2005, 2004 and 2003, respectively. Capital expenditures decreased as a result of decreases in expenditures related to line extensions and support capital partially offset by increased spending on customer premise equipment as a result of increases in digital video, high-speed Internet and telephone customers. See the table below for more details.

Our capital expenditures are funded primarily from cash flows from operating activities, the issuance of debt and borrowings under credit facilities. In addition, during the six months ended June 30, 2006 and 2005 and the years ended December 31, 2005, 2004 and 2003, our liabilities related to capital expenditures decreased \$9 million and increased \$48 million and \$13 million and decreased \$33 million and \$41 million, respectively.



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During 2006, we expect capital expenditures to be approximately \$1.0 billion to \$1.1 billion. We expect that the nature of these expenditures will continue to be composed primarily of purchases of customer premise equipment related to telephone and other advanced services, support capital and for scalable infrastructure costs. We expect to fund capital expenditures for 2006 primarily from cash flows from operating activities, proceeds from asset sales and borrowings under our credit facilities.

We have adopted capital expenditure disclosure guidance, which was developed by eleven publicly traded cable system operators, including Charter, with the support of the National Cable & Telecommunications Association ("NCTA"). The disclosure is intended to provide more consistency in the reporting of operating statistics in capital expenditures and customers among peer companies in the cable industry. These disclosure guidelines are not required disclosure under Generally Accepted Accounting Principles ("GAAP"), nor do they impact our accounting for capital expenditures under GAAP.

The following table presents our major capital expenditures categories in accordance with NCTA disclosure guidelines for the three and six months ended June 30, 2006 and 2005 (dollars in millions):

	Six Months Ended June 30,		Year Ended December 31,		
	2006	2005	2005	2004	2003
Customer premise equipment(a)	\$ 258	\$ 228	\$ 434	\$ 451	\$ 380
Scalable infrastructure(b)	97	89	174	108	66
Line extensions(c)	59	77	134	131	130
Upgrade/ Rebuild(d)	23	22	49	49	132
Support capital(e)	102	126	297	154	96
Total capital expenditures	<u>\$ 539</u>	<u>\$ 542</u>	<u>\$ 1,088</u>	<u>\$ 893</u>	<u>\$ 804</u>

- (a) Customer premise equipment includes costs incurred at the customer residence to secure new customers, revenue units and additional bandwidth revenues. It also includes customer installation costs in accordance with SFAS No. 51, *Financial Reporting by Cable Television Companies*, and customer premise equipment (e.g., set-top boxes and cable modems, etc.).
- (b) Scalable infrastructure includes costs, not related to customer premise equipment or our network, to secure growth of new customers, revenue units and additional bandwidth revenues or provide service enhancements (e.g., headend equipment).
- (c) Line extensions include network costs associated with entering new service areas (e.g., fiber/coaxial cable, amplifiers, electronic equipment, make-ready and design engineering).
- (d) Upgrade/rebuild includes costs to modify or replace existing fiber/coaxial cable networks, including betterments.
- (e) Support capital includes costs associated with the replacement or enhancement of non-network assets due to technological and physical obsolescence (e.g., non-network equipment, land, buildings and vehicles).

### Interest Rate Risk

We are exposed to various market risks, including fluctuations in interest rates. We use interest rate risk management derivative instruments, such as interest rate swap agreements and interest rate collar agreements (collectively referred to herein as interest rate agreements) as required under the terms of the credit facilities of our subsidiaries. Our policy is to manage interest costs using a mix of fixed and variable rate debt. Using interest rate swap agreements, we agree to exchange, at specified intervals through 2007, the difference between fixed and variable interest amounts calculated by reference to an agreed-upon notional principal amount. Interest rate collar agreements are used to limit our exposure to, and to derive benefits from, interest rate fluctuations on variable rate debt to within a certain range of rates. Interest rate risk management agreements are not held or issued for speculative or trading purposes.

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As of June 30, 2006 and December 31, 2005, our long-term debt totaled approximately \$19.0 billion and \$18.5 billion, respectively. This debt was comprised of approximately \$5.8 billion and \$5.7 billion of credit facilities debt, \$13.2 billion and \$12.8 billion accreted amount of high-yield notes, respectively.

As of June 30, 2006 and December 31, 2005, the weighted average interest rate on the credit facility debt was approximately 8.0% and 7.8% and the weighted average interest rate on the high-yield notes was approximately 10.3% and 10.2%, respectively, resulting in a blended weighted average interest rate of 9.6% and 9.5%, respectively. The interest rate on approximately 76% of the total principal amount of our debt was effectively fixed, including the effects of our interest rate hedge agreements as of June 30, 2006 and December 31, 2005. The fair value of our high-yield notes was \$11.0 billion and \$10.4 billion at June 30, 2006 and December 31, 2005, respectively. The fair value of our credit facilities is \$5.8 billion and \$5.7 billion at June 30, 2006 and December 31, 2005, respectively. The fair value of high-yield notes is based on quoted market prices, and the fair value of the credit facilities is based on dealer quotations.

We do not hold or issue derivative instruments for trading purposes. We do, however, have certain interest rate derivative instruments that have been designated as cash flow hedging instruments. For qualifying hedges, SFAS No. 133 allows derivative gains and losses to offset related results on hedged items in the consolidated statement of operations. We have formally documented, designated and assessed the effectiveness of transactions that receive hedge accounting. For the six months ended June 30, 2006 and 2005 and the years ended December 31, 2005, 2004 and 2003, other income includes gains of \$2 million, \$1 million, \$3 million, \$4 million and \$8 million, respectively, which represent cash flow hedge ineffectiveness on interest rate hedge agreements arising from differences between the critical terms of the agreements and the related hedged obligations. Changes in the fair value of interest rate agreements designated as hedging instruments of the variability of cash flows associated with floating-rate debt obligations that meet the effectiveness criteria of SFAS No. 133 are reported in accumulated other comprehensive loss and minority interest. For the six months ended June 30, 2006 and 2005 and the years ended December 31, 2005, 2004 and 2003, a gain of \$0 and \$9 million, \$16 million, \$42 million and \$48 million, respectively, related to derivative instruments designated as cash flow hedges, was recorded in accumulated other comprehensive loss. The amounts are subsequently reclassified into interest expense as a yield adjustment in the same period in which the related interest on the floating-rate debt obligations affects earnings (losses).

Certain interest rate derivative instruments are not designated as hedges as they do not meet the effectiveness criteria specified by SFAS No. 133. However, management believes such instruments are closely correlated with the respective debt, thus managing associated risk. Interest rate derivative instruments not designated as hedges are marked to fair value, with the impact recorded as other income in our statements of operations. For the six months ended June 30, 2006 and 2005 and the years ended December 31, 2005, 2004 and 2003, other income includes gains of \$9 million, \$25 million, \$47 million, \$65 million and \$57 million, respectively, for interest rate derivative instruments not designated as hedges.

The table set forth below summarizes the fair values and contract terms of financial instruments subject to interest rate risk maintained by us as of June 30, 2006 (dollars in millions):

	2006	2007	2008	2009	2010	2011	Thereafter	Total	Fair Value at June 30, 2006
<b>Debt:</b>									
Fixed Rate	\$ —	\$ 105	\$ —	\$ 684	\$ 2,143	\$ 771	\$ 8,842	\$ 12,545	\$ 10,430
Average Interest Rate	—	8.25%	—	9.50%	10.28%	11.01%	10.38%	10.34%	
Variable Rate	\$ —	\$ 25	\$ 50	\$ 50	\$ 600	\$ 850	\$ 4,775	\$ 6,350	\$ 6,359
Average Interest Rate	—	8.21%	8.14%	8.22%	9.64%	8.66%	8.39%	8.75%	
<b>Interest Rate</b>									
Variable to Fixed Swaps	\$ 898	\$ 875	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 1,773	\$ 6
Average Pay Rate	7.70%	7.58%	—	—	—	—	—	7.64%	
Average Receive Rate	8.33%	8.31%	—	—	—	—	—	8.32%	

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The notional amounts of interest rate instruments do not represent amounts exchanged by the parties and, thus, are not a measure of our exposure to credit loss. The amounts exchanged are determined by reference to the notional amount and the other terms of the contracts. The estimated fair value approximates the costs (proceeds) to settle the outstanding contracts. Interest rates on variable debt are estimated using the average implied forward London Interbank Offering Rate (LIBOR) rates for the year of maturity based on the yield curve in effect at June 30, 2006.

At June 30, 2006 and December 31, 2005, we had outstanding \$1.8 billion and \$1.8 billion and \$20 million and \$20 million, respectively, in notional amounts of interest rate swaps and collars, respectively. The notional amounts of interest rate instruments do not represent amounts exchanged by the parties and, thus, are not a measure of exposure to credit loss. The amounts exchanged are determined by reference to the notional amount and the other terms of the contracts.

### **Recently Issued Accounting Standards**

In November 2004, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 153, *Exchanges of Non-monetary Assets — An Amendment of APB No. 29*. This statement eliminates the exception to fair value for exchanges of similar productive assets and replaces it with a general exception for exchange transactions that do not have commercial substance — that is, transactions that are not expected to result in significant changes in the cash flows of the reporting entity. We adopted this pronouncement effective April 1, 2005. The exchange transaction discussed in Note 3 to our consolidated financial statements included elsewhere in this prospectus, was accounted for under this standard.

In December 2004, the FASB issued the revised SFAS No. 123, *Share-Based Payment*, which addresses the accounting for share-based payment transactions in which a company receives employee services in exchange for (a) equity instruments of that company or (b) liabilities that are based on the fair value of the company’s equity instruments or that may be settled by the issuance of such equity instruments. This statement was effective for us beginning January 1, 2006. Because we adopted the fair value recognition provisions of SFAS No. 123 on January 1, 2003, we do not expect this revised standard to have a material impact on our financial statements.

In March 2005, the FASB issued FASB Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations*. This interpretation clarifies that the term “conditional asset retirement obligation” as used in FASB Statement No. 143, *Accounting for Asset Retirement Obligations*, refers to a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the entity. This pronouncement is effective for fiscal years ending after December 15, 2005. The adoption of this interpretation did not have a material impact on our financial statements.

In July 2006, the FASB issued FIN 48, *Accounting for Uncertainty in Income Taxes — an Interpretation of FASB Statement No. 109*, which provides criteria for the recognition, measurement, presentation and disclosure of uncertain tax positions. A tax benefit from an uncertain position may be recognized only if it is “more likely than not” that the position is sustainable based on its technical merits. The provisions of FIN 48 are effective for fiscal years beginning after December 15, 2006. We are currently assessing the impact of FIN 48 on our financial statements.

We do not believe that any other recently issued, but not yet effective accounting pronouncements, if adopted, would have a material effect on our accompanying financial statements.

## BUSINESS

*For a chart showing our ownership structure, see page 3. The data included in this “Business” section does not take into account the effect of the sale of various assets to Cebridge described under “Summary — Recent Events — Assets Sales” unless otherwise noted.*

### Overview

We are a broadband communications company operating in the United States, with approximately 6.17 million customers at June 30, 2006. Through our broadband network of coaxial and fiber optic cable, we offer our customers traditional cable video programming (analog and digital, which we refer to as “video” service), high-speed Internet access, advanced broadband cable services (such as video on demand (“VOD”), high definition television service and interactive television) and, in some of our markets, telephone service. See “— Products and Services” for further description of these terms, including “customers.”

At June 30, 2006, we served approximately 5.88 million analog video customers, of which approximately 2.89 million were also digital video customers. We also served approximately 2.38 million high-speed Internet customers (including approximately 272,500 who received only high-speed Internet services). We also provided telephone service to approximately 257,600 customers (including approximately 24,100 who received telephone service only).

At June 30, 2006, our investment in cable properties, long-term debt and total member’s deficit was \$14.6 billion, \$19.0 billion and \$5.3 billion, respectively. Our working capital deficit was \$225 million at June 30, 2006. For the six months ended June 30, 2006, our revenues from continuing operations and net loss were approximately \$2.7 billion and \$754 million, respectively.

We have a history of net losses. Further, we expect to continue to report net losses for the foreseeable future. Our net losses are principally attributable to insufficient revenue to cover the combination of operating costs and interest costs we incur because of our high level of debt and the depreciation expenses that we incur resulting from the capital investments we have made in our cable properties. We expect that these expenses will remain significant, and we therefore expect to continue to report net losses for the foreseeable future.

We are wholly owned by our parent company, CCHC, LLC (“CCHC”), and indirectly owned by Charter Communications Holding Company, LLC (“Charter Holdco”) and Charter Communications, Inc. (“Charter”). Charter was organized as a Delaware corporation in 1999 and completed an initial public offering of its Class A common stock in November 1999. Charter is a holding company whose principal assets are, for accounting purposes, an approximate 48% equity interest and a 100% voting interest in Charter Holdco, the direct parent of CCHC. Charter’s only business is to act as the sole manager of Charter Holdco and its subsidiaries. As sole manager, Charter controls the affairs of Charter Holdco and most of its subsidiaries, including us. Certain of our subsidiaries commenced operations under the “Charter Communications” name in 1994, and our growth through 2001 was primarily due to acquisitions and business combinations. We do not expect to make any significant acquisitions in the foreseeable future, but plan to evaluate opportunities to consolidate our operations through exchanges of cable systems with other cable operators, as they arise. We may also sell certain assets from time to time. Paul G. Allen owns 44% of Charter Holdco through affiliated entities. His membership units are convertible at any time for shares of Charter’s Class A common stock on a one-for-one basis. Paul G. Allen controls Charter with an as-converted common equity interest of approximately 47% and a voting control interest of 90% as of June 30, 2006.

### Business Strategy

Our strategy is to leverage the capacity and the capabilities of our broadband network to become the premier provider of in-home entertainment and communications services in the communities we serve. By offering excellent value and variety to our customers through creative product bundles, strategic pricing and packaging of all our products and services, our goal is to increase profitable revenues that will enable us to maximize return on our invested capital.

Building on the foundation established throughout 2005, in 2006 we will strive toward:

- improving the end-to-end customer experience and increasing customer loyalty;
- growing sales and retention for all our products and services; and
- driving operating and capital effectiveness.

#### ***The Customer Experience***

Providing superior customer service is an essential element of our fundamental business strategy. We strive to continually improve the end-to-end customer experience and increase customer loyalty by effectively managing our customer care contact centers in alignment with technical operations. We are seeking to instill a customer-service-oriented culture throughout the organization and will continue to focus on excellence by pursuing further improvements in customer service, technical operations, sales and marketing.

We are dedicated to fostering strong relationships and making not only financial investments, but the investment of time and effort to strengthen the communities we serve. We have developed programs and initiatives that provide valuable television time to groups and organizations over our cable networks.

#### ***Sales and Retention***

Providing desirable products and services and investing in profitable marketing programs are major components of our sales strategy. Bundling services, combining two or more services for one discounted price, is fundamental to our marketing strategy. We believe that combining our products into bundled offerings provides value to our customers that distinguishes us from the competition. We believe bundled offerings increase penetration of all our products and services and improves customer retention and perception. Through targeted marketing of bundled services, we will pursue growth in our customer base and improvements in customer satisfaction. Targeted marketing also promotes the appropriate matching of services with customer needs leading to improved retention of existing customers and lower bad debt expense.

Expanding telephone service to additional markets and achieving increased telephone service penetration will be a high priority in 2006 and will be important to revenue growth. We plan to add enhancements to our high-speed Internet service to provide customers the best possible Internet experience. Our digital video platform enables us to provide customers advanced video products and services such as VOD, high-definition television and digital video recorder (“DVR”) service. We will also continue to explore additional product and service offerings to complement and enhance our existing offerings and generate profitable revenue growth.

In addition to the focus on our primary residential customer base, we will strive to expand the marketing of our video and high-speed Internet services to the business community and introduce telephone service, which we believe has growth potential.

#### ***Operating and Capital Effectiveness***

We plan to further capitalize on initiatives launched during 2005 to continue to drive operating and capital effectiveness. Specifically, additional improvements in work force management will enhance the efficient operation of our customer care centers and technical operations functions. We will continue to place the highest priority for capital spending on revenue-generating initiatives such as telephone deployment.

With over 92% of our homes passed having bandwidth of 550 megahertz or higher, we believe our broadband network provides the infrastructure to deliver the products and services today’s consumer desires. See “— Our Network Technology.” In 2005 we invested in programs and initiatives to improve all aspects of operations, and going forward we will seek to capitalize on that solid foundation. We plan to leverage both our broadband network and prior investments in operational efficiencies to generate profitable revenue growth.

Through our targeted marketing strategy, we plan to meet the needs of our current customers and potential customers with desirable, value-based offerings. We will seek to capitalize on the capabilities of our

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broadband network in order to bring innovative products and services to the marketplace. Our employees are dedicated to our customer-first philosophy, and we will strive to support their continued professional growth and development, providing the right tools and training necessary to accomplish our goals. We believe our strategy differentiates us from the competition and plan to enhance our ability to continue to grow our broadband operations in the communities we serve.

We continue to pursue opportunities to improve our liquidity. Our efforts in this regard have resulted in the completion of a number of transactions in 2005 and 2006, as follows:

- the July and September 2006 sale of cable systems to Cebridge, New Wave and Orange for a total sales price of approximately \$971 million;
- the April 2006 refinancing of our existing credit facilities (see “Management’s Discussion and Analysis of Financial Condition and Results of Operations of Charter Communications Holdings, LLC — Liquidity and Capital Resources — Recent Financing Transactions” included elsewhere in this Prospectus);
- the January 2006 sale by CCH II of an additional \$450 million principal amount of CCH II 2010 notes;
- the September 2005 exchange by Charter Holdings, CCH I and CCH I Holdings, LLC (“CIH”), of approximately \$6.8 billion in total principal amount of outstanding debt securities of Charter Holdings in a private placement for new debt securities;
- the August 2005 sale by our subsidiaries, CCO Holdings, LLC (“CCO Holdings”) and CCO Holdings Capital Corp., of \$300 million of 8<sup>3</sup>/<sub>4</sub>% senior notes due 2013;
- the March and June 2005 issuance of \$333 million of Charter Operating notes in exchange for \$346 million of Charter Holdings notes;
- the repurchase during 2005 of \$136 million of Charter’s 4.75% convertible senior notes due 2006 leaving \$20 million in principal amount outstanding; and
- the March 2005 redemption of all of CC V Holdings, LLC’s outstanding 11.875% senior discount notes due 2008 at a total cost of \$122 million.

### **Charter Background**

In 1998, Mr. Allen acquired approximately 99% of the non-voting economic interests in Marcus Cable, which owned various operating subsidiaries that served approximately 1.1 million customers. Thereafter, in December 1998, Mr. Allen acquired, through a series of transactions, approximately 94% of the equity interests of CII, which controlled various operating subsidiaries that serviced approximately 1.2 million customers.

In March and April of 1999, Mr. Allen acquired the remaining interests in Marcus Cable and, through a series of transactions, combined the Marcus companies with the Charter companies. As a consequence, the former operating subsidiaries of Marcus Cable and all of the cable systems they owned came under the ownership of Charter Holdings.

In July 1999, Charter was formed as a wholly owned subsidiary of CII, and in November 1999, Charter completed its initial public offering.

During 1999 and 2000, Charter completed 16 cable system acquisitions for a total purchase price of \$14.7 billion including \$9.1 billion in cash, \$3.3 billion of assumed debt, \$1.9 billion of equity interests issued and Charter cable systems valued at \$420 million. These transactions resulted in a net total increase of approximately 3.9 million customers as of their respective dates of acquisition.

In February 2001, Charter entered into several agreements with AT&T Broadband, LLC involving several strategic cable system transactions that resulted in a net addition of customers for our systems. In the AT&T transactions, which closed in June 2001, Charter acquired cable systems from AT&T Broadband,

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LLC serving approximately 551,000 customers for a total of \$1.74 billion consisting of \$1.71 billion in cash and a Charter cable system valued at \$25 million. In 2001, Charter also acquired all of the outstanding stock of Cable USA, Inc. and the assets of certain of its related affiliates in exchange for consideration valued at \$100 million (consisting of Series A Preferred Stock with a face amount of \$55 million and the remainder in cash and assumed debt).

During 2002, Charter purchased additional cable systems in Illinois serving approximately 28,000 customers, for a total cash purchase price of approximately \$63 million.

In 2003 and 2004, Charter sold certain non-core cable systems serving approximately 264,100 customers in Florida, Pennsylvania, Maryland, Delaware, West Virginia and Washington for an aggregate consideration of approximately \$826 million.

### Products and Services

We offer our customers traditional cable video programming (analog and digital) and in some areas advanced broadband services such as high definition television, VOD and interactive television as well as high-speed Internet services. We sell our video programming and high-speed Internet services on a subscription basis, with prices and related charges, that vary primarily based on the types of service selected, whether the services are sold as a “bundle” versus on an “à la carte” basis, and the equipment necessary to receive the services, with some variation in prices depending on geographic location. In addition, we offer telephone service to a portion of our homes passed.

The following table summarizes our customer statistics for analog and digital video, residential high-speed Internet, and residential telephone as of June 30, 2006 and 2005:

	Approximate as of	
	June 30, 2006(a)	June 30, 2005(a)
<b>Cable Video Services:</b>		
<b>Analog Video:</b>		
Residential (non-bulk) analog video customers(b)	5,600,300	5,683,400
Multi-dwelling (bulk) and commercial unit customers(c)	275,800	259,700
Total analog video customers(b)(c)	5,876,100	5,943,100
<b>Digital Video:</b>		
Digital video customers(d)	2,889,000	2,685,600
<b>Non-Video Cable Services:</b>		
Residential high-speed Internet customers(e)	2,375,100	2,022,200
Residential telephone customers(f)	257,600	67,800

- (a) “Customers” include all persons our corporate billing records show as receiving service (regardless of their payment status), except for complimentary accounts (such as our employees). At June 30, 2006 and 2005, “customers” include approximately 55,900 and 45,100 persons whose accounts were over 60 days past due in payment, approximately 14,300 and 8,200 persons whose accounts were over 90 days past due in payment and approximately 8,900 and 4,500 of which were over 120 days past due in payment, respectively.
- (b) “Analog video customers” include all customers who receive video services (including those who also purchase high-speed Internet and telephone services) but excludes approximately 296,500 and 248,400 customers at June 30, 2006 and 2005, respectively, who receive high-speed Internet service only or telephone service only and who are only counted as high-speed Internet customers or telephone customers.
- (c) Included within “video customers” are those in commercial and multi-dwelling structures, which are calculated on an equivalent bulk unit (“EBU”) basis. EBU is calculated for a system by dividing the bulk price charged to accounts in an area by the most prevalent price charged to non-bulk residential

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customers in that market for the comparable tier of service. The EBU method of estimating analog video customers is consistent with the methodology used in determining costs paid to programmers and has been used consistently. As we increase our effective analog prices to residential customers without a corresponding increase in the prices charged to commercial service or multi-dwelling customers, our EBU count will decline even if there is no real loss in commercial service or multi-dwelling customers.

- (d) “Digital video customers” include all households that have one or more digital set-top boxes. Included in “digital video customers” on June 30, 2006 and 2005 are approximately 8,400 and 9,700 customers, respectively, that receive digital video service directly through satellite transmission.
- (e) “Residential high-speed Internet customers” represent those customers who subscribe to our high-speed Internet service.
- (f) “Residential telephone customers” include all households receiving telephone service.

### **Video Services**

Our video service offerings include the following:

- **Basic Analog Video.** All of our video customers receive a package of basic programming which generally consists of local broadcast television, local community programming, including governmental and public access, and limited satellite-delivered or non-broadcast channels, such as weather, shopping and religious services. Our basic channel line-up generally has between 15 and 30 channels.
- **Expanded Basic Video.** This expanded programming level includes a package of satellite-delivered or non-broadcast channels and generally has between 30 and 50 channels in addition to the basic channel line-up.
- **Premium Channels.** These channels provide commercial-free movies, sports and other special event entertainment programming. Although we offer subscriptions to premium channels on an individual basis, we offer an increasing number of premium channel packages and we offer premium channels with our advanced services.
- **Pay-Per-View.** These channels allow customers to pay on a per event basis to view a single showing of a recently released movie, a one-time special sporting event, music concert or similar event on a commercial-free basis.
- **Digital Video.** We offer digital video service to our customers in several different service combination packages. All of our digital packages include a digital set-top box, an interactive electronic programming guide, an expanded menu of pay-per-view channels and the option to also receive digital packages which range from 8 to 30 additional video channels. We also offer our customers certain digital packages with one or more premium channels that give customers access to several different versions of the same premium channel. Some digital tier packages focus on the interests of a particular customer demographic and emphasize, for example, sports, movies, family or ethnic programming. In addition to video programming, digital video service enables customers to receive our advanced services such as VOD and high definition television. Other digital packages bundle digital television with our advanced services, such as high-speed Internet services.
- **Video on Demand and Subscription Video on Demand.** We offer VOD service, which allows customers to access hundreds of movies and other programming at any time with digital picture quality. In some systems we also offer subscription VOD (“SVOD”) for a monthly fee or included in a digital tier premium channel subscription.
- **High Definition Television.** High definition television offers our digital customers video programming at a higher resolution than the standard analog or digital video image.
- **Digital Video Recorder.** DVR service enables customers to digitally record programming and to pause and rewind live programming.



### ***High-Speed Internet Services***

We offer high-speed Internet services to our residential and commercial customers primarily via cable modems attached to personal computers. We generally offer our high-speed Internet service as Charter High-Speed Internet™. We also offer traditional dial-up Internet access in a very limited number of our markets.

We ended the second quarter of 2006 with 21% penetration of high-speed Internet homes passed, up from 18% penetration of high-speed Internet homes passed at June 30, 2005. This gave us an annual percentage increase in high-speed Internet customers of 17% and an increase in high-speed Internet revenues of 19% in the six months ended June 30, 2006 compared to the six months ended June 30, 2005.

### ***Telephone Services***

We provide voice communications services using voice over Internet protocol, or “VoIP,” to transmit digital voice signals over our systems. At June 30, 2006, telephone service was available to approximately 4.7 million homes passed, and we were marketing to approximately 92% of those homes. We will continue to prepare additional markets for telephone launches in 2006 and expect to have 6 to 8 million homes passed by the end of 2006.

### ***Commercial Services***

We offer integrated network solutions to commercial and institutional customers. These solutions include high-speed Internet and video services. In addition, we offer high-speed Internet services to small businesses. We will continue to expand the marketing of our video and high-speed Internet services to the business community and intend to introduce telephone services.

### ***Sale of Advertising***

We receive revenues from the sale of local advertising on satellite-delivered networks such as MTV®, CNN® and ESPN®. In any particular market, we generally insert local advertising on up to 48 channels. We also provide cross-channel advertising to some programmers.

From time to time, certain of our vendors, including programmers and equipment vendors, have purchased advertising from us. For the six months ended June 30, 2006 and the years ending December 31, 2005, 2004 and 2003, we had advertising revenues from programmers of approximately \$10 million, \$15 million, \$16 million and \$15 million, respectively. These revenues resulted from purchases at market rates pursuant to binding agreements.

### ***Pricing of Our Products and Services***

Our revenues are derived principally from the monthly fees our customers pay for the services we offer. A one-time installation fee, which is sometimes waived or discounted during certain promotional periods, is charged to new customers. The prices we charge vary based on the level of service the customer chooses and the geographic market. Most of our pricing is reviewed and adjusted on an annual basis.

In accordance with the Federal Communications Commission’s (“FCC”) rules, the prices we charge for cable-related equipment, such as set-top boxes and remote control devices, and for installation services are based on actual costs plus a permitted rate of return.

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Although our cable service offerings vary across the markets we serve because of various factors including competition and regulatory factors, our services, when offered on a stand-alone basis, are typically offered at monthly price ranges, excluding franchise fees and other taxes, as follows:

Service		Price Range as of June 30, 2006
Analog video packages	\$	6.38-\$ 58.00
Premium channels	\$	10.00-\$ 15.00
Pay-per-view events	\$	2.99-\$179.00
Digital video packages (including high-speed Internet service for higher tiers)	\$	34.00-\$172.99
High-speed Internet service	\$	21.95-\$ 59.99
Video on demand (per selection)	\$	0.99-\$ 29.99
High definition television	\$	3.00-\$ 10.99
Digital video recorder (DVR)	\$	9.99-\$ 14.99

In addition, from time to time we offer free service or reduced-price service during promotional periods in order to attract new customers. There is no assurance that these customers will remain as customers when the period of free service expires.

## Our Network Technology

The following table sets forth the technological capacity of our systems as of June 30, 2006 based on a percentage of homes passed:

Less than 550 megahertz	550 megahertz	750 megahertz	860/870 megahertz	Two-way Enabled
8%	5%	40%	47%	87%

Approximately 92% of our homes passed are served by systems that have bandwidth of 550 megahertz or greater. This bandwidth capacity enables us to offer digital television, high-speed Internet services and other advanced services. It also enables us to offer up to 82 analog channels, and even more channels when our bandwidth is used for digital signal transmissions. Our increased bandwidth also permits two-way communication for Internet access, interactive services and telephone services.

We have reduced the number of headends that serve our customers from 1,138 at January 1, 2001 to 711 at June 30, 2006. Because headends are the control centers of a cable system, where incoming signals are amplified, converted, processed and combined for transmission to the customer, reducing the number of headends reduces related equipment, service personnel and maintenance expenditures. We believe that the headend consolidation, together with our other upgrades, allows us to provide enhanced picture quality and greater system reliability. As of June 30, 2006, approximately 86% of our customers were served by headends serving at least 10,000 customers.

As of June 30, 2006, our cable systems consisted of approximately 223,000 strand miles, including approximately 59,400 strand miles of fiber optic cable, passing approximately 12.6 million households and serving approximately 6.2 million customers.

We adopted the hybrid fiber coaxial cable ("HFC") architecture as the standard for our systems upgrades. HFC architecture combines the use of fiber optic cable with coaxial cable. Fiber optic cable is a communication medium that uses glass fibers to transmit signals over long distances with minimum signal loss or distortion. Fiber optic cable has excellent broadband frequency characteristics, noise immunity and physical durability and can carry hundreds of video, data and voice channels over extended distances. Coaxial cable is less expensive but requires a more extensive signal amplification in order to obtain the desired transmission levels for delivering channels. In most systems, we deliver our signals via fiber optic cable from the headend to a group of nodes, and use coaxial cable to deliver the signal from individual nodes to the homes passed served by that node. Our system design enables a maximum of 500 homes passed to be served by a single node. Currently, our average node serves approximately 385 homes passed. Our system design

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provides for six strands of fiber to each node, with two strands activated and four strands reserved for spares and future services. The design also provides reserve capacity for the addition of future services.

The primary advantages of HFC architecture over traditional coaxial-only cable networks include:

- increased bandwidth capacity, for more channels and other services;
- dedicated bandwidth for two-way services, which avoids reverse signal interference problems that can occur with two-way communication capability; and
- improved picture quality and service reliability.

We currently maintain a national network operations center to monitor our data networks and to further our strategy of providing high quality service. Centralized monitoring is increasingly important as we increase the number of high-speed Internet customers utilizing two-way high-speed Internet service. Our local dispatch centers focus primarily on monitoring the HFC plant.

### **Management of Our Systems**

Many of the functions associated with our financial and administrative management are centralized, including accounting, cash management, billing, finance and acquisitions, payroll, accounts payable and benefits administration, information system design and support, internal audit, purchasing, customer care, marketing, programming contract administration and Internet service, network and circuits administration. We operate with four divisions. Each division is supported by operational, financial, customer care, marketing and engineering functions.

### **Customer Care**

Our customer care centers are managed centrally by Corporate Vice Presidents of Customer Care. This team oversees and administers the deployment and execution of care strategies and initiatives on a company-wide basis. We have 36 customer service locations, including 14 regional contact centers that serve our customers. This reflects a substantial consolidation of our customer care facilities. We believe that this consolidation will continue to allow us to improve the consistency of our service delivery and customer satisfaction.

Specifically, through this consolidation, we are now able to service our customers 24 hours a day, seven days a week and utilize technologically advanced equipment that we believe enhances interactions with our customers through more intelligent call routing, data management, and forecasting and scheduling capabilities. We believe this consolidation also allows us to more effectively provide our customer care specialists with ongoing training intended to improve complaint resolution, equipment troubleshooting, sales of new and additional services, and customer retention.

We believe that, despite our consolidation, we still need to make improvements in the area of customer care, and that this has, in part, led to a continued loss of customers. Accordingly, we have begun an internal operational improvement initiative aimed at helping us gain new customers and retain existing customers, which is focused on customer care, among other areas. We have increased our efforts to focus management attention on instilling a customer service oriented culture throughout the company and to give those areas of our operations increased priority of resources for staffing levels, training budgets and financial incentives for employee performance in those areas.

In a further effort to better serve our customers, we have also entered into outsource partnership agreements with multiple outsource providers. We believe the establishment of these relationships expands our ability to achieve our service objectives and increases our ability to support marketing activities by providing additional capacity available to support customer inquiries.

We also utilize our website to enhance customer care by enabling customers to view and pay their bills online, obtain useful information and perform various equipment troubleshooting procedures. We also offer chat and email functionality on-line to our customers.

## **Sales and Marketing**

Our marketing infrastructure is intended to promote interaction, information flow and sharing of best practices between our corporate office and our field offices, which make local decisions as to when and how marketing programs will be implemented. In 2005, our primary strategic direction was focused on eliminating aggressive promotional pricing and implementing targeted marketing programs designed to offer the optimal combination of products to the most appropriate consumers to accelerate the growth of profitable revenues.

In 2005, we increased our targeted marketing efforts and related expenditures, the long-term objective of which is to increase revenues through deeper market penetration of all of our services and increase the average number of services per household. Marketing expenditures from continuing operations increased 23% to \$80 million for the six months ended June 30, 2006, as compared to the six months ended June 30, 2005. Marketing expenditures from continuing operations increased 19% over the year ended December 31, 2004 to \$142 million for the year ended December 31, 2005. We will continue to invest in targeted marketing efforts in 2006.

We monitor customer perception, competition, pricing and product preferences, among other factors, to increase our responsiveness to our customers. Our coordinated marketing strategies include door-to-door solicitation, telemarketing, media advertising, e-marketing, direct mail solicitation and retail locations. In 2005, we increased our focus on marketing and selling our services through consumer electronics retailers and other retailers that sell televisions or cable modems.

## **Programming**

### *General*

We believe that offering a wide variety of programming is an important factor that influences a customer's decision to subscribe to and retain our cable services. We rely on market research, customer demographics and local programming preferences to determine channel offerings in each of our markets. We obtain basic and premium programming from a number of suppliers, usually pursuant to a written contract. Our programming contracts generally continue for a fixed period of time, usually from three to ten years, and are subject to negotiated renewal. Some program suppliers offer financial incentives to support the launch of a channel and/or ongoing marketing support. We also negotiate volume discount pricing structures. Programming costs are usually payable each month based on calculations performed by us and are subject to audits by the programmers.

### *Costs*

Programming is usually made available to us for a license fee, which is generally paid based on the number of customers to whom we make such programming available. Such license fees may include "volume" discounts available for higher numbers of customers, as well as discounts for channel placement or service penetration. Some channels are available without cost to us for a limited period of time, after which we pay for the programming. For home shopping channels, we receive a percentage of the revenue attributable to our customers' purchases.

Our cable programming costs have increased, in every year we have operated, in excess of customary inflationary and cost-of-living type increases. We expect them to continue to increase due to a variety of factors, including annual increases imposed by programmers and additional programming being provided to customers as a result of system rebuilds and bandwidth reallocation, both of which increase channel capacity. In particular, sports programming costs have increased significantly over the past several years. In addition, contracts to purchase sports programming sometimes provide for optional additional programming to be available on a surcharge basis during the term of the contract.

Over the past several years, we have not been able to increase prices sufficiently to offset increased programming costs and with the impact of competition and other marketplace factors, we will not be able to do so in the foreseeable future. In order to maintain or mitigate reductions of margins despite increasing programming costs, we plan to continue to migrate certain program services from our analog level of service to

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our digital tiers. As we migrate our programming to our digital tier packages, certain programming that was previously available to all of our customers via an analog signal, may be part of an elective digital tier package. As a result, the customer base upon which we pay programming fees will proportionately decrease, and the overall expense for providing that service would likewise decrease. Reductions in the size of certain programming customer bases may result in the loss of specific volume discount benefits.

As measured by programming costs, and excluding premium services (substantially all of which were renegotiated and renewed in 2003), as of July 7, 2006 approximately 11% of our current programming contracts were expired, and approximately another 4% are scheduled to expire by the end of 2006. We plan to seek to renegotiate the terms of our agreements with certain programmers as these agreements come due for renewal. There can be no assurance that these agreements will be renewed on favorable or comparable terms. To the extent that we are unable to reach agreement with certain programmers on terms that we believe are reasonable, we may be forced to remove such programming channels from our line-up, which may result in a loss of customers. In addition, our inability to fully pass these programming cost increases on to our customers has had an adverse impact on our cash flow and operating margins.

### **Franchises**

As of June 30, 2006, our systems operated pursuant to a total of approximately 4,100 franchises, permits and similar authorizations issued by local and state governmental authorities. Each franchise, permit or similar authorization is awarded by a governmental authority and such governmental authority often must approve a transfer to another party. Most franchises are subject to termination proceedings in the event of a material breach. In addition, most franchises require us to pay the granting authority a franchise fee of up to 5.0% of gross revenues as defined in the various agreements, which is the maximum amount that may be charged under the applicable federal law. We are entitled to and generally do pass this fee through to the customer.

Prior to the scheduled expiration of most franchises, we initiate renewal proceedings with the granting authorities. This process can take three years but in some instances can take a shorter period of time. The Communications Act of 1934, as amended (the "Communications Act"), which is the primary federal statute regulating interstate communications, provides for an orderly franchise renewal process in which granting authorities may not unreasonably withhold renewals. In connection with the franchise renewal process, many governmental authorities require the cable operator to make certain commitments. Historically we have been able to renew our franchises without incurring significant costs, although any particular franchise may not be renewed on commercially favorable terms or otherwise. Our failure to obtain renewals of our franchises, especially those in the major metropolitan areas where we have the most customers, could have a material adverse effect on our consolidated financial condition, results of operations or our liquidity, including our ability to comply with our debt covenants. Approximately 12% of our franchises, covering approximately 13% of our analog video customers, were expired as of June 30, 2006. Approximately 4% of additional franchises, covering approximately 6% of additional analog video customers, will expire on or before December 31, 2006, if not renewed prior to expiration. We do not expect the granting authorities to deny our right to renew substantially all of these franchises.

Different legislative proposals have been introduced in the United States Congress and in some state legislatures that would greatly streamline cable franchising. This legislation is intended to facilitate entry by new competitors, particularly local telephone companies. Such legislation has passed in a number of states in which we have operations and one of these newly enacted statutes is subject to court challenge. Although various legislative proposals provide some regulatory relief for incumbent cable operators, these proposals are generally viewed as being more favorable to new entrants due to a number of varying factors including efforts to withhold streamlined cable franchising from incumbents until after the expiration of their existing franchises and the potential for new entrants to serve only higher-income areas of a particular community. To the extent incumbent cable operators are not able to avail themselves of this streamlined franchising process, such operators may continue to be subject to more onerous franchise requirements at the local level than new entrants. The FCC recently initiated a proceeding to determine whether local franchising authorities are impeding the deployment of competitive cable services through unreasonable franchising

requirements and whether any such impediments should be preempted. At this time, we are not able to determine what impact such proceeding may have on us.

## Competition

We face competition in the areas of price, service offerings, and service reliability. We compete with other providers of television signals and other sources of home entertainment. In addition, as we continue to expand into additional services such as high-speed Internet access and telephone, we face competition from other providers of each type of service. We operate in a very competitive business environment, which can adversely affect our business and operations.

In terms of competition for customers, we view ourselves as a member of the broadband communications industry, which encompasses multi-channel video for television and related broadband services, such as high-speed Internet, telephone and other interactive video services. In the broadband industry, our principal competitor for video services throughout our territory is direct broadcast satellite (“DBS”), our principal competitor for data services is digital subscriber line (“DSL”) provided by telephone companies and our principal competitors for telephone services are established telephone companies and other carriers, including VoIP providers. Based on telephone companies’ entry into video service and the upgrade of their networks, they will likely increasingly become an even more significant competitor for both data and video services. We do not consider other cable operators to be significant one-on-one competitors in the market overall, as traditional overbuilds are infrequent and spotty geographically (although in any particular market, a cable operator overbuilder would likely be a significant competitor at the local level). As of June 30, 2006, we are aware of traditional overbuild situations in service areas covering approximately 8% of our total homes passed and potential overbuilds in areas servicing approximately an additional 5% of our total homes passed.

Although cable operators tend not to be direct competitors for customers, their relative size may affect the competitive landscape in terms of how a cable company competes against non-cable competitors in the marketplace as well as in relationships with vendors who deal with cable operators. For example, a larger cable operator might have better access to and pricing for the multiple types of services cable companies offer. Also, a larger entity might have different access to financial resources and acquisition opportunities.

Our key competitors include:

### **DBS**

Direct broadcast satellite is a significant competitor to cable systems. The DBS industry has grown rapidly over the last several years and now serves more than 27 million subscribers nationwide. DBS service allows the subscriber to receive video services directly via satellite using a relatively small dish antenna. EchoStar and DirecTV both have entered into joint marketing agreements with major telecommunications companies to offer bundled packages combining phone, data and video services.

Video compression technology and high powered satellites allow DBS providers to offer more than 200 digital channels from a single satellite, thereby surpassing the typical analog cable system. In 2005, major DBS competitors offered a greater variety of channel packages, and were especially competitive at the lower end pricing, such as a monthly price of approximately \$35 for 60 channels compared to approximately \$45 for the closest comparable package in most of our markets. In addition, while we continue to believe that the initial investment by a DBS customer exceeds that of a cable customer, the initial equipment cost for DBS has decreased substantially, as the DBS providers have aggressively marketed offers to new customers of incentives for discounted or free equipment, installation and multiple units. DBS providers are able to offer service nationwide and are able to establish a national image and branding with standardized offerings, which together with their ability to avoid franchise fees of up to 5% of revenues and property tax, leads to greater efficiencies and lower costs in the lower tiers of service. We believe that cable-delivered VOD and SVOD service are superior to DBS service because cable headends can store thousands of titles which customers can access and control independently, whereas DBS technology can only make available a much smaller number of titles with DVR-like customer control. We also believe that our higher tier products, particularly our bundled premium packages, are price-competitive with DBS packages and that many consumers prefer our

ability to economically bundle video packages with data packages. Further, cable providers have the potential in some areas to provide a more complete “whole house” communications package when combining video, high-speed Internet and telephone services. We believe that this ability to bundle, combined with the introduction of more new products that DBS cannot readily offer (local high definition television and local interactive television) differentiates us from DBS competitors and could enable us to win back some of our former customers who migrated to satellite. However, joint marketing arrangements between DBS providers and telecommunications carriers allow similar bundling of services in certain areas and DBS providers are making investments to offer more high definition programming including local high definition programming. Competition from DBS service providers may also present greater challenges in areas of lower population density, and we believe that our systems serve a higher concentration of such areas than those of other major cable service providers.

DBS providers have made attempts at widespread deployment of high-speed Internet access services via satellite but those services have been technically constrained and of limited appeal. DBS providers continue to explore options, such as combining satellite communications with terrestrial wireless networks, to provide high-speed Internet and other services. DBS providers have entered into joint marketing arrangements with telecommunications carriers allowing them to offer terrestrial DSL services in many markets.

#### ***DSL and Other Broadband Services***

DSL service allows Internet access to subscribers at data transmission speeds greater than those available over conventional telephone lines. DSL service therefore is competitive with high-speed Internet access over cable systems. Most telephone companies which already have plant, an existing customer base, and other operational functions in place (such as, billing, service personnel, etc.) offer DSL service. DSL actively markets its service and many providers have offered promotional pricing with a one-year service agreement. The FCC has determined that DSL service is an “information service,” and based on that classification removed DSL service from many traditional telecommunications regulations. Legislative action and the FCC’s decisions and policies in this area are subject to change. We expect DSL to remain a significant competitor to our data services, particularly as we enter the telephone business and telephone companies aggressively bundle DSL with telephone service to discourage customers from switching. In addition, the continuing deployment of fiber by telephone companies into their networks will enable them to provide higher bandwidth Internet service than provided over traditional DSL lines.

DSL and other forms of high-speed Internet access provide competition to our high-speed Internet service. For example, as discussed above, satellite-based delivery options are in development. In addition, local wireless Internet services have recently begun to operate in many markets using available unlicensed radio spectrum. This service option, popularly known as “wi-fi”, offers another alternative to cable-based Internet access.

High-speed Internet access facilitates the streaming of video into homes and businesses. As the quality and availability of video streaming over the Internet improves, video streaming likely will compete with the traditional delivery of video programming services over cable systems. It is possible that programming suppliers will consider bypassing cable operators and market their services directly to the consumer through video streaming over the Internet.

We believe that pricing for residential and commercial Internet services on our system is generally comparable to that for similar DSL services and that some residential customers prefer our ability to bundle Internet services with video services. However, DSL providers may currently be in a better position to offer data services to businesses since their networks tend to be more complete in commercial areas. They also have the ability to bundle telephone with Internet services for a higher percentage of their customers, and that ability is appealing to many consumers. Joint marketing arrangements between DSL providers and DBS providers may allow some additional bundling of services. Moreover, major telephone companies, such as AT&T and Verizon, are now deploying fiber deep into their networks that enables them in some areas to offer high bandwidth video services over their networks, in addition to established voice and Internet services.

### ***Telephone Companies and Utilities***

The competitive environment has been significantly affected by technological developments and regulatory changes enacted under the 1996 Telecom Act, which amended the Communications Act and which is designed to enhance competition in the cable television and local telephone markets (the “1996 Telecom Act”). Federal cross-ownership restrictions historically limited entry by local telephone companies into the cable business. The 1996 Telecom Act modified this cross-ownership restriction, making it possible for local exchange carriers, who have considerable resources, to provide a wide variety of video services competitive with services offered by cable systems.

Telephone companies already provide facilities for the transmission and distribution of voice and data services, including Internet services, in competition with our existing or potential interactive services ventures and businesses. Telephone companies can lawfully enter the cable television business and some telephone companies have been extensively deploying fiber in their networks, which enables them to provide video services, as well as telephone and Internet access service. At least one major telephone company plans to provide Internet protocol video over its upgraded network and contends that its use of this technology should allow it to provide video service without a cable franchise as required under Title VI of the Communications Act. Telephone companies deploying fiber more extensively are already providing video services in some communities. Although telephone companies have obtained franchises or alternative authorizations in some areas and are seeking them in others, they are attempting through various means (including federal and state legislation and through FCC rulemaking) to weaken or streamline the franchising requirements applicable to them. If telephone companies are successful in avoiding or weakening the franchise and other regulatory requirements that are applicable to cable operators like us, their competitive posture would be enhanced. We cannot predict the likelihood of success of the broadband services offered by our competitors or the impact on us of such competitive ventures. The large scale entry of major telephone companies as direct competitors in the video marketplace could adversely affect the profitability and valuation of established cable systems.

We provide telephone service over our broadband communications networks in a number of its service areas. We also provide traditional circuit-switched phone service in a few communities. In these areas, we compete directly with established telephone companies and other carriers, including VoIP providers, for voice service customers. As we expand our offerings to include voice services, we will be subject to considerable competition from telephone companies and other telecommunications providers. The telecommunications industry is highly competitive and includes competitors with greater financial and personnel resources, who have brand name recognition and long-standing relationships with regulatory authorities and customers. Moreover, mergers, joint ventures and alliances among franchise, wireless or private cable operators, local exchange carriers and others may result in providers capable of offering cable television, Internet, and telecommunications services in direct competition with us. For example, major local exchange carriers have entered into arrangements with EchoStar and DirecTV in which they will market packages combining phone service, DSL and DBS services.

Additionally, we are subject to competition from utilities which possess fiber optic transmission lines capable of transmitting signals with minimal signal distortion. Utilities are also developing broadband over power line technology, which will allow the provision of Internet and other broadband services to homes and offices. Utilities have deployed broadband over power line technology in a few limited markets.

### ***Broadcast Television***

Cable television has long competed with broadcast television, which consists of television signals that the viewer is able to receive without charge using an “off-air” antenna. The extent of such competition is dependent upon the quality and quantity of broadcast signals available through “off-air” reception compared to the services provided by the local cable system. Traditionally, cable television has provided a higher picture quality and more channel offerings than broadcast television. However, the recent licensing of digital spectrum by the FCC will provide traditional broadcasters with the ability to deliver high definition television pictures and multiple digital-quality program streams, as well as advanced digital services such as subscription video and data transmission.



### ***Traditional Overbuilds***

Cable systems are operated under non-exclusive franchises granted by local authorities. More than one cable system may legally be built in the same area. It is possible that a franchising authority might grant a second franchise to another cable operator and that such a franchise might contain terms and conditions more favorable than those afforded us. In addition, entities willing to establish an open video system, under which they offer unaffiliated programmers non-discriminatory access to a portion of the system's cable system, may be able to avoid local franchising requirements. Well financed businesses from outside the cable industry, such as public utilities that already possess fiber optic and other transmission lines in the areas they serve, may over time become competitors. There are a number of cities that have constructed their own cable systems, in a manner similar to city-provided utility services. There also has been interest in traditional overbuilds by private companies. Constructing a competing cable system is a capital intensive process which involves a high degree of risk. We believe that in order to be successful, a competitor's overbuild would need to be able to serve the homes and businesses in the overbuilt area on a more cost-effective basis than we can. Any such overbuild operation would require either significant access to capital or access to facilities already in place that are capable of delivering cable television programming.

As of June 30, 2006, we are aware of overbuild situations impacting approximately 8% of our total homes passed and potential overbuild situations in areas servicing approximately an additional 5% of our total homes passed. Additional overbuild situations may occur in other systems.

### ***Private Cable***

Additional competition is posed by satellite master antenna television systems, or SMATV systems, serving multiple dwelling units, or MDUs, such as condominiums, apartment complexes, and private residential communities. These private cable systems may enter into exclusive agreements with such MDUs, which may preclude operators of franchise systems from serving residents of such private complexes. Private cable systems can offer both improved reception of local television stations and many of the same satellite-delivered program services that are offered by cable systems. SMATV systems currently benefit from operating advantages not available to franchised cable systems, including fewer regulatory burdens and no requirement to service low density or economically depressed communities. Exemption from regulation may provide a competitive advantage to certain of our current and potential competitors.

### ***Wireless Distribution***

Cable systems also compete with wireless program distribution services such as multi-channel multipoint distribution systems or "wireless cable," known as MMDS, which uses low-power microwave frequencies to transmit television programming over-the-air to paying customers. MMDS services, however, require unobstructed "line of sight" transmission paths and MMDS ventures have been quite limited to date.

The FCC completed its auction of Multichannel Video Distribution & Data Service ("MVDDS") licenses. MVDDS is a new terrestrial video and data fixed wireless service that the FCC hopes will spur competition in the cable and DBS industries.

### ***Properties***

Our principal physical assets consist of cable distribution plant and equipment, including signal receiving, encoding and decoding devices, headend reception facilities, distribution systems and customer drop equipment for each of our cable systems.

Our cable plant and related equipment are generally attached to utility poles under pole rental agreements with local public utilities and telephone companies, and in certain locations are buried in underground ducts or trenches. We own or lease real property for signal reception sites and own most of our service vehicles.

Historically, our subsidiaries have owned the real property and buildings for our data centers, customer contact centers and our divisional administrative offices. Since early 2003 we have reduced our total real

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estate portfolio square footage by approximately 17% and have decreased our operating annual lease costs by approximately 30%. In addition, Charter has sold \$15 million worth of surplus land and buildings. We plan to continue to reduce costs and excess capacity in this area through consolidation of sites within our system footprints. Our subsidiaries generally have leased space for business offices throughout our operating divisions. Our headend and tower locations are located on owned or leased parcels of land, and we generally own the towers on which our equipment is located. Charter Holdco owns the real property and building for our principal executive offices.

The physical components of our cable systems require maintenance as well as periodic upgrades to support the new services and products we introduce. See “— Our Network Technology.” We believe that our properties are generally in good operating condition and are suitable for our business operations.

### **Employees**

As of June 30, 2006, we had approximately 15,600 full-time equivalent employees, and our parent companies employed approximately 600 full-time employees to manage our operations. At June 30, 2006, approximately 100 of our employees were represented by collective bargaining agreements. We have never experienced a work stoppage.

The corporate office, which includes employees of Charter and Charter Holdco, is responsible for coordinating and overseeing our operations. The corporate office performs certain financial and administrative functions on a centralized basis such as accounting, taxes, billing, finance and acquisitions, payroll and benefit administration, information system design and support, internal audit, purchasing, customer care, marketing and programming contract administration and oversight and coordination of external auditors and consultants and related professional fees. The corporate office performs these services on a cost reimbursement basis pursuant to a management services agreement. See “Certain Relationships and Related Party Transactions — Transactions Arising Out of Our Organizational Structure and Mr. Allen’s Investment in Charter and Its Subsidiaries — Intercompany Management Arrangements” and “Certain Relationships and Related Party Transactions — Transactions Arising Out of Our Organizational Structure and Mr. Allen’s Investment in Charter and Its Subsidiaries — Mutual Services Agreements.”

### **Legal Proceedings**

#### ***Other Litigation***

Charter is a party to lawsuits and claims that have arisen in the ordinary course of conducting its business. The ultimate outcome of all of these legal matters pending against us or our subsidiaries cannot be predicted, and although such lawsuits and claims are not expected individually to have a material adverse effect on our consolidated financial condition, results of operations or liquidity, such lawsuits could have, in the aggregate, a material adverse effect on our consolidated financial condition, results of operations or liquidity.

## REGULATION AND LEGISLATION

The following summary addresses the key regulatory and legislative developments affecting the cable industry. Cable system operations are extensively regulated by the FCC, some state governments and most local governments. A failure to comply with these regulations could subject us to substantial penalties. Our business can be dramatically impacted by changes to the existing regulatory framework, whether triggered by legislative, administrative, or judicial rulings. Congress and the FCC have expressed a particular interest in increasing competition in the communications field generally and in the cable television field specifically. The 1996 Telecom Act, which amended the Communications Act, altered the regulatory structure governing the nation's communications providers. It removed barriers to competition in both the cable television market and the local telephone market. At the same time, the FCC has pursued spectrum licensing options designed to increase competition to the cable industry by wireless multi-channel video programming distributors. We could be materially disadvantaged in the future if we are subject to new regulations that do not equally impact our key competitors.

Congress and the FCC have frequently revisited the subject of communications regulation, and they are likely to do so in the future. In addition, franchise agreements with local governments must be periodically renewed, and new operating terms may be imposed. Future legislative, regulatory, or judicial changes could adversely affect our operations. We can provide no assurance that the already extensive regulation of our business will not be expanded in the future.

### **Cable Rate Regulation**

The cable industry has operated under a federal rate regulation regime for more than a decade. The regulations currently restrict the prices that cable systems charge for the minimum level of video programming service, referred to as "basic service," and associated equipment. All other cable offerings are now universally exempt from rate regulation. Although basic rate regulation operates pursuant to a federal formula, local governments, commonly referred to as local franchising authorities, are primarily responsible for administering this regulation. The majority of our local franchising authorities have never been certified to regulate basic cable rates, but they retain the right to do so (and order rate reductions and refunds), except in those specific communities facing "effective competition," as defined under federal law. With increased DBS competition, our systems are increasingly likely to satisfy the effective competition standard. We have already secured FCC recognition of effective competition, and been rate deregulated, in many of our communities.

There have been frequent calls to impose expanded rate regulation on the cable industry. Confronted with rapidly increasing cable programming costs, it is possible that Congress may adopt new constraints on the retail pricing or packaging of cable programming. For example, there has been considerable legislative and regulatory interest in requiring cable operators to offer historically bundled programming services on an à la carte basis or to at least offer a separately available child-friendly "Family Tier." Such constraints could adversely affect our operations.

Federal rate regulations generally require cable operators to allow subscribers to purchase premium or pay-per-view services without the necessity of subscribing to any tier of service, other than the basic service tier. The applicability of this rule in certain situations remains unclear, and adverse decisions by the FCC could affect our pricing and packaging of services. As we attempt to respond to a changing marketplace with competitive pricing practices, such as targeted promotions and discounts, we may face additional legal restraints and challenges that impede our ability to compete.

### **Must Carry/ Retransmission Consent**

There are two alternative legal methods for carriage of local broadcast television stations on cable systems. Federal law currently includes "must carry" regulations, which require cable systems to carry certain local broadcast television stations that the cable operator would not select voluntarily. Alternatively, federal law includes "retransmission consent" regulations, by which popular commercial television stations can prohibit cable carriage unless the cable operator first negotiates for "retransmission consent," which may be conditioned on significant payments or other concessions. Either option has a potentially adverse effect on our

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business. The burden associated with must carry could increase significantly if cable systems were required to simultaneously carry both the analog and digital signals of each television station (dual carriage), as the broadcast industry transitions from an analog to a digital format. The burden could also increase significantly if cable systems become required to carry multiple program streams included within a single digital broadcast transmission (multicast carriage). Additional government-mandated broadcast carriage obligations could disrupt existing programming commitments, interfere with our preferred use of limited channel capacity and limit our ability to offer services that would maximize customer appeal and revenue potential.

Although the FCC issued a decision in 2005 confirming an earlier ruling against mandating either dual carriage or multicast carriage, that decision is subject to a petition for reconsideration which is pending before the FCC. In addition, the FCC could reverse its own ruling or Congress could legislate additional carriage obligations. February 2009 has been established as the deadline for broadcasters to complete their transition to digital spectrum and for the federal government to reclaim analog spectrum. Cable operators may need to take additional operational steps at that time to ensure that customers not otherwise equipped to receive digital programming, retain access to broadcast programming.

### **Access Channels**

Local franchise agreements often require cable operators to set aside certain channels for public, educational and governmental access programming. Federal law also requires cable systems to designate a portion of their channel capacity for commercial leased access by unaffiliated third parties. Increased activity in this area could further burden the channel capacity of our cable systems.

### **Access to Programming**

The Communications Act and the FCC's "program access" rules generally prevent video programmers affiliated with cable operators from favoring cable operators over competing multichannel video distributors, such as DBS, and limit the ability of such programmers to offer exclusive programming arrangements to cable operators. The FCC has extended the exclusivity restrictions through October 2007. Given the heightened competition and media consolidation that we face, it is possible that we will find it increasingly difficult to gain access to popular programming at favorable terms. Such difficulty could adversely impact our business.

### **Ownership Restrictions**

Federal regulation of the communications field traditionally included a host of ownership restrictions, which limited the size of certain media entities and restricted their ability to enter into competing enterprises. Through a series of legislative, regulatory, and judicial actions, most of these restrictions recently were eliminated or substantially relaxed. For example, historic restrictions on local exchange carriers offering cable service within their telephone service area, as well as those prohibiting broadcast stations from owning cable systems within their broadcast service area, no longer exist. Changes in this regulatory area could alter the business landscape in which we operate, as formidable new competitors (including electric utilities, local exchange carriers, and broadcast/media companies) may increasingly choose to offer cable services.

The FCC previously adopted regulations precluding any cable operator from serving more than 30% of all domestic multi-channel video subscribers and from devoting more than 40% of the activated channel capacity of any cable system to the carriage of affiliated national video programming services. These cable ownership restrictions were invalidated by the courts, and the FCC is now considering adoption of replacement regulations.

### **Internet Service**

Over the past several years, proposals have been advanced that would require cable operators offering Internet service to provide non-discriminatory access to its network to competing Internet service providers. In a 2005 ruling, commonly referred to as *Brand X*, the Supreme Court upheld an FCC decision making it less likely that any non-discriminatory "open access" requirements (which are generally associated with common

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carrier regulation of “telecommunications services”) will be imposed on the cable industry by local, state or federal authorities. The Supreme Court held that the FCC was correct in classifying cable-provided Internet service as an “information service,” rather than a “telecommunications service.” This favorable regulatory classification limits the ability of various governmental authorities to impose open access requirements on cable-provided Internet service.

Claiming an interest in maintaining “network neutrality,” certain internet content providers and consumer groups have advocated for new federal laws or regulations limiting the ability of broadband network owners (like us) to manage and control their own networks. In 2005, the FCC issued a non-binding policy statement establishing four basic principles that the FCC says will inform its ongoing policymaking activities regarding broadband-related Internet services. Those principles state that: consumers are entitled to access the lawful Internet content of their choice; consumers are entitled to run applications and services of their choice, subject to the needs of law enforcement; consumers are entitled to connect their choice of legal devices that do not harm the network; and consumers are entitled to competition among network providers, application and service providers and content providers. It is unclear what, if any, additional regulations the FCC or Congress might impose on our Internet service, and what, if any, impact such regulations might have on our business.

As the Internet has matured, it has become the subject of increasing regulatory interest. Congress and federal regulators have adopted a wide range of measures directly or potentially affecting Internet use, including, for example, consumer privacy, accommodation of law enforcement wiretaps, copyright protections (which afford copyright owners certain rights against us that could adversely affect our relationship with a customer accused of violating copyright laws), defamation liability, taxation, obscenity, and unsolicited commercial e-mail regulations. State and local governmental organizations have also adopted Internet-related regulations. These various governmental jurisdictions are also considering additional regulations in these and other areas, such as pricing, service and product quality, and intellectual property ownership. The adoption of new Internet regulations or the adaptation of existing laws to the Internet could adversely affect our business.

### **Phone Service**

The 1996 Telecom Act, which amended the Communications Act, created a more favorable regulatory environment for us to provide phone services. In particular, it limited the regulatory role of local franchising authorities and established requirements ensuring that we could interconnect with other telephone companies to provide a viable service. Many implementation details remain unresolved, and there are substantial regulatory changes being considered that could impact, in both positive and negative ways, our primary telecommunications competitors and our own entry into the field of phone service. The FCC and state regulatory authorities are considering, for example, whether common carrier regulation traditionally applied to incumbent local exchange carriers should be modified. The FCC has concluded that alternative voice technologies, like certain types of VoIP, should be regulated only at the federal level, rather than by individual states. A legal challenge to that FCC decision is pending. While the FCC’s decision appears to be a positive development for VoIP offerings, the FCC has demonstrated a willingness to impose some traditional telecommunications regulations on VoIP providers, requiring phone services using Internet Protocol technology to comply with traditional 911 emergency service obligations (“E911”) and universal service obligations. It has also extended its requirement for accommodating law enforcement wiretaps to such providers with a deadline for compliance in 2007, that requirement has been affirmed by the Court of Appeals for the D.C. Circuit. The extension of other traditional telecommunications common carrier requirements to VoIP providers could adversely affect our business. It is unclear how these regulatory matters ultimately will be resolved and how they will affect our potential expansion into phone service.

### **Pole Attachments**

The Communications Act requires most utilities to provide cable systems with access to poles and conduits and simultaneously subjects the rates charged for this access to either federal or state regulation. The Communications Act specifies that significantly higher rates apply if the cable plant is providing

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telecommunications service, in addition to cable service. The FCC has clarified that a cable operator's favorable pole rates are not endangered by the provision of Internet access, and that determination was upheld by the United States Supreme Court. To date, VoIP service has not been classified as either a telecommunications service or cable service under the Communications Act. If VoIP were classified as a telecommunications service under the Communications Act by the FCC, a state Public Utility Commission, or an appropriate court, it might result in significant increased pole attachment costs for us, which could adversely affect our financial condition and results of operations. It also remains possible that the underlying pole attachment formula, or its application to Internet and telecommunications offerings, will be modified in a manner that substantially increases our pole attachment costs.

### **Cable Equipment**

The FCC has undertaken several steps to promote competition in the delivery of cable equipment and compatibility with new digital technology. The FCC has expressly ruled that cable customers must be allowed to purchase set-top boxes from third parties and established a multi-year phase-in during which security functions (which would remain in the operator's exclusive control) would be unbundled from the basic converter functions, which could then be provided by third party vendors. The first phase of implementation has already passed. A prohibition on cable operators leasing digital set-top boxes that integrate security and basic navigation functions is currently scheduled to go into effect as of July 1, 2007. We have petitioned the FCC to waive the prohibition as applied to our least expensive digital set-top boxes. We cannot predict whether the FCC will grant our request.

The FCC has adopted rules implementing an agreement between major cable operators and manufacturers of consumer electronics on "plug and play" specifications for one-way digital televisions. The rules require cable operators to provide "CableCard" security modules and support to customer owned digital televisions and similar devices equipped with built-in set-top box functionality. Cable operators must support basic home recording rights and copy protection rules for digital programming content. The FCC's plug and play rules are under appeal, although the appeal has been stayed pending FCC reconsideration.

The FCC is conducting additional related rulemakings, and the cable and consumer electronics industries are currently negotiating an agreement that would establish additional specifications for two-way digital televisions. Congress is also considering companion "broadcast flag" legislation to provide copy protection for digital broadcast signals. It is unclear how this process will develop and how it will affect our offering of cable equipment and our relationship with our customers.

### **Other Communications Act Provisions and FCC Regulatory Matters**

In addition to the Communications Act provisions and FCC regulations noted above, there are other statutory provisions and FCC regulations affecting our business. The Communications Act, for example, includes cable and telecommunications-specific privacy obligations. The Communications Act carefully limits our ability to collect and disclose personal information.

FCC regulations include a variety of additional areas, including, among other things: (1) equal employment opportunity obligations; (2) customer service standards; (3) technical service standards; (4) mandatory blackouts of certain network, syndicated and sports programming; (5) restrictions on political advertising; (6) restrictions on advertising in children's programming; (7) restrictions on origination cablecasting; (8) restrictions on carriage of lottery programming; (9) sponsorship identification obligations; (10) closed captioning of video programming; (11) licensing of systems and facilities; (12) maintenance of public files; and (13) emergency alert systems.

It is possible that Congress or the FCC will expand or modify its regulation of cable systems in the future, and we cannot predict at this time how that might impact our business. For example, there have been recent discussions about imposing "indecent" restrictions directly on cable programming.

## **Copyright**

Cable systems are subject to federal copyright licensing covering carriage of television and radio broadcast signals. The possible modification or elimination of this compulsory copyright license is the subject of continuing legislative review and could adversely affect our ability to obtain desired broadcast programming. Moreover, the Copyright Office has not yet provided any guidance as to how the compulsory copyright license should apply to newly offered digital broadcast signals.

Copyright clearances for non-broadcast programming services are arranged through private negotiations. Cable operators also must obtain music rights for locally originated programming and advertising from the major music performing rights organizations. These licensing fees have been the source of litigation in the past, and we cannot predict with certainty whether license fee disputes may arise in the future.

## **Franchise Matters**

Cable systems generally are operated pursuant to nonexclusive franchises granted by a municipality or other state or local government entity in order to cross public rights-of-way. Cable franchises generally are granted for fixed terms and in many cases include monetary penalties for noncompliance and may be terminable if the franchisee fails to comply with material provisions.

The specific terms and conditions of cable franchises vary materially between jurisdictions. Each franchise generally contains provisions governing cable operations, franchise fees, system construction, maintenance, technical performance, and customer service standards. A number of states subject cable systems to the jurisdiction of centralized state government agencies, such as public utility commissions. Although local franchising authorities have considerable discretion in establishing franchise terms, there are certain federal protections. For example, federal law caps local franchise fees and includes renewal procedures designed to protect incumbent franchisees from arbitrary denials of renewal. Even if a franchise is renewed, however, the local franchising authority may seek to impose new and more onerous requirements as a condition of renewal. Similarly, if a local franchising authority's consent is required for the purchase or sale of a cable system, the local franchising authority may attempt to impose more burdensome requirements as a condition for providing its consent.

Different legislative proposals have been introduced and are being actively considered in the United States Congress and in some state legislatures that would greatly streamline cable franchising. This legislation is intended to facilitate entry by new competitors, particularly local telephone companies. Such legislation has already passed in a number of states in which we have operations and one of these newly enacted statutes is subject to court challenge. Although various legislative proposals provide some regulatory relief for incumbent cable operators, these proposals are generally viewed as being more favorable to new entrants due to a number of factors, including provisions withholding streamlined cable franchising from incumbents until after the expiration of their existing franchises and allowing new entrants to serve only higher-income areas of a particular community. To the extent incumbent cable operators are not able to avail themselves of this streamlined franchising process, such operators may continue to be subject to more onerous franchise requirements at the local level than new entrants. The FCC has initiated a proceeding to determine whether local franchising authorities are impeding the deployment of competitive cable services through unreasonable franchising requirements and whether such impediments should be preempted. At this time, we are not able to determine what impact such proceeding may have on us.

## MANAGEMENT

### Directors

CCH I, LLC and CCH II, LLC are holding companies with no operations. CCH I Capital Corp and CCH II Capital Corp. are wholly owned finance subsidiaries of CCH I, LLC and CCH II, LLC, respectively, that exist solely for the purpose of serving as co-obligor of CCH I's and CCH II's notes. CCH II, LLC, CCH I, LLC, CCH I Capital Corp and CCH II Capital Corp. do not have any employees. CCH II, LLC and CCH I, LLC, are wholly-owned indirect subsidiaries of Charter Holdings. See "Certain Relationships and Related Party Transactions — Transactions Arising Out of Our Organization Structure and Mr. Allen's Investment in Charter and Its Subsidiaries — Intercompany Management Arrangements."

Neil Smit is the sole director of CCH I Capital Corp. and CCH II Capital Corp. The persons listed below are directors of Charter, CCH I Capital Corp or CCH II Capital Corp. as indicated.

<u>Directors</u>	<u>Position(s)</u>
Paul G. Allen	Chairman of the board of directors
W. Lance Conn	Director of Charter
Nathaniel A. Davis	Director of Charter
Jonathan L. Dolgen	Director of Charter
Rajive Johri	Director of Charter
Robert P. May	Director of Charter
David C. Merritt	Director of Charter
Marc B. Nathanson	Director of Charter
Jo Allen Patton	Director of Charter
Neil Smit	Director of Charter, CCH I Capital Corp., CCH II Capital Corp., President and Chief Executive Officer of Charter and Charter Holdco
John H. Tory	Director of Charter
Larry W. Wangberg	Director of Charter

The following sets forth certain biographical information with respect to the directors listed above.

**Paul G. Allen**, 53, has been Chairman of Charter's board of directors since July 1999, and Chairman of the board of directors of Charter Investment, Inc. (a predecessor to, and currently an affiliate of, Charter) since December 1998. Mr. Allen co-founded Microsoft Corporation with Bill Gates in 1976 and remained the company's chief technologist until he left Microsoft Corporation in 1983. Mr. Allen is the founder and chairman of Vulcan Inc., a multibillion dollar investment portfolio that includes large stakes in DreamWorks Animation SKG, Digeo, Oxygen Media, real estate and more than 40 other technology, media and content companies. In 2004, Mr. Allen funded SpaceShipOne, the first privately-funded effort to successfully put a civilian in suborbital space and winner of the Ansari X-Prize competition. Mr. Allen also owns the Seattle Seahawks NFL and Portland Trail Blazers NBA franchises. In addition, Mr. Allen is a director of Vulcan Programming Inc., Vulcan Ventures, Vulcan Inc., Vulcan Cable III Inc., numerous privately held companies and, until its sale in May 2004 to an unrelated third party, TechTV L.L.C.

**W. Lance Conn**, 38, was elected to the board of directors of Charter in September 2004. Since July 2004, Mr. Conn has served as Executive Vice President, Investment Management for Vulcan Inc., the investment and project management company that oversees a diverse multi-billion dollar portfolio of investments by Paul G. Allen. Prior to joining Vulcan Inc., Mr. Conn was employed by America Online, Inc., an interactive online services company, from March 1996 to May 2003. From 1997 to 2000, Mr. Conn served in various senior business development roles at America Online. In 2000, Mr. Conn began supervising all of America Online's European investments, alliances and business initiatives. In 2002, he became Senior Vice President of America Online U.S. where he led a company-wide effort to restructure and optimize America Online's operations. From September 1994 until February 1996, Mr. Conn was an attorney with the Shaw Pittman law



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firm in Washington, D.C. Mr. Conn holds a J.D. degree from the University of Virginia, a M.A. degree in history from the University of Mississippi and an A.B. degree in history from Princeton University.

**Nathaniel A. Davis**, 52, was elected to the board of directors of Charter on August 23, 2005. In July 2006, Mr. Davis became President and Chief Operating Officer of XM Satellite Radio Holdings, Inc. where he is also a director. Prior to that, from June 2003 until July 2006, Mr. Davis was Managing Director and owner of RANND Advisory Group, a technology consulting group, which advises venture capital, telecom and other technology related firms. From January 2000 through May of 2003, he was President and Chief Operating Officer of XO Communication, Inc. XO Communications filed a petition to reorganize under Chapter 11 of the Bankruptcy Code in June 2002 and completed its restructuring and emerged from Chapter 11 in January 2003. From October 1998 to December 1999 he was Executive Vice President, Network and Technical Services of Nextel Communications, Inc. Prior to that, he worked for MCI Communications from 1982 until 1998 in a number of positions, including as Chief Financial Officer of MCIT from November 1996 until October 1998. Previously, Mr. Davis served in a variety of roles that include Senior Vice President of Network Operations, Chief Operating Officer of MCImetro, Senior Vice President of Finance and Vice President of Systems Development. Mr. Davis holds a B.S. degree from Stevens Institute of Technology, an M.S. degree from Moore School of Engineering and an M.B.A. degree from the Wharton School at the University of Pennsylvania. He is a member of the board of Mutual of America Capital Management Corporation.

**Jonathan L. Dolgen**, 61, was elected to the board of directors of Charter in October 2004. Since July 2004, Mr. Dolgen has also been a Senior Advisor to Viacom Inc. ("Old Viacom"), a worldwide entertainment and media company, where he provided advisory services to the Chief Executive Officer of Old Viacom, or others designated by him, on an as requested basis. Effective December 31, 2005, Old Viacom was separated into two publicly traded companies, Viacom Inc. ("New Viacom") and CBS Corporation. Since the separation of Old Viacom, Mr. Dolgen provides advisory services to the Chief Executive Officer of New Viacom, or others designated by him, on an as requested basis. Since July 2004, Mr. Dolgen has been a private investor and since September 2004, Mr. Dolgen has been a principal of Wood River Ventures, LLC, a private start-up entity that seeks investment and other opportunities primarily in the media sector and seeks to provide consulting services. Mr. Dolgen is also a member of the board of directors of Expedia, Inc. From April 1994 to July 2004, Mr. Dolgen served as Chairman and Chief Executive Officer of the Viacom Entertainment Group, a unit of Old Viacom, where he oversaw various operations of Old Viacom's businesses, which during 2003 and 2004 primarily included the operations engaged in motion picture production and distribution, television production and distribution, regional theme parks, theatrical exhibition and publishing. As a result of the separation of Old Viacom, Old Viacom's motion picture production and distribution and theatrical exhibition businesses became part of New Viacom's businesses, and the remainder of Old Viacom's businesses overseen by Mr. Dolgen remained with CBS Corporation. Mr. Dolgen began his career in the entertainment industry in 1976, and until joining the Viacom Entertainment Group, served in executive positions at Columbia Pictures Industries, Inc., Twentieth Century Fox and Fox, Inc., and Sony Pictures Entertainment. Mr. Dolgen holds a B.S. degree from Cornell University and a J.D. degree from New York University.

**Rajive Johri**, 56, was elected to the board of directors of Charter on April 18, 2006. Since June 2006, Mr. Johri has served as President and Director of First National Bank of Omaha. From September 2005 to June 2006, he served as President of the First National Credit Cards Center for First National Bank of Omaha. From August 2004 to September 2005, he served as Executive Consultant for Park Li Group in New York, NY. Prior to that, Mr. Johri served as Executive Vice President, Marketing for J.P. Morgan Chase Bank from September 1999 until August 2004. From 1985 to 1999, Mr. Johri was employed by Citibank N.A. in a number of management positions. Mr. Johri is a director for First National Bank of Nebraska and Chairman of InfiCorp/ InfiBank. Mr. Johri received a bachelor's of technology degree in Mechanical Engineering from Indian Institute of Technology in New Delhi, India and a M.B.A. degree in Marketing and Finance from Indian Institute of Management in Calcutta, India.

**Robert P. May**, 57, was elected to Charter's board of directors in October 2004 and was Charter's Interim President and Chief Executive Officer from January until August 2005. Mr. May was named Chief Executive Officer and a director of Calpine Corporation, a power company, in December 2005. Calpine filed for

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Chapter 11 bankruptcy reorganization in December 2005. He served on the board of directors of HealthSouth Corporation, a national provider of healthcare services, from October 2002 until October 2005, and was its Chairman from July 2004 until October 2005. Mr. May also served as HealthSouth Corporation's Interim Chief Executive Officer from March 2003 until May 2004, and as Interim President of its Outpatient and Diagnostic Division from August 2003 to January 2004. Since March 2001, Mr. May has been a private investor and principal of RPM Systems, which provides strategic business consulting services. From March 1999 to March 2001, Mr. May served on the board of directors and was Chief Executive of PNV Inc., a national telecommunications company. Prior to his employment at PNV Inc., Mr. May was Chief Operating Officer and a member of the board of directors of Cablevision Systems Corporation from October 1996 to February 1998, and from 1973 to 1993 he held several senior executive positions with Federal Express Corporation, including President, Business Logistics Services. He is a member of Deutsche Bank of Americas Advisory Board. Mr. May was educated at Curry College and Boston College and attended Harvard Business School's Program for Management Development.

**David C. Merritt**, 52, was elected to the board of directors of Charter in July 2003, and was also appointed as Chairman of Charter's Audit Committee at that time. Since October 2003, Mr. Merritt has been a Managing Director of Salem Partners, LLC, an investment banking firm. He was a Managing Director in the Entertainment Media Advisory Group at Gerard Klauer Mattison & Co., Inc., a company that provided financial advisory services to the entertainment and media industries from January 2001 through April 2003. From July 1999 to November 2000, he served as Chief Financial Officer of CKE Associates, Ltd., a privately held company with interests in talent management, film production, television production, music and new media. He also served as a director of Laser-Pacific Media Corporation from January 2001 until October 2003 and served as Chairman of its audit committee. In December 2003, he became a director of Outdoor Channel Holdings, Inc. and serves as Chairman of its audit committee. Mr. Merritt joined KPMG in 1975 and served in a variety of capacities during his years with the firm, including national partner in charge of the media and entertainment practice. Mr. Merritt was an audit and consulting partner of KPMG for 14 years. In February 2006, Mr. Merritt became a director of Calpine Corporation. Mr. Merritt holds a B.S. degree in business and accounting from California State University — Northridge.

**Marc B. Nathanson**, 61, has been a director of Charter since January 2000 and serves as Vice Chairman of Charter's board of directors, a non-executive position. Mr. Nathanson is the Chairman of Mapleton Investments LLC, an investment vehicle formed in 1999. He also founded and served as Chairman and Chief Executive Officer of Falcon Holding Group, Inc., a cable operator, and its predecessors, from 1975 until 1999. He served as Chairman and Chief Executive Officer of Enstar Communications Corporation, a cable operator, from 1988 until November 1999. Prior to 1975, Mr. Nathanson held executive positions with Teleprompter Corporation, Warner Cable and Cypress Communications Corporation. In 1995, he was appointed by the President of the United States to the Broadcasting Board of Governors, and from 1998 through September 2002, served as its Chairman. Mr. Nathanson holds a B.A. degree in mass communications from the University of Denver and a M.A. degree in political science from University of California/ Santa Barbara.

**Jo Allen Patton**, 48, has been a director of Charter since April 2004. Ms. Patton joined Vulcan Inc. as Vice President in 1993, and since that time she has served as an officer and director of many affiliates of Mr. Allen, including her current position as President and Chief Executive Officer of Vulcan Inc. since July 2001. Ms. Patton is also President of Vulcan Productions, an independent feature film and documentary production company, Vice Chair of First & Goal, Inc., which developed and operated the Seattle Seahawks NFL stadium, and serves as Executive Director of the six Paul G. Allen Foundations. Ms. Patton is a co-founder of the Experience Music Project museum, as well as the Science Fiction Museum and Hall of Fame. Ms. Patton is the sister of Mr. Allen.

**Neil Smit**, 47, was elected a director and President and Chief Executive Officer of Charter on August 22, 2005. He had previously worked at Time Warner, Inc. since 2000, most recently serving as the President of Time Warner's America Online Access Business. He also served at America Online ("AOL") as Executive Vice President, Member Development, Senior Vice President of AOL's product and programming team, Chief Operating Officer of AOL Local and Chief Operating Officer of MapQuest. Prior to that he was a

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Regional President with Nabisco and was with Pillsbury in a number of management positions. Mr. Smit has a B.S. degree from Duke University and a M.S. degree with a focus in international business from Tufts University's Fletcher School of Law and Diplomacy.

**John H. Tory**, 52, has been a director of Charter since December 2001. Mr. Tory served as the Chief Executive Officer of Rogers Cable Inc., Canada's largest broadband cable operator, from 1999 until 2003. From 1995 to 1999, Mr. Tory was President and Chief Executive Officer of Rogers Media Inc., a broadcasting and publishing company. Prior to joining Rogers, Mr. Tory was a Managing Partner and member of the executive committee at Tory Tory DesLauriers & Binnington, one of Canada's largest law firms. Mr. Tory serves on the board of directors of Rogers Telecommunications Limited and Cara Operations Limited and is Chairman of Cara Operations' Audit Committee. Mr. Tory was educated at University of Toronto Schools, Trinity College (University of Toronto) and Osgoode Hall Law School. Effective September 18, 2004, Mr. Tory was elected Leader of the Ontario Progressive Conservative Party. On March 17, 2005, he was elected a Member of the Provincial Parliament and on March 29, 2005, became the Leader of Her Majesty's Loyal Opposition.

**Larry W. Wangberg**, 64, has been a director of Charter since January 2002. Since July 2002, Mr. Wangberg has been an independent business consultant. From August 1997 to May 2004, Mr. Wangberg was a director of TechTV L.L.C., a cable television network controlled by Mr. Allen. He also served as its Chairman and Chief Executive Officer from August 1997 through July 2002. In May 2004, TechTV L.L.C. was sold to an unrelated party. Prior to joining TechTV L.L.C., Mr. Wangberg was Chairman and Chief Executive Officer of StarSight Telecast Inc., an interactive navigation and program guide company which later merged with Gemstar International, from 1994 to 1997. Mr. Wangberg was Chairman and Chief Executive Officer of Times Mirror Cable Television and Senior Vice President of its corporate parent, Times Mirror Co., from 1983 to 1994. He currently serves on the boards of Autodesk Inc. and ADC Telecommunications, Inc. Mr. Wangberg holds a B.S. degree in mechanical engineering and a M.S. degree in industrial engineering, both from the University of Minnesota.

### **Board of Directors and Committees of the Board of Directors**

Charter's board of directors meets regularly throughout the year on a set schedule. The board may also hold special meetings and act by written consent from time to time if necessary. Meetings of the independent members of the board occur from time to time. Management is not present at these meetings.

Charter's board of directors delegates authority to act with respect to certain matters to board committees whose members are appointed by the board. As of August 31, 2006 the following were the committees of Charter's board of directors: Audit Committee, Finance Committee, Compensation and Benefits Committee, Executive Committee, Strategic Planning Committee, and Corporate Governance Committee.

Charter's Audit Committee, which has a written charter approved by the board, consists of Nathaniel Davis, Rajive Johri and David Merritt, all of whom are believed to be independent in accordance with the applicable corporate governance listing standards of the Nasdaq Global Market. Charter's board of directors has determined that, in its judgment, David Merritt is an audit committee financial expert within the meaning of the applicable federal regulations.

### **Director Compensation**

Each non-employee member of Charter's board receives an annual retainer of \$40,000 in cash plus restricted stock, vesting one year after the date of grant. Prior to August 29, 2005, the value on the date of grant was \$50,000. Beginning August 29, 2005 and going forward, each director will receive an annual grant with a value on that date of \$65,000. In addition, Charter's Audit Committee chair receives \$25,000 per year, and the chair of each other committee receives \$10,000 per year. Prior to February 22, 2005, all committee members also received \$1,000 for attendance at each committee meeting. Beginning on February 22, 2005 each director also receives \$1,000 for telephonic attendance at each meeting of the full board and \$2,000 for in-person attendance. Each director of Charter is entitled to reimbursement for costs incurred in connection with attendance at board and committee meetings. Vulcan has informed us that, in accordance

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with its internal policy, Mr. Conn turns over to Vulcan all cash compensation he receives for his participation on Charter's board of directors or committees thereof.

Directors who were employees did not receive additional compensation in 2004 or 2005. Messrs. Vogel and Smit, who were Charter's President and Chief Executive Officer in 2005, were the only directors who were also employees during 2005. Mr. May, who was Charter's Interim President and Chief Executive Officer from January 2005 until August 2005, was not an employee. However, he received fees and a bonus pursuant to an agreement. See "— Employment Arrangements and Related Agreements."

Charter's Bylaws provide that all directors are entitled to indemnification to the maximum extent permitted by law from and against any claims, damages, liabilities, losses, costs or expenses incurred in connection with or arising out of the performance by them of their duties for Charter or its subsidiaries.

### **Executive Officers**

The following persons are executive officers of Charter and other than Mr. Allen, also hold similar positions with Charter Holdco, CCHC, Charter Holdings, CCH II, LLC, CCH II Capital Corp. and Charter Operating:

<b>Executive Officers</b>	<b>Position</b>
Paul G. Allen	Chairman of the Board of Directors
Neil Smit	President and Chief Executive Officer
Michael J. Lovett	Executive Vice President and Chief Operating Officer
Jeffrey T. Fisher	Executive Vice President and Chief Financial Officer
Grier C. Raclin	Executive Vice President, General Counsel and Corporate Secretary
Marwan Fawaz	Executive Vice President and Chief Technical Officer
Robert A. Quigley	Executive Vice President and Chief Marketing Officer
Sue Ann R. Hamilton	Executive Vice President, Programming
Lynne F. Ramsey	Senior Vice President, Human Resources
Kevin D. Howard	Vice President and Chief Accounting Officer

Information regarding our executive officers who do not serve as directors is set forth below.

**Michael J. Lovett**, 45, Executive Vice President and Chief Operating Officer. Mr. Lovett was promoted to his current position in April 2005. Prior to that he served as Executive Vice President, Operations and Customer Care from September 2004 through March 2005, and as Senior Vice President, Midwest Division Operations and as Senior Vice President of Operations Support, since joining Charter in August 2003 until September 2004. Mr. Lovett was Chief Operating Officer of Voyant Technologies, Inc., a voice conferencing hardware and software solutions provider, from December 2001 to August 2003. From November 2000 to December 2001, he was Executive Vice President of Operations for OneSecure, Inc., a startup company delivering management/monitoring of firewalls and virtual private networks. Prior to that, Mr. Lovett was Regional Vice President at AT&T from June 1999 to November 2000 where he was responsible for operations. Mr. Lovett was Senior Vice President at Jones Intercable from October 1989 to June 1999 where he was responsible for operations in nine states. Mr. Lovett began his career in cable television at Centel Corporation where he held a number of positions. Mr. Lovett serves on the board of directors for Conversant Communications and Digeo, Inc.

**Jeffrey T. Fisher**, 44, Executive Vice President and Chief Financial Officer. Mr. Fisher was appointed to the position of Executive Vice President and Chief Financial Officer, effective February 6, 2006. Prior to joining Charter, Mr. Fisher was employed by Delta Airlines, Inc. from 1998 to 2006 in a number of positions including Senior Vice President — Restructuring from September 2005 until January 2006, President and General Manager of Delta Connection, Inc. from January to September 2005, Chief Financial Officer of Delta Connection from 2001 until January 2005, Vice President of Finance, Marketing and Sales Controller of Delta Airlines in 2001 and Vice President of Financial Planning and Analysis of Delta Airlines from 2000 to

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2001. Delta Airlines filed a petition under Chapter 11 of the Bankruptcy Code on September 14, 2005. Mr. Fisher received a B.B.M. degree from Embry Riddle University and a M.B.A. degree in International Finance from University of Texas in Arlington, Texas.

**Grier C. Raclin**, 53, Executive Vice President, General Counsel and Corporate Secretary. Mr. Raclin joined Charter in his current position in October 2005. Prior to joining Charter, Mr. Raclin had served as the Chief Legal Officer and Corporate Secretary of Savvis Communications Corporation from January 2003 until October 2005. Prior to joining Savvis, Mr. Raclin served as Executive Vice President, Chief Administrative Officer, General Counsel and Corporate Secretary from 2000 to 2002 and as Senior Vice President of Corporate Affairs, General Counsel and Corporate Secretary from 1997 to 2000 of Global TeleSystems Inc. (“GTS”). In 2001, GTS filed, in pre-arranged proceedings, a petition for “surseance” (moratorium), offering a composition, in The Netherlands and a petition under Chapter 11 of the United States Bankruptcy Code, both in connection with the sale of the company to KPNQwest. Prior to joining GTS, Mr. Raclin was Vice-Chairman and a Managing Partner of Gardner, Carton and Douglas in Washington, D.C. Mr. Raclin earned a J.D. degree from Northwestern University Law School, where he served on the Editorial Board of the Northwestern University Law School Law Review, attended business school at the University of Chicago Executive Program and earned a B.S. degree from Northwestern University, where he was a member of Phi Beta Kappa.

**Marwan Fawaz**, 43, Executive Vice President and Chief Technical Officer. Mr. Fawaz joined Charter in his current position on August 1, 2006. Prior to that, he served as Senior Vice President and Chief Technical Officer for Adelphia Communications Corporation (“Adelphia”) from March 2003 until July 2006. Adelphia filed a petition under Chapter 11 of the Bankruptcy Code in June 2002. From May 2002 to March 2003, he served as Investment Specialist/ Technology Analyst for Vulcan, Inc. Mr. Fawaz served as Regional Vice President of Operations for the Northwest Region for Charter from July 2001 to March 2002. From July 2000 to Dec 2000, he served as Chief Technology Officer for Infinity Broadband. He served as Vice President — Engineering and Operations at MediaOne, Inc. from January 1996 to June 2000. Mr. Fawaz received a B.S. degree in electrical engineering and a M.S. in electrical/communication-engineering from California State University — Long Beach.

**Robert A. Quigley**, 62, Executive Vice President and Chief Marketing Officer. Mr. Quigley joined Charter in his current position in December 2005. Prior to joining Charter, Mr. Quigley was President and CEO at Quigley Consulting Group, LLC, a private consulting group, from April 2005 to December 2005. From March 2004 to March 2005, he was Executive Vice President of Sales and Marketing at Cardean Education Group (formerly UNext com LLC), a private online education company. From February 2000 to March 2004, Mr. Quigley was Executive Vice President of America Online and Chief Operating Officer of its Consumer Marketing division. Prior to America Online, he was owner, President and CEO of Wordsquare Publishing Co. from July 1994 to February 2000. Mr. Quigley is a graduate of Wesleyan University with a B.A. degree in history and is a member of the Direct Marketing Association board of directors.

**Sue Ann R. Hamilton**, 45, Executive Vice President, Programming. Ms. Hamilton joined Charter as Senior Vice President of Programming in March 2003 and was promoted to her current position in April 2005. From March 1999 to November 2002, Ms. Hamilton served as Vice President of Programming for AT&T Broadband, L.L.C. Prior to that, from October 1993 to March 1999, Ms. Hamilton held numerous management positions at AT&T Broadband, L.L.C. and Tele-Communications, Inc. (TCI), which was acquired by AT&T Broadband, L.L.C. in 1999. Prior to her cable television career with TCI, she was a partner with Kirkland & Ellis representing domestic and international clients in complex commercial transactions and securities matters. A magna cum laude graduate of Carleton College in Northfield, Minnesota, Ms. Hamilton received a J.D. degree from Stanford Law School, where she was Associate Managing Editor of the *Stanford Law Review* and Editor of the *Stanford Journal of International Law*.

**Lynne F. Ramsey**, 49, Senior Vice President, Human Resources. Ms. Ramsey joined Charter’s Human Resources group in March 2001, serving as Corporate Vice President, Human Resources and was promoted to Senior Vice President in July 2004. Before joining Charter, Ms. Ramsey was Executive Vice President of Human Resources for Broadband Infrastructure Group from March 2000 through November 2000. From

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1994 to 1999, Ms. Ramsey served as Senior Vice President of Human Resources for Firststar Bank, previously Mercantile Bank of St. Louis. She served as Vice President of Human Resources for United Postal Savings, where she worked from 1982 through 1994, at which time it was acquired by Mercantile Bank of St. Louis. Ms. Ramsey received a bachelor's degree in Education from Maryville College and a master's degree in Human Resources Management from Washington University in St. Louis.

**Kevin D. Howard**, 37, Vice President and Chief Accounting Officer. Mr. Howard was promoted to his current position in April 2006. Prior to that, he served as Vice President of Finance from April 2003 until April 2006 and as Director of Financial Reporting since joining Charter in April 2002. Mr. Howard began his career at Arthur Andersen LLP in 1993 where he held a number of positions in the audit division prior to leaving in April 2002. Mr. Howard received a B.S.B.A. degree in finance and economics from the University of Missouri — Columbia and is a certified public accountant, certified managerial accountant and certified in financial management.

### **Compensation and Benefits Committee Interlocks and Insider Participation**

At the beginning of 2005, Mr. Lillis and Mr. Merritt served as the Option Plan Committee which administered the 1999 Charter Communications Option Plan and the Charter Communications, Inc. 2001 Stock Incentive Plan and the Compensation and Benefits Committee consisted of Messrs. Allen, Lillis and Nathanson. The Option Plan Committee and the Compensation and Benefits Committee merged in February 2005 and the committee then consisted of Messrs. Allen, Merritt and Nathanson. Mr. May joined the committee in August 2005. The Compensation and Benefits Committee is currently comprised of Messrs. Allen, May, Merritt and Nathanson.

No member of Charter's Compensation and Benefits Committee or its Option Plan Committee was an officer or employee of Charter or any of its subsidiaries during 2005, except for Mr. Allen who served as a non-employee chairman of the Compensation and Benefits Committee and Mr. May who served in a non-employee capacity as Interim President and Chief Executive Officer from January 2005 until August 2005. Mr. May joined the Compensation and Benefits Committee in August 2005 after his service as Interim President and Chief Executive Officer. Also, Mr. Nathanson was an officer of certain subsidiaries of Charter prior to their acquisition by Charter in 1999 and held the title of Vice Chairman of Charter's board of directors, a non-executive, non-salaried position in 2005. Mr. Allen is the 100% owner and a director of Vulcan Inc. and certain of its affiliates, which employs Mr. Conn and Ms. Patton as executive officers. Mr. Allen also was a director of and indirectly owned 98% of TechTV, of which Mr. Wangberg, one of Charter's directors, was a director until the sale of TechTV to an unrelated third party in May 2004. Transactions between Charter and members of the Compensation and Benefits Committee are more fully described in "— Director Compensation" and in "Certain Relationships and Related Party Transactions — Other Miscellaneous Relationships."

During 2005, (1) none of Charter's executive officers served on the Compensation and Benefits Committee of any other company that has an executive officer currently serving on Charter's board of directors, Compensation and Benefits Committee or Option Plan Committee and (2) none of Charter's executive officers served as a director of another entity, one of whose executive officers served on the Compensation and Benefits Committee or Option Plan Committee, except for Carl Vogel who served as a director of Digeo, Inc., an entity of which Paul Allen is a director and by virtue of his position as Chairman of the board of directors of Digeo, Inc. is also a non-employee executive officer. Mr. Lovett was appointed a director of Digeo, Inc. in December 2005.

**Summary Compensation Table**

The following table sets forth information as of December 31, 2005 regarding the compensation of those executive officers listed below for services rendered for the fiscal years ended December 31, 2003, 2004 and 2005. These officers consist of the three individuals who served as Chief Executive Officer and each of the other four most highly compensated executive officers as of December 31, 2005.

Name and Principal Position	Year Ended Dec. 31	Annual Compensation			Long-Term Compensation Award		
		Salary (\$)	Bonus (\$)	Other Annual Compensation (\$)	Restricted Stock Awards (\$)	Securities Underlying Options (#)	All Other Compensation \$(1)
Neil Smit(2) President and Chief Executive Officer	2005	415,385	1,200,000(9)	—	3,278,500(21)	3,333,333	23,236(28)
	2004	—	—	—	—	—	—
Robert P. May(3) Former Interim President and Chief Executive Officer	2005	—	839,000(10)	1,360,239(16)	180,000(22)	—	—
	2004	—	—	10,000(16)	50,000(22)	—	—
Carl E. Vogel(4) Former President and Chief Executive Officer	2005	115,385	—	1,428(17)	—	—	1,697,451(29)
	2004	1,038,462	500,000(11)	38,977(17)	4,729,400(23)	580,000	3,239
Michael J. Lovett(5) Executive Vice President and Chief Operating Officer	2005	516,153	377,200	14,898(18)	265,980(24)	216,000	59,013(30)
	2004	291,346	241,888	7,797(18)	355,710(24)	172,000	6,994
Paul E. Martin(6) Senior Vice President, Interim Chief Financial Officer, Principal Accounting Officer and Corporate Controller	2005	350,950	299,017(13)	—	52,650(25)	83,700	7,047
	2004	193,173	25,000(13)	—	269,100(25)	77,500	6,530
Wayne H. Davis(7) Executive Vice President and Chief Technical Officer	2005	409,615	184,500	—	108,810(26)	145,800	3,527
	2004	269,231	61,370(14)	—	435,635(26)	135,000	2,278
Sue Ann R. Hamilton(8) Executive Vice President Programming	2005	362,700	152,438	—	107,838(27)	145,000	6,351
	2004	346,000	13,045	—	245,575(27)	90,000	3,996
	2003	225,000	231,250(15)	4,444(20)	—	200,000	1,710

- (1) Except as noted in notes 28 through 30 below respectively, these amounts consist of matching contributions under our 401(k) plan, premiums for supplemental life insurance available to executives, and long-term disability available to executives.
- (2) Mr. Smit joined Charter on August 22, 2005 in his current position.
- (3) Mr. May served as Interim President and Chief Executive Officer from January 2005 through August 2005.
- (4) Mr. Vogel resigned from all of his positions with Charter and its subsidiaries on January 17, 2005.
- (5) Mr. Lovett joined Charter in August 2003 and was promoted to his current position in April 2005.
- (6) Mr. Martin resigned from all of his positions with Charter and its subsidiaries on April 3, 2006.
- (7) Mr. Davis resigned from all of his positions with Charter and its subsidiaries on March 23, 2006.
- (8) Ms. Hamilton joined Charter in March 2003 and was promoted to her current position in April 2005.
- (9) Pursuant to his employment agreement, Mr. Smit received a \$1,200,000 bonus for 2005.
- (10) This bonus was paid pursuant to Mr. May's Executive Services Agreement. See "Employment Arrangements and Related Agreements."
- (11) Mr. Vogel's 2004 bonus was a mid-year discretionary bonus.
- (12) Mr. Vogel's 2003 bonus was determined in accordance with the terms of his employment agreement.

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- (13) Includes (i) for 2005, Mr. Martin's bonus included a guarantee bonus of \$50,000 for Mr. Martin's services as Interim Co-Chief Financial Officer and a discretionary bonus of \$50,000 and (ii) for 2004, a SOX implementation bonus of \$25,000.
- (14) Mr. Davis' 2004 bonus included a \$50,000 discretionary bonus.
- (15) Ms. Hamilton's 2003 bonus included a \$150,000 signing bonus.
- (16) Includes (i) for 2005, \$1,177,885 as compensation for services of Mr. May as Interim President and Chief Executive Officer pursuant to his Executive Services Agreement (see "Employment Arrangements and Related Agreements"), \$67,000 as compensation for services as a director on Charter's board of directors, \$15,717 attributed to personal use of the corporate airplane and \$99,637 for reimbursement for transportation and living expenses pursuant to Mr. May's Executive Services Agreement, and (ii) for 2004, compensation for services as a director on Charter's board of directors.
- (17) Includes (i) for 2005, \$1,428 attributed to personal use of the corporate airplane, (ii) for 2004, \$28,977 attributed to personal use of the corporate airplane and \$10,000 for tax advisory services, and (iii) for 2003, \$30,345 attributed to personal use of the corporate airplane and \$10,000 for tax advisory services.
- (18) Includes (i) for 2005, \$7,698 attributed to personal use of the corporate airplane and \$7,200 for automobile allowance, (ii) for 2004, \$597 attributed to personal use of the corporate airplane and \$7,200 for automobile allowance and (iii) for 2003, \$2,400 for automobile allowance.
- (19) Amount attributed to personal use of the corporate airplane.
- (20) Amount attributed to personal use of the corporate airplane.
- (21) Pursuant to his employment agreement, Mr. Smit received 1,250,000 restricted shares in August 2005, which will vest on the first anniversary of the grant date and 1,562,500 restricted shares in August 2005, which will vest over three years in equal one-third installments. See "Employment Arrangements and Related Agreements." At December 31, 2005, the value of all of Mr. Smit's unvested restricted stock holdings was \$3,431,250, based on a per share market value (closing sale price) of \$1.22 for the Class A common stock on December 31, 2005.
- (22) Includes (i) for 2005, 100,000 restricted shares granted in April 2005 under our 2001 Stock Incentive Program for Mr. May's services as Interim President and Chief Executive Officer that vested upon his termination in that position in August 2005 and 40,650 restricted shares granted in October 2005 under our 2001 Stock Incentive Program for Mr. May's annual director grant which vest on the first anniversary of the grant date, and (ii) for 2004, 19,685 restricted shares granted in October 2004 under our 2001 Stock Incentive Program for Mr. May's annual director grant, which vested on the first anniversary of the grant date in October 2005. At December 31, 2005, the value of all of Mr. May's unvested restricted stock holdings was \$49,593, based on a per share market value (closing sale price) of \$1.22 for the Class A common stock on December 31, 2005.
- (23) Includes 340,000 performance shares granted in January 2004 under our Long-Term Incentive Program that were to vest on the third anniversary of the grant date only if Charter meets certain performance criteria. Also includes 680,000 restricted shares issued in exchange for stock options held by Mr. Vogel pursuant to the February 2004 option exchange program described below, one half of which constituted performance shares which were to vest on the third anniversary of the grant date only if Charter met certain performance criteria, and the other half of which were to vest over three years in equal one-third installments. Under the terms of the separation agreement described below in "Employment Arrangements and Related Agreements," Mr. Vogel's options and remaining restricted stock vested until December 31, 2005, and all vested options were exercisable until sixty (60) days thereafter. All performance shares were forfeited upon termination of employment. All remaining unvested restricted stock and stock options were cancelled on December 31, 2005. Therefore, at December 31, 2005, the value of all of Mr. Vogel's unvested restricted stock holdings was \$0.
- (24) Includes (i) for 2005, 129,600 performance shares granted in April 2005 under our Long-Term Incentive Program which will vest on the third anniversary of the grant date only if Charter meets certain performance criteria and 75,000 restricted shares granted in April 2005 under our 2001 Stock Incentive Plan that will vest on the third anniversary of the grant date, and (ii) for 2004, 88,000



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performance shares granted under our Long-Term Incentive Program that will vest on the third anniversary of the grant date only if Charter meets certain performance criteria. At December 31, 2005, the value of all of Mr. Lovett's unvested restricted stock holdings (including performance shares) was \$356,972, based on a per share market value (closing sale price) of \$1.22 for the Class A common stock on December 31, 2005.

- (25) Includes (i) for 2005, \$40,500 performance shares granted under our Long-Term Incentive Program that will vest on the third anniversary of the grant date only if Charter meets certain performance criteria, and (ii) for 2004, 37,500 performance shares granted in January 2004 under our Long-Term Incentive Program which were to vest on the third anniversary of the grant date only if Charter meets certain performance criteria and 17,214 restricted shares issued in exchange for stock options held by Mr. Martin pursuant to the February 2004 option exchange program described below, one half of which constituted performance shares which were to vest on the third anniversary of the grant date only if Charter meets certain performance criteria, and the other half of which were to vest over three years in equal one-third installments. At December 31, 2005, the value of all of Mr. Martin's unvested restricted stock holdings (including performance shares) was \$112,661, based on a per share market value (closing sale price) of \$1.22 for the Class A common stock on December 31, 2005.
- (26) Includes (i) for 2005, 83,700 performance shares granted under our Long-Term Incentive Program that will vest on the third anniversary of the grant date only if Charter meets certain performance criteria, and (ii) for 2004, 77,500 performance shares granted in January 2004 under our Long-Term Incentive Program which will vest on the third anniversary of the grant date only if Charter meets certain performance criteria and 8,000 restricted shares issued in exchange for stock options held by Mr. Davis pursuant to the February 2004 option exchange program described below, one half of which constituted performance shares which will vest on the third anniversary of the grant date only if Charter meets certain performance criteria, and the other half of which will vest over three years in equal one-third installments. At December 31, 2005, the value of all of Mr. Davis's unvested restricted stock holdings (including performance shares) was \$204,797, based on a per share market value (closing sale price) of \$1.22 for the Class A common stock on December 31, 2005.
- (27) These restricted shares consist of 83,700 and 47,500 performance shares granted in 2005 and 2004 under our Long-Term Incentive Program that will vest on the third anniversary of the grant date only if Charter meets certain performance criteria. At December 31, 2005, the value of all of Ms. Hamilton's unvested restricted stock holdings (including performance shares) was \$160,064 based on a per share market value (closing sale price) of \$1.22 for the Class A common stock on December 31, 2005.
- (28) In addition to items in Note 1 above, includes \$19,697 attributed to reimbursement for taxes (on a "grossed up" basis) paid in respect of prior reimbursements for relocation expenses.
- (29) In addition to items in Note 1 above, includes accrued vacation at time of termination and severance payments pursuant to Mr. Vogel's separation agreement (See "— Employment Arrangements and Related Agreements").
- (30) In addition to items in Note 1 above, includes \$51,223 attributed to reimbursement for taxes (on a "grossed up" basis) paid in respect of prior reimbursements for relocation expenses.

### 2005 Option Grants

The following table shows individual grants of options made to individuals named in the Summary Compensation Table during 2005. All such grants were made under the 2001 Stock Incentive Plan and the exercise price was based upon the fair market value of our Class A common stock on the respective grant dates.

Name	Number of Securities Underlying Options Granted (#)(1)	% of Total Options Granted to Employees in 2005	Exercise Price (\$/Sh)	Expiration Date	Potential Realizable Value at Assumed Annual Rate of Stock Price Appreciation for Option Term(2)	
					5%(\$)	10%(\$)
Neil Smit	3,333,333	30.83%	\$ 1.18	8/22/2015	\$ 2,465,267	\$ 6,247,470
Robert P. May	—	—	—	—	—	—
Carl E. Vogel	—	—	—	—	—	—
Michael J. Lovett	216,000	2.00%	1.30	4/26/2015	175,914	445,802
Paul E. Martin	83,700	0.77%	1.30	4/26/2015	68,430	173,415
Wayne H. Davis	145,800	1.35%	1.30	4/26/2015	118,742	300,916
Sue Ann R. Hamilton	97,200	0.90%	1.53	3/25/2015	93,221	236,240
	47,800	0.44%	1.27	10/18/2015	38,208	96,826

- (1) Options are transferable under limited conditions, primarily to accommodate estate planning purposes. These options generally vest in four equal installments commencing on the first anniversary following the grant date.
- (2) This column shows the hypothetical gains on the options granted based on assumed annual compound price appreciation of 5% and 10% over the full ten-year term of the options. The assumed rates of 5% and 10% appreciation are mandated by the SEC and do not represent our estimate or projection of future prices.

### 2005 Aggregated Option Exercises and Option Value

The following table sets forth, for the individuals named in the Summary Compensation Table, (i) information concerning options exercised during 2005, (ii) the number of shares of the Class A common stock underlying unexercised options at year-end 2005, and (iii) the value of unexercised “in-the-money” options (i.e., the positive spread between the exercise price of outstanding options and the market value of the Class A common stock) on December 31, 2005.

Name	Shares Acquired on Exercise (#)	Value Realized(\$)	Number of Securities Underlying Unexercised Options at December 31, 2005 (#)(1)		Value of Unexercised In-the-Money Options at December 31, 2005 (\$)(2)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Neil Smit	—	—	—	3,333,333	—	\$ 133,333
Robert P. May	—	—	—	—	—	—
Carl E. Vogel(3)	—	—	1,120,000	—	—	—
Michael J. Lovett	—	—	93,000	395,000	—	—
Paul E. Martin(4)	—	—	143,125	193,075	—	—
Wayne H. Davis(5)	—	—	176,250	379,550	—	—
Sue Ann R. Hamilton	—	—	122,500	312,500	—	—

- (1) Options granted prior to 2001 and under the 1999 Charter Communications Option Plan, when vested, are exercisable for membership units of Charter Holdco which are immediately exchanged on a one-for-one basis for shares of the Class A common stock upon exercise of the option. Options granted under the 2001 Stock Incentive Plan and after 2000 are exercisable for shares of the Class A common stock.

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- (2) Based on a per share market value (closing price) of \$1.22 as of December 31, 2005 for the Class A common stock.
- (3) Mr. Vogel's employment terminated on January 17, 2005. Under the terms of the separation agreement, his options continued to vest until December 31, 2005, and all vested options were exercisable for sixty (60) days thereafter.
- (4) Mr. Martin's employment terminated on April 3, 2006. Under the terms of his January 9, 2006 retention agreement, his options continue to vest until September 2, 2007, and all vested options are exercisable until sixty (60) days thereafter.
- (5) Mr. Davis' employment terminated on March 23, 2006. Under the terms of his separation agreement, his options continue to vest until September 30, 2007, and all vested options are exercisable until sixty (60) days thereafter.

### Long-Term Incentive Plans — Awards in Last Fiscal Year

Name	Number of Shares, Units or Other Rights	Performance or Other Period Until Maturation or Payout	Estimated Future Payouts of Shares Under Non-Stock Price-Based Plans		
			Threshold	Target	Maximum
Neil Smit			—	—	—
Robert P. May			—	—	—
Carl E. Vogel			—	—	—
Michael J. Lovett		1 year performance cycle			
	129,600	3 year vesting	90,720	129,600	259,200
Paul E. Martin		1 year performance cycle			
	40,500	3 year vesting	28,350	40,500	81,000
Wayne H. Davis	83,700	1 year performance cycle			
		3 year vesting	58,590	83,700	167,400
Sue Ann R. Hamilton	83,700	1 year performance cycle			
		3 year vesting	58,590	83,700	167,400

### Option/ Stock Incentive Plans

**The Plans.** We have granted stock options, restricted stock and other incentive compensation under two plans — the 1999 Charter Communications Option Plan and the 2001 Stock Incentive Plan. The 1999 Charter Communications Option Plan provided for the grant of options to purchase membership units in Charter Holdco to current and prospective employees and consultants of Charter Holdco and its affiliates and to our current and prospective non-employee directors. Membership units received upon exercise of any options are immediately exchanged for shares of the Class A common stock on a one-for-one basis.

The 2001 Stock Incentive Plan provides for the grant of non-qualified stock options, stock appreciation rights, dividend equivalent rights, performance units and performance shares, share awards, phantom stock and shares of restricted stock (currently not to exceed 20,000,000 shares) as each term is defined in the 2001 Stock Incentive Plan. Employees, officers, consultants and directors of Charter and its subsidiaries and affiliates are eligible to receive grants under the 2001 Stock Incentive Plan. Generally, options expire 10 years from the grant date. Unless sooner terminated by our board of directors, the 2001 Stock Incentive Plan will terminate on February 12, 2011, and no option or award can be granted thereafter.

Together, the plans allow for the issuance of up to a total of 90,000,000 shares of the Class A common stock (or units exchangeable for the Class A common stock). Any shares covered by options that are terminated under the 1999 Charter Communications Option Plan will be transferred to the 2001 Stock Incentive Plan, and no new options will be granted under the 1999 Charter Communications Option Plan. At December 31, 2005, 1,317,520 shares had been issued under the plans upon exercise of options, 825,725 had been issued upon vesting of restricted stock granted under the plans, and 4,252,570 shares were subject to

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future vesting under restricted stock agreements. Of the remaining 83,604,185 shares covered by the plans, as of December 31, 2005, 29,126,744 were subject to outstanding options (34% of which were vested), and there were 11,719,032 performance shares granted under Charter's Long-Term Incentive Program as of December 31, 2005, to vest on the third anniversary of the date of grant conditional upon Charter's performance against certain financial targets approved by Charter's board of directors at the time of the award. As of December 31, 2005, 42,758,409 shares remained available for future grants under the plans. As of December 31, 2005, there were 5,341 participants in the plans.

The plans authorize the repricing of options, which could include reducing the exercise price per share of any outstanding option, permitting the cancellation, forfeiture or tender of outstanding options in exchange for other awards or for new options with a lower exercise price per share, or repricing or replacing any outstanding options by any other method.

**Long-Term Incentive Program.** In January 2004, the Compensation and Benefits Committee of our board of directors approved our Long-Term Incentive Program (the "LTIP") which is a program administered under the 2001 Stock Incentive Plan. Under the LTIP, employees of Charter and its subsidiaries whose pay classifications exceed a certain level are eligible to receive stock options, and more senior level employees were eligible to receive stock options and performance shares. The stock options vest 25% on each of the first four anniversaries of the date of grant. The performance shares vest on the third anniversary of the date of grant, conditional upon our performance against financial performance measures established by our management and approved by the board of directors or Compensation and Benefits Committee as of the time of the award. Charter granted 3.2 million performance shares in 2005 under this program except that the 2005 performance share grants are based on a one-year performance cycle. We recognized expense of \$1 million in the first three quarters of 2005. However, in the fourth quarter of 2005, we reversed the entire \$1 million of expense based on our assessment of the probability of achieving the financial performance measures established by management and required to be met for the performance shares to vest. In February 2006, Charter's Compensation and Benefits Committee approved achievement of the financial performance measures required for the 2005 performance shares to vest at a level of 86.25%. Management believes that approximately 2.5 million of the performance shares are likely to vest. As such, expense of approximately \$3 million will be amortized over the remaining two year service period.

The 2001 Stock Incentive Plan must be administered by, and grants and awards to eligible individuals must be approved by, our board of directors or a committee thereof consisting solely of non-employee directors as defined in Section 16b-3 under the Securities Exchange Act of 1934, as amended. The board of directors or such committee determines the terms of each stock option grant, restricted stock grant or other award at the time of grant, including the exercise price to be paid for the shares, the vesting schedule for each option, the price, if any, to be paid by the grantee for the restricted stock, the restrictions placed on the shares, and the time or times when the restrictions will lapse. The board of directors or such committee also has the power to accelerate the vesting of any grant or extend the term thereof.

Upon a change of control of Charter, the board of directors or the administering committee can shorten the exercise period of any option, have the survivor or successor entity assume the options with appropriate adjustments, or cancel options and pay out in cash. If an optionee's or grantee's employment is terminated without "cause" or for "good reason" following a "change in control" (as those terms are defined in the plans), unless otherwise provided in an agreement, with respect to such optionee's or grantee's awards under the plans, all outstanding options will become immediately and fully exercisable, all outstanding stock appreciation rights will become immediately and fully exercisable, the restrictions on the outstanding restricted stock will lapse, and all of the outstanding performance shares will vest and the restrictions on all of the outstanding performance shares will lapse as if all performance objectives had been satisfied at the maximum level.

**February 2004 Option Exchange.** In January 2004, we offered employees of Charter and its subsidiaries the right to exchange all stock options (vested and unvested) under the 1999 Charter Communications Option Plan and 2001 Stock Incentive Plan that had an exercise price over \$10 per share for shares of restricted Charter Class A common stock or, in some instances, cash. Based on a sliding exchange ratio,

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which varied depending on the exercise price of an employee's outstanding options, if an employee would have received more than 400 shares of restricted stock in exchange for tendered options, we issued to that employee shares of restricted stock in the exchange. If, based on the exchange ratios, an employee would have received 400 or fewer shares of restricted stock in exchange for tendered options, we instead paid to the employee cash in an amount equal to the number of shares the employee would have received multiplied by \$5.00. The offer applied to options to purchase a total of 22,929,573 shares of Class A common stock, or approximately 48% of our 47,882,365 total options (vested and unvested) issued and outstanding as of December 31, 2003. Participation by employees was voluntary. Non-employee members of the board of directors of Charter or any of its subsidiaries were not eligible to participate in the exchange offer.

In the closing of the exchange offer on February 20, 2004, we accepted for cancellation eligible options to purchase approximately 18,137,664 shares of Class A common stock. In exchange, we granted approximately 1,966,686 shares of restricted stock, including 460,777 performance shares to eligible employees of the rank of senior vice president and above, and paid a total cash amount of approximately \$4 million (which amount includes applicable withholding taxes) to those employees who received cash rather than shares of restricted stock. The restricted stock was granted on February 25, 2004. Employees tendered approximately 79% of the options eligible to be exchanged under the program.

The cost of the stock option exchange program was approximately \$10 million, with a 2004 cash compensation expense of approximately \$4 million and a non-cash compensation expense of approximately \$6 million to be expensed ratably over the three-year vesting period of the restricted stock issued in the exchange.

The participation of the named executive officers in this exchange offer is reflected in the following table:

Name	Date	Number of Securities Underlying Options Exchanged	Market Price of Stock at Time of Exchange (\$)	Exercise Price at Time of Exchange (\$)	New Exercise Price (\$)	Length of Original Option Term Remaining at Date of Exchange
Carl E. Vogel Former President and Chief Executive Officer	2/25/04	3,400,000	4.37	13.68	(1)	7 years 7 months
Paul E. Martin Former Senior Vice President, Interim Chief Financial Officer, Principal Accounting Officer and Corporate Controller	2/25/04	15,000 50,000 40,000	4.37 4.37 4.37	23.09 11.99 15.03	(2)	7 years 0 months 7 years 7 months 6 years 3 months
Wayne H. Davis Former Executive Vice President and Chief Technical Officer	2/25/04	40,000 40,000	4.37 4.37	23.09 12.27	(3)	7 years 0 months 7 years 11 months

- (1) On February 25, 2004, in exchange for 3,400,000 options tendered, 340,000 performance shares were granted with a three year performance cycle and three year vesting along with 340,000 restricted stock units with one-third of the shares vesting on each of the first three anniversaries of the date of grant. On the grant date, the price of our common stock was \$4.37.
- (2) On February 25, 2004, in exchange for 105,000 options tendered, 8,607 performance shares were granted with a three year performance cycle and three year vesting along with 8,607 restricted stock units with one-third of the shares vesting on each of the first three anniversaries of the grant date. On the grant date, the price of Charter's common stock was \$4.37.
- (3) On February 25, 2004, in exchange for 80,000 options tendered, 4,000 performance shares were granted with a three year performance cycle and three year vesting along with 4,000 restricted stock units with one-third of the shares vesting on each of the first three anniversaries of the grant date. On the grant date, the price of Charter's common stock was \$4.37.

## **2005 Executive Cash Award Plan**

On June 9, 2005, we adopted the 2005 Executive Cash Award Plan to provide additional incentive to, and retain the services of, certain officers of Charter and its subsidiaries, to achieve the highest level of individual performance and contribute to the success of Charter. Eligible participants are employees of Charter or any of its subsidiaries who have been recommended by the CEO and designated and approved as Plan participants by the Compensation and Benefits Committee Charter's board of directors. At the time the Plan was adopted, the interim CEO recommended and the Compensation and Benefits Committee designated and approved as Plan participants the permanent President and Chief Executive Officer position (when filled), Executive Vice President positions and selected Senior Vice President positions.

The Plan provides that each participant be granted an award which represents an opportunity to receive cash payments in accordance with the Plan. An award will be credited in book entry format to a participant's account in an amount equal to 100% of a participant's base salary on the date of Plan approval in 2005 and 20% of participant's base salary in each year 2006 through 2009, based on that participant's base salary as of May 1 of the applicable year. The Plan awards will vest at the rate of 50% of the plan award balance at the end of 2007 and 100% of the plan award balance at the end of 2009. Participants will be entitled to receive payment of the vested portion of the award if the participant remains employed by Charter continuously from the date of the participant's initial participation through the end of the calendar year in which his or her award becomes vested, subject to payment of pro-rated award balances to a participant who terminates due to death or disability or in the event we elect to terminate the Plan.

A participant's eligibility for, and right to receive, any payment under the Plan (except in the case of intervening death) is conditioned upon the participant first executing and delivering to Charter an agreement releasing and giving up all claims that participant may have against Charter and related parties arising out of or based upon any facts or conduct occurring prior to the payment date, and containing additional restrictions on post-employment use of confidential information, non-competition and nonsolicitation and recruitment of customers and employees.

In April 2006, the Plan was revised to accommodate new participants who become eligible for the Plan beginning in April 2006 through December 2006. For those new participants, an award will be credited in book entry format to a participant's account in an amount equal to 100% of a participant's base salary on the date of eligibility approval or hire in 2006 and 20% of participant's base salary in each year 2007 through 2010, based on that participant's base salary as of May 1 of the applicable year. The Plan awards will vest at the rate of 50% of the plan award balance at the end of 2008 and 100% of the Plan award balance at the end of 2010. All other terms and conditions remain the same.

## **Employment Arrangements and Related Agreements**

Charter and Neil Smit entered into an agreement as of August 9, 2005 whereby Mr. Smit will serve as Charter's President and Chief Executive Officer (the "Employment Agreement") for a term expiring on December 31, 2008, and Charter may extend the agreement for an additional two years by giving Mr. Smit written notice of its intent to extend not less than six months prior to the expiration of the Employment Agreement (Mr. Smit has the right to reject the extension within a certain time period as set forth in the Employment Agreement). Under the Employment Agreement, Mr. Smit will receive a \$1,200,000 base salary per year, through the third anniversary of the Employment Agreement, and thereafter \$1,440,000 per year for the remainder of the Employment Agreement. Mr. Smit shall be eligible to receive a performance-based target bonus of 125% of annualized salary, with a maximum bonus of 200% of annualized salary, as determined by the Compensation and Benefits Committee of Charter's board of directors. However, for 2005 only, he received a minimum bonus of \$1,200,000, provided only that he was employed by Charter on December 31, 2005. Under Charter's Long-Term Incentive Plan, he received options to purchase 3,333,333 shares of Class A common stock, exercisable for 10 years, with annual vesting of one-third of the grant in each of the three years from his employment date; a performance share award for a maximum of 4,123,720 shares of Class A common stock, to be earned during a three-year performance cycle starting January 2006; and a restricted stock award of 1,562,500 shares of Class A common stock, with

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annual vesting over three years following his employment date. In addition, Mr. Smit received another restricted stock award for 1,250,000 shares of Class A common stock which vested on the first anniversary of his employment date.

Mr. Smit received full reimbursement for his relocation expenses and will receive employee benefits consistent with those made generally available to other senior executives. In the event that Mr. Smit is terminated by Charter without “cause” or for “good reason termination,” as those terms are defined in the Employment Agreement, he will receive the greater of two times base salary or salary through the remainder to the term of the Employment Agreement; a pro rata bonus for the year of termination; full vesting of options and restricted shares; vesting of performance stock if targets are achieved; and a lump sum payment equal to twelve months of COBRA payments. The Employment Agreement contains non-compete provisions from six months to two years, depending on the type of termination. Charter will gross up federal taxes in the event that Mr. Smit is subject to any additional tax under Section 409A of the Internal Revenue Code.

Charter entered into an agreement with Robert May, effective January 17, 2005, whereby Mr. May served as Charter’s Interim President and Chief Executive Officer (the “May Executive Services Agreement”). Under the May Executive Services Agreement, Mr. May received a \$1,250,000 base fee per year. Mr. May continued to receive the compensation and reimbursement of expenses to which he was entitled in his capacity as a member of Charter’s board of directors. The May Executive Services Agreement provided that Charter would provide equity incentives commensurate with his position and responsibilities, as determined by Charter’s board of directors. Accordingly, Mr. May was granted 100,000 shares of restricted stock under Charter’s 2001 Stock Incentive Plan. The 100,000 restricted shares vested on the date on which Mr. May’s interim service as President and Chief Executive Officer terminated, August 22, 2005. Mr. May served as an independent contractor and was not entitled to any vacation or eligible to participate in any employee benefit programs of Charter. Charter reimbursed Mr. May for reasonable transportation costs from Mr. May’s residence in Florida or other locations to Charter’s offices and provided temporary living quarters or reimbursed expenses related thereto. The May Executive Services Agreement was terminated effective December 31, 2005 and upon termination of the Agreement, Mr. May was eligible for a bonus payment. On January 5, 2006, Charter paid him a bonus of \$750,000, with the possibility that such bonus would be increased by an additional percentage. In February 2006, Charter’s Compensation and Benefits Committee approved an additional bonus of approximately \$88,900 for Mr. May.

Charter and Michael Lovett entered into an employment agreement, effective as of February 28, 2006 (the “Lovett Agreement”), whereby Mr. Lovett will serve as its Executive Vice President and Chief Operating Officer at a salary of \$700,000 per year which is to be reviewed annually, and will perform such duties and responsibilities set forth in the Lovett Agreement. The Lovett Agreement amends, supersedes and replaces Mr. Lovett’s prior employment agreement dated March 31, 2005. The term of the Agreement is three years from the effective date and will be reviewed and considered for extension at 18-month intervals during Mr. Lovett’s employment. Under the Lovett Agreement, Mr. Lovett will be entitled to receive cash bonus payments in an amount per year targeted at 100% of salary in accordance with the senior management plan and to participate in all employee benefit plans that are offered to other senior executives. Mr. Lovett received a grant of 150,000 restricted shares of Class A common stock on the effective date of the Lovett Agreement, which will vest in equal installments over a three-year period from employment date; an award of 300,000 restricted shares of Class A common stock on the first anniversary of the Lovett Agreement, vesting in equal installments over a three-year period; an award of options to purchase 432,000 shares of Class A common stock under terms of Charter’s 2001 Stock Incentive Plan on the effective date of the Lovett Agreement; an award of options to purchase 864,000 shares of Class A common stock under the terms of the 2001 Stock Incentive Plan on the first anniversary of the Lovett Agreement; an award of 259,200 performance shares under the 2001 Stock Incentive Plan on the effective date of the Lovett Agreement and will be eligible to earn these shares over a performance cycle from January 2006 to December 2006; and an award of 518,400 performance shares under the 2001 Stock Incentive Plan on the first anniversary of the Lovett Agreement and will be eligible to earn these shares over a three-year performance cycle January 2007-December 2009.

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If terminated other than for “cause,” as such term is defined in the Lovett Agreement, prior to March 31, 2007, Mr. Lovett will receive relocation expenses to the city of his choice in the 48 contiguous states in accordance with Charter’s relocation policy. In the event that Mr. Lovett is terminated by Charter without “cause,” for “good reason” or by Mr. Lovett within 60 days following a “change in control,” as those terms are defined in the Lovett Agreement, Mr. Lovett will receive his salary for the remainder of the term of the Lovett Agreement; a pro rata bonus for the year of termination; and the immediate vesting of options, restricted stock and performance shares. The Lovett Agreement also contains a two-year non-solicitation clause.

As of January 20, 2006, Charter entered into an employment agreement with Jeffrey Fisher, Executive Vice President and Chief Executive Officer (the “Fisher Agreement”). The Fisher Agreement provides that Mr. Fisher will serve in an executive capacity as its Executive Vice President at a salary of \$500,000, to perform such executive, managerial and administrative duties as are assigned or delegated by the President and/or Chief Executive Officer, including but not limited to serving as Chief Financial Officer. The term of the Fisher Agreement is two years from the effective date. Under the Fisher Agreement, Mr. Fisher received a signing bonus of \$100,000 and he shall be eligible to receive a performance-based target bonus of up to 70% of salary and to participate in the Long-Term Incentive Plan and to receive such other employee benefits as are available to other senior executives. Mr. Fisher will participate in the 2005 Executive Cash Award Plan commencing in 2006 and, in addition, Charter will provide the same additional benefit to Mr. Fisher that he would have been entitled to receive under the Plan if he had participated in the Plan at the time of its inception in 2005. He also received a grant of 50,000 restricted shares of Class A common stock, which will vest in equal installments over a three-year period from his employment date; an award of options to purchase 1,000,000 shares of Class A common stock under terms of the 2001 Stock Incentive Plan on the effective date of the Fisher Agreement; and in the first quarter of 2006, an award of additional options to purchase 145,800 shares of Class A common stock under the 2001 Stock Incentive Plan. Those options shall vest in equal installments over a four-year time period from the grant date. In addition, in the first quarter of 2006, he received 83,700 performance shares under the 2001 Stock Incentive Plan and will be eligible to earn these shares over a three-year performance cycle from January 2006 to December 2008.

Mr. Fisher received relocation assistance pursuant to Charter’s executive homeowner relocation plan and the costs for temporary housing. In the event that Mr. Fisher is terminated by Charter without “cause” or for “good reason,” as those terms are defined in the Fisher Agreement, Mr. Fisher will receive his salary for the remainder of the term of the agreement or twelve months’ salary, whichever is greater; a pro rata bonus for the year of termination; a lump sum payment equal to payments due under COBRA for the greater of twelve months or the number of full months remaining in the term of the agreement; and the vesting of options and restricted stock for as long as severance payments are made. The Fisher Agreement contains a one-year non-compete provision (or until the end of the term of the Fisher Agreement, if longer) and a two-year non-solicitation clause.

Until his employment terminated on March 23, 2006, Wayne Davis was employed as Executive Vice President and Chief Technical Officer. On April 5, 2006, Charter entered into an agreement with Mr. Davis governing the terms and conditions of his resignation as an officer and employee of Charter, effective March 23, 2006 (the “Separation Agreement”). Under the terms of the Separation Agreement, Mr. Davis will receive the amount of base salary, calculated at an annual rate of \$450,000 from March 23, 2006 until September 30, 2007, (the “Separation Term”), which will be paid over the remainder of the Separation Term in equal bi-weekly installments on Charter’s regular pay days for executives. These payments will be made in accordance with section 409A of the Internal Revenue Code. Mr. Davis will be eligible for a prorated amount of incentive compensation for 2006 based on the period from January 1, 2006 and his termination date of March 23, 2006. This amount will be payable no later than April 1, 2007. Mr. Davis received a lump sum payment equal to 18 times the monthly cost, at the time of termination, for paid coverage for health, dental and vision benefits under COBRA. Any stock options and restricted stock previously granted to Mr. Davis will continue to vest during the remainder of the Separation Term. Mr. Davis agreed to abide by the non-disparagement provision in the Separation Agreement and released Charter from any claims arising out of or based upon any facts occurring prior to the date of the Separation Agreement. Mr. Davis has also agreed that



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he will continue to be bound by the non-competition, non-interference and non-disclosure provisions contained in his September 7, 2005 employment agreement.

On April 5, 2006, Charter entered into a consulting agreement with Mr. Davis governing the terms and conditions for his services as an independent consultant to Charter, effective March 23, 2006 (the "Consulting Agreement"). Mr. Davis will serve as an independent consultant for Charter providing such professional, executive and administrative duties, directives and assignments as may reasonable by assigned to him by the Chief Executive Officer, Chief Operating Officer or their designee, from March 24, 2006 until April 28, 2006 or such later date designated by Charter (the "Consulting Period"). Mr. Davis received \$45,000 in return for his services through April 28, 2006, which was paid on the regular Charter pay period for executives following April 28, 2006. If Charter requests Mr. Davis' services after April 28, 2006, Mr. Davis will be paid at a rate of \$1,730 per day for each worked thereafter, which he will receive on the next regular Charter pay period for executives immediately following the last day of service. Mr. Davis' payments as an independent consultant are separate from the payments he will receive pursuant to his Separation Agreement. During the Consulting Period, Mr. Davis will be reimbursed for reasonable expenses incurred at Charter's request in connection with his consulting activities, including but not limited to reasonable travel, lodging and entertainment expenses. Since Mr. Davis will not be an employee of Charter, he agrees that he will not be eligible for programs applicable to an employee of Charter, such as incentive, bonus and benefit plans, vacation, sick or paid leave and 401(k). Mr. Davis agrees that the confidentiality and non-disclosure obligations contained in his Separation Agreement and his employment agreement will extend during his Consulting Period.

On September 7, 2005, Charter entered into an employment agreement with Mr. Davis, then Executive Vice President and Chief Technical Officer. The agreement provided that Mr. Davis be employed in an executive capacity to perform such duties as were assigned or delegated by the President and Chief Executive Officer or the designee thereof, at a salary of \$450,000. The term of this agreement was two years from the date of the agreement. Mr. Davis was eligible to participate in Charter's Long-Term Incentive Plan, 2001 Stock Incentive Plan and to receive such employee benefits as are available to other senior executives. In the event that he was terminated by Charter without "cause" or for "good reason," as those terms are defined in the agreement, he would receive his salary for the remainder of the term of the agreement or twelve months' salary, whichever was greater; a pro rata bonus for the year of termination; a lump sum payment equal to payments due under COBRA for the greater of twelve months or the number of full months remaining in the term of the agreement; and the vesting of options and restricted stock for as long as severance payments are made. The agreement contains one-year, non-compete provisions (or until the end of the term of the agreement, if longer) in a Competitive Business, as such term is defined in the agreement, and two-year non-solicitation clauses.

Until his resignation in April 2006, Paul Martin was employed as Senior Vice President, Principal Accounting Officer and Corporate Controller. Upon resignation, the termination terms of his retention agreement went into effect. Effective January 9, 2006, Charter entered into a retention agreement with Mr. Martin, in which Mr. Martin agreed to remain as Interim Chief Financial Officer until at least March 31, 2006 or such time as Charter reassigns or terminates his employment, whichever occurs first (the "Termination Date"). On the Termination Date, Charter paid Mr. Martin a special retention bonus in a lump sum of \$116,200. This special retention bonus was in addition to any amounts due to Mr. Martin under the 2005 Executive Bonus Plan and to any other severance amounts, set forth below. Mr. Martin will not participate in any executive incentive or bonus plan for 2006 unless otherwise agreed to by the parties. In addition, pursuant to this agreement, Charter would treat (a) any termination of Mr. Martin's employment by Charter without cause, and other than due to death or disability, as such latter term is defined in his previously-executed employment agreement, after January 1, 2006, and (b) any termination by Mr. Martin of his employment for any reason after April 1, 2006 (including voluntary resignation), as if his employment terminated without cause and Charter would pay as severance to Mr. Martin an amount calculated pursuant to his employment agreement on the basis of his base salary as Controller and without regard to any additional compensation he had been receiving as Interim Chief Financial Officer. He also received three months of outplacement assistance at a level and from a provider selected by Charter in its sole discretion.

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On September 2, 2005, Charter entered into an employment agreement with Mr. Martin. The agreement provides that Mr. Martin would be employed in an executive capacity to perform such duties as are assigned or delegated by the President and Chief Executive Officer or the designee thereof, at a salary of \$240,625. The term of this agreement was two years from the date of the agreement. Mr. Martin was eligible to participate in Charter's Long-Term Incentive Plan, 2001 Stock Incentive Plan and to receive such employee benefits as available to other senior executives. In the event that he was terminated by Charter without "cause" or for "good reason," as those terms are defined in the agreement, he would receive his salary for the remainder of the term of the agreement or twelve months' salary, whichever was greater; a pro rata bonus for the year of termination; a lump sum payment equal to payments due under COBRA for the greater of twelve months or the number of full months remaining in the term of the agreement; and the vesting of options and restricted stock for as long as severance payments are made. The agreement contained one-year, non-compete provisions (or until the end of the term of the agreement, if longer) in a Competitive Business, as such term is defined in the agreement, and two-year non-solicitation clauses.

Effective April 15, 2005, Charter also entered into an agreement governing the terms of the service of Mr. Martin as Interim Chief Financial Officer. Under the terms of the agreement, Mr. Martin received approximately \$13,700 each month for his service in the capacity of Interim Chief Financial Officer until a permanent Chief Financial Officer was employed. Under the agreement, Mr. Martin was also be eligible to receive an additional bonus opportunity of up to approximately \$13,600 per month served as Interim Chief Financial Officer, payable in accordance with Charter's 2005 Executive Bonus Plan. The amounts payable to Mr. Martin under the agreement were in addition to all other amounts Mr. Martin received for his services in his capacity as Senior Vice President, Principal Accounting Officer and Corporate Controller. In addition, Mr. Martin received an additional special bonus of \$50,000 for his service as Interim co-Chief Financial Officer prior to April 15, 2005. This amount was in addition to the bonus agreed upon in 2004 for his service in that capacity through March 31, 2005.

On October 31, 2005, Charter entered into an employment agreement with Sue Ann Hamilton, Executive Vice President, Programming. The agreement provides that Ms. Hamilton shall be employed in an executive capacity to perform such duties as are assigned or delegated by the President and Chief Executive Officer or the designee thereof, at a salary of \$371,800. The term of this agreement is two years from the date of the agreement. She shall be eligible to participate in Charter's incentive bonus plan that applies to senior executives, the 2001 Stock Incentive Plan and to receive such employee benefits as are available to other senior executives. In the event that Ms. Hamilton's employment is terminated by Charter without "cause" or for "good reason," as those terms are defined in the employment agreement, Ms. Hamilton will receive her salary for the remainder of the term of the agreement or twelve months' salary, whichever is greater; a pro rata bonus for the year of termination; a lump sum payment equal to payments due under COBRA for the greater of twelve months or the number of full months remaining in the term of the agreement; and the vesting of options and restricted stock for as long as severance payments are made. The employment agreement contains a one-year non-compete provision (or until the end of the term of the agreement, if longer) in a Competitive Business, as such term is defined in the agreement, and two-year non-solicitation clauses.

On November 14, 2005, Charter executed an employment agreement with Grier Raclin, effective as of October 10, 2005. The agreement provides that Mr. Raclin shall be employed in an executive capacity as Executive Vice President and General Counsel with management responsibility for Charter's legal affairs, governmental affairs, compliance and regulatory functions and to perform such other legal, executive, managerial and administrative duties as are assigned or delegated by the Chief Executive Officer or the equivalent position, at a salary of \$425,000, to be reviewed on an annual basis. The agreement also provides for a one time signing bonus of \$200,000, the grant of 50,000 restricted shares of Class A common stock, an option to purchase 100,000 shares of Class A common stock under the 2001 Stock Incentive Plan, an option to purchase 145,800 shares of Class A common stock under the Long-Term Incentive portion of the 2001 Stock Incentive Plan, and 62,775 performance shares under the 2001 Stock Incentive Plan. He shall be eligible to participate in the incentive bonus plan, the 2005 Executive Cash Award Plan and to receive such other employee benefits as are available to other senior executives. The term of this agreement is two years from the effective date of the agreement. In the event that Mr. Raclin's employment is terminated by

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Charter without “cause” or by Mr. Raclin for “good reason,” as those terms are defined in the employment agreement, Mr. Raclin will receive (a) if such termination occurs before the first scheduled payout of the executive cash award plan (unless that failure is due to his failure to execute the required related agreement) or at any time within one year after a change of control as defined in the agreement, two (2) times his salary or (b) if such termination occurs at any other time, his salary for the remainder of the term of the agreement or twelve months’ salary, whichever is greater; a pro rata bonus for the year of termination; a lump sum payment equal to payments due under COBRA for the greater of twelve months or the number of full months remaining in the term of the agreement; and the vesting of options and restricted stock for as long as severance payments are made. The employment agreement contains a one-year non-compete provision (or until the end of the term of the agreement, if longer) in a Competitive Business, as such term is defined in the agreement, and a two-year non-solicitation clause. Mr. Raclin is entitled to relocation assistance pursuant to Charter’s executive homeowner relocation plan and the costs for temporary housing until he consummates the purchase of a home in the St. Louis area or August 16, 2006, whichever occurs first.

On August 1, 2006, Charter executed an employment agreement with Mr. Fawaz. The agreement provides that Mr. Fawaz will serve in an executive capacity as its Executive Vice President at a salary of \$450,000, to perform such executive, managerial and administrative duties as are assigned or delegated by the President and/or Chief Executive Officer, including but not limited to serving as Chief Technology Officer. The term of the employment agreement is two years from the effective date. Under the employment agreement, Mr. Fawaz received a signing bonus of \$100,000 and he shall be eligible to receive a performance-based target bonus of up to 70% of salary and to participate in the LTIP and to receive such other employee benefits as are available to other senior executives. Mr. Fawaz will participate in the 2005 Executive Cash Award Plan, as amended, commencing in 2006, which will provide the same benefit to Mr. Fawaz that he would have been entitled to receive under the Cash Award Plan if he had participated in the Plan at the time of the inception of the Plan in 2005, only with cash awards made one-year later. He also received a grant of 50,000 restricted shares of Class A common stock, vesting in equal installments over a three-year period from effective date and an award of options to purchase 300,000 shares of Class A common stock under terms of the stock incentive plan on the effective date of the Employment Agreement, which will vest in equal installments over a four-year time period from the grant date. In addition, on the effective date, he received 133,741 performance shares under the stock incentive plan and will be eligible to earn these shares over a one-year performance cycle to vest at the end of a three-year vesting period. In the event that Mr. Fawaz’s employment is terminated by Charter without “cause” or for “good reason,” as those terms are defined in the employment agreement, Mr. Fawaz will receive his salary for the remainder of the term of the agreement or twelve months’ salary, whichever is greater; a pro rata bonus for the year of termination; a lump sum payment equal to payments due under COBRA for the greater of twelve months or the number of full months remaining in the term of the agreement; and the vesting of options and restricted stock for as long as severance payments are made. The employment agreement contains a one-year non-compete provision (or until the end of the term of the agreement, if longer) and a two-year non-solicitation clause.

On December 9, 2005, Charter executed an employment agreement with Robert Quigley. The agreement provides that Mr. Quigley shall be employed in an executive capacity to perform such executive, managerial and administrative duties as are assigned or delegated by the President and Chief Executive Officer or the designee thereof, at a salary of \$450,000. He shall be eligible to participate in the incentive bonus plan, the 2001 Stock Incentive Plan and to receive such other employee benefits as are available to other senior executives. The term of this agreement is two years from the effective date of the agreement. In the event that Mr. Quigley’s employment is terminated by Charter without “cause” or by Mr. Quigley for “good reason,” as those terms are defined in the employment agreement, Mr. Quigley will receive his salary for the remainder of the term of the agreement or twelve months’ salary, whichever is greater; a pro rata bonus for the year of termination; a lump sum payment equal to payments due under COBRA for the greater of twelve months or the number of full months remaining in the term of the agreement; and the vesting of options and restricted stock for as long as severance payments are made. The employment agreement contains a one-year non-compete provision (or until the end of the term of the agreement, if longer) in a Competitive Business, as such term is defined in the agreements, and two-year non-solicitation clauses. In addition, at the time of his employment, Charter agreed to pay him a signing bonus of \$200,000 deferred until January 2006; grant

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options to purchase 145,800 shares of Class A common stock under our 2001 Stock Incentive Plan; 83,700 performance shares under our 2001 Stock Incentive Plan; and 50,000 shares of restricted stock which will vest over a three year period.

Until his resignation in January 2005, Carl Vogel was employed as President and Chief Executive Officer, earning a base annual salary of \$1,000,000 and was eligible to receive an annual bonus of up to \$500,000, a portion of which was based on personal performance goals and a portion of which was based on Charter's performance measured against criteria established by the board of directors of Charter with Mr. Vogel. Pursuant to his employment agreement, Mr. Vogel was granted 3,400,000 options to purchase Class A common stock and 50,000 shares of restricted stock under our 2001 Stock Incentive Plan. In the February 2004 option exchange, Mr. Vogel exchanged his 3,400,000 options for 340,000 shares of restricted stock and 340,000 performance shares. Mr. Vogel's initial 50,000 restricted shares vested 25% on the grant date, with the remainder vesting in 36 equal monthly installments beginning December 2002. The 340,000 shares of restricted stock were to vest over a three-year period, with one-third of the shares vesting on each of the first three anniversaries of the grant date. The 340,000 performance shares were to vest at the end of a three-year period if certain financial criteria were met. Mr. Vogel's agreement provided that, if Mr. Vogel is terminated without cause or if Mr. Vogel terminated the agreement for good reason, he would be entitled to his aggregate base salary due during the remainder of the term and full prorated benefits and bonus for the year in which termination occurs. Mr. Vogel's agreement included a covenant not to compete for the balance of the initial term or any renewal term, but no more than one year in the event of termination without cause or by Mr. Vogel with good reason. Mr. Vogel's agreement entitled him to participate in any disability insurance, pensions or other benefit plans afforded to employees generally or to our executives, including our LTIP. We agreed to reimburse Mr. Vogel annually for the cost of term life insurance with a death benefit in the amount of \$5 million, although he declined this reimbursement in 2003, 2004 and 2005. Mr. Vogel was entitled to reimbursement of fees and dues for his membership in a country club of his choice, which he declined in 2003, 2004 and 2005, and reimbursement for up to \$10,000 per year for tax, legal and financial planning services. His agreement also provided for a car and associated expenses for Mr. Vogel's use. Mr. Vogel's agreement provided for automatic one-year renewals and also provided that we would cause him to be elected to our board of directors without any additional compensation.

In February 2005, Charter entered into an agreement with Mr. Vogel setting forth the terms of his resignation. Under the terms of the agreement, Mr. Vogel received in February 2005 all accrued and unpaid base salary and vacation pay through the date of resignation and a lump sum payment equal to the remainder of his base salary during 2005 (totaling \$953,425). In addition, he received a lump sum cash payment of approximately \$358,000 in January 2006, which represented the agreed-upon payment of \$500,000 reduced to the extent of compensation attributable to certain competitive activities.

Mr. Vogel continued to receive certain health benefits during 2005 and will receive COBRA premiums for such health insurance coverage for 18 months thereafter. All of his outstanding stock options, as well as his restricted stock granted in 2004 (excluding 340,000 shares of restricted stock granted as "performance units", which were automatically forfeited), continued to vest through December 31, 2005. In addition, one-half of the remaining unvested portion of his 2001 restricted stock grant vested upon the effectiveness of the agreement and the other half was forfeited. Mr. Vogel had 60 days after December 31, 2005 to exercise any outstanding vested stock options. Under the agreement, Mr. Vogel waived any further right to any bonus or incentive plan participation and provided certain releases of claims against Charter and its subsidiaries from any claims arising out of or based upon any facts occurring prior to the date of the agreement, but Charter will continue to provide Mr. Vogel certain indemnification rights and to include Mr. Vogel in its director and officer liability insurance for a period of six years. Charter and its subsidiaries also agreed to provide releases of certain claims against Mr. Vogel with certain exceptions reserved. Mr. Vogel also agreed, with limited exceptions that he will continue to be bound by the covenant not to compete, confidentiality and non-disparagement provisions contained in his 2001 employment agreement.

In addition to the indemnification provisions which apply to all employees under Charter's Bylaws, Mr. Vogel's agreement provides that we will indemnify and hold him harmless to the maximum extent permitted by law from and against any claims, damages, liabilities, losses, costs or expenses in connection with

or arising out of the performance by him of his duties. The above agreement also contains confidentiality and non-solicitation provisions.

We have established separation guidelines which generally apply to all employees in situations where management determines that an employee is entitled to severance benefits. Severance benefits are granted solely in management's discretion and are not an employee entitlement or guaranteed benefit. The guidelines provide that persons employed at the level of Senior Vice President may be eligible to receive between six and fifteen months of severance benefits. Currently, all Executive Vice Presidents have employment agreements with Charter which provide for specific separation arrangements ranging from the payment of twelve to twenty-four months of severance benefits. Separation benefits are contingent upon the signing of a separation agreement containing certain provisions including a release of all claims against us. Severance amounts paid under these guidelines are distinct and separate from any one-time, special or enhanced severance programs that may be approved by us from time to time.

Our senior executives are eligible to receive bonuses according to our 2005 Executive Bonus Plan. Under this plan, our executive officers and certain other management and professional employees are eligible to receive an annual bonus. Each participating employee would receive his or her target bonus if Charter (or such employee's division) meets specified performance measures for revenues, operating cash flow, un-levered free cash flow and customer satisfaction.

#### **Limitation of Directors' Liability and Indemnification Matters**

The Restated Certificate of Incorporation of Charter limits the liability of directors to the maximum extent permitted by Delaware law. The Delaware General Corporation Law provides that a corporation may eliminate or limit the personal liability of a director for monetary damages for breach of fiduciary duty as a director, except for liability for:

- (1) any breach of the director's duty of loyalty to the corporation and its shareholders;
- (2) acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law;
- (3) unlawful payments of dividends or unlawful stock purchases or redemptions; or
- (4) any transaction from which the director derived an improper personal benefit.

Charter's Bylaws provide that we will indemnify all persons whom we may indemnify pursuant thereto to the fullest extent permitted by law.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers or persons controlling us pursuant to the foregoing provisions, we have been informed that in the opinion of the SEC, such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

We have reimbursed certain of our current and former directors, officers and employees in connection with their defense in certain legal actions. See "Certain Relationships and Related Party Transactions — Other Miscellaneous Relationships — Indemnification Advances."

**SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

The following table sets forth certain information regarding beneficial ownership of Charter’s Class A common stock (“Class A common stock”) as of September 30, 2006 by:

- each current director of Charter;
- the current chief executive officer and individuals named in the Summary Compensation Table;
- all persons currently serving as directors and officers of Charter, as a group; and
- each person known by us to own beneficially 5% or more of Charter’s outstanding Class A common stock as of September 30, 2006.

With respect to the percentage of voting power set forth in the following table:

- each holder of Class A common stock is entitled to one vote per share; and
- each holder of Charter Class B common stock (“Class B common stock”) is entitled to (i) ten votes per share of Class B common stock held by such holder and its affiliates and (ii) ten votes per share of Class B common stock for which membership units in Charter Holdco held by such holder and its affiliates are exchangeable.

The 50,000 shares of Class B common stock owned by Mr. Allen represents 100% of the outstanding Class B common stock.

<u>Name and Address of Beneficial Owner</u>	<u>Number of Class A Shares (Voting and Investment Power)(1)</u>	<u>Unvested Restricted Class A Shares (Voting Power Only)(2)</u>	<u>Class A Shares Receivable on Exercise of Vested Options or Other Convertible Securities(3)</u>	<u>Number of Class B Shares Owned</u>	<u>Class B Shares Issuable upon Exchange or Conversion of Units(4)</u>	<u>% of Class A Shares (Voting and Investment Power) (4)(5)</u>	<u>% of Voting Power (5)(6)</u>
Paul G. Allen(7)	29,165,526	49,242	10,000	50,000	366,475,601	49.88%	90.29%
Charter Investment, Inc.(8)					250,162,428	36.96%	*
Vulcan Cable III Inc.(9)					116,313,173	21.42%	*
Neil Smit	970,834	1,041,666	1,111,111			*	*
Robert P. May	160,335	49,242				*	*
W. Lance Conn	51,303	49,242				*	*
Nathaniel A. Davis		49,242				*	*
Jonathan L. Dolgen	60,335	49,242				*	*
Rajive Johri		67,379				*	*
David C. Merritt	64,768	49,242				*	*
Marc B. Nathanson	464,768	49,242	50,000			*	*
Jo Allen Patton	51,300	63,986				*	*
John H. Tory	69,068	49,242	40,000			*	*
Larry W. Wangberg	67,768	49,242	40,000			*	*
Michael J. Lovett	24,387	200,000	215,000			*	*
Sue Ann Hamilton			231,250			*	*
All current directors and executive officers as a group (20 persons)	31,168,250	1,950,525	1,867,236	50,000	366,475,601	50.49%	90.39%
Carl E. Vogel(10)	158,126					*	*
Wayne Davis(11)	1,642	1,333	312,700			*	*
Paul Martin(12)	9,659	2,869	224,675			*	*
Steelhead Partners(13)	37,621,030					8.82%	*
J-K Navigator Fund, L.P.(13)	22,067,209					5.17%	*

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Name and Address of Beneficial Owner	Number of Class A Shares (Voting and Investment Power)(1)	Unvested Restricted Class A Shares (Voting Power Only)(2)	Class A Shares Receivable on Exercise of Vested Options or Other Convertible Securities(3)	Number of Class B Shares Owned	Class B Shares Issuable upon Exchange or Conversion of Units(4)	% of Class A Shares (Voting and Investment Power) (4)(5)	% of Voting Power (5)(6)
James Michael Johnston(13)	30,284,630					7.10%	*
Brian Katz Klein(13)	30,284,630					7.10%	*
FMR Corp.(14)	52,487,788					12.30%	1.37%
Fidelity Management & Research Company(14)	14,961,471		31,231,402			10.09%	1.20%
Edward C. Johnson 3d(14)	52,487,788					12.30%	1.37%
Standard Pacific Capital LLC(15)	30,876,404					7.24%	*
Kingdon Capital Management, LLC(16)	27,636,237					6.48%	*

\* Less than 1%.

- (1) Includes shares for which the named person has sole voting and investment power; or shared voting and investment power with a spouse. Does not include shares that may be acquired through exercise of options.
- (2) Includes unvested shares of restricted stock issued under the Charter Communications, Inc. 2001 Stock Incentive Plan (including those issued in the February 2004 option exchange for those eligible employees who elected to participate), as to which the applicable director or employee has sole voting power but not investment power. Excludes certain performance units granted under the Charter 2001 Stock Incentive Plan with respect to which shares will not be issued until the third anniversary of the grant date and then only if Charter meets certain performance criteria (and which consequently do not provide the holder with any voting rights).
- (3) Includes shares of Class A common stock issuable (a) upon exercise of options that have vested or will vest on or before November 29, 2006 under the 1999 Charter Communications Option Plan and the 2001 Stock Incentive Plan or (b) upon conversion of other convertible securities.
- (4) Beneficial ownership is determined in accordance with Rule 13d-3 under the Exchange Act. The beneficial owners at September 30, 2006 of Class B common stock, Charter Holdco membership units and convertible senior notes of Charter are deemed to be beneficial owners of an equal number of shares of Class A common stock because such holdings are either convertible into Class A shares (in the case of Class B shares and convertible senior notes) or exchangeable (directly or indirectly) for Class A shares (in the case of the membership units) on a one-for-one basis. Unless otherwise noted, the named holders have sole investment and voting power with respect to the shares listed as beneficially owned. As a result of the settlement of the CC VIII dispute, Mr. Allen received an accreting note exchangeable as of September 30, 2006 for 27,343,570 Charter Holdco units. See "Certain Relationships and Related Transactions — Transactions Arising Out of Our Organizational Structure and Mr. Allen's Investment in Charter Communications, Inc. and Its Subsidiaries — Equity Put Rights — CC VIII."
- (5) The calculation of this percentage assumes for each person that:
  - 426,699,355 shares of Class A common stock are issued and outstanding as of September 30, 2006;
  - 50,000 shares of Class B common stock held by Mr. Allen have been converted into shares of Class A common stock;
  - the acquisition by such person of all shares of Class A common stock that such person or affiliates of such person has the right to acquire upon exchange of membership units in subsidiaries or conversion of Series A Convertible Redeemable Preferred Stock or 5.875% or 4.75% convertible senior notes;

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- the acquisition by such person of all shares that may be acquired upon exercise of options to purchase shares or exchangeable membership units that have vested or will vest by November 29, 2006; and
- that none of the other listed persons or entities has received any shares of Class A common stock that are issuable to any of such persons pursuant to the exercise of options or otherwise.

A person is deemed to have the right to acquire shares of Class A common stock with respect to options vested under the 1999 Charter Communications Option Plan. When vested, these options are exercisable for membership units of Charter Holdco, which are immediately exchanged on a one-for-one basis for shares of Class A common stock. A person is also deemed to have the right to acquire shares of Class A common stock issuable upon the exercise of vested options under the 2001 Stock Incentive Plan.

- (6) The calculation of this percentage assumes that Mr. Allen's equity interests are retained in the form that maximizes voting power (i.e., the 50,000 shares of Class B common stock held by Mr. Allen have not been converted into shares of Class A common stock; that the membership units of Charter Holdco owned by each of Vulcan Cable III Inc. and Charter Investment, Inc. have not been exchanged for shares of Class A common stock).

- (7) The total listed includes:

- 250,162,428 membership units in Charter Holdco held by Charter Investment, Inc.; and
- 116,313,173 membership units in Charter Holdco held by Vulcan Cable III Inc.

The listed total includes 27,343,570 shares of Class A common stock issuable as of September 30, 2006 upon exchange of units of Charter Holdco, which are issuable to Charter Investment, Inc. (which is owned by Mr. Allen) as a consequence of the settlement of the CC VIII dispute. See "Certain Relationships and Related Transactions — Transactions Arising Out of Our Organizational Structure and Mr. Allen's Investment in Charter Communications, Inc. and Its Subsidiaries — Equity Put Rights — CC VIII." The address of this person is: 505 Fifth Avenue South, Suite 900, Seattle, WA 98104.

- (8) Includes 250,162,428 membership units in Charter Holdco, which are exchangeable for shares of Class B common stock on a one-for-one basis, which are convertible to shares of Class A common stock on a one-for-one basis. The address of this person is: Charter Plaza, 12405 Powerscourt Drive, St. Louis, MO 63131.

- (9) Includes 116,313,173 membership units in Charter Holdco, which are exchangeable for shares of Class B common stock on a one-for-one basis, which are convertible to shares of Class A common stock on a one-for-one basis. The address of this person is: 505 Fifth Avenue South, Suite 900, Seattle, WA 98104.

- (10) Mr. Vogel terminated his employment effective on January 17, 2005. His stock options and restricted stock shown in this table continued to vest until December 31, 2005, and his options were exercisable for another 60 days thereafter.

- (11) Mr. Davis terminated his employment effective March 23, 2006. His stock options and restricted stock shown in this table continue to vest until September 30, 2007, and his options will be exercisable for another 60 days thereafter.

- (12) Mr. Martin terminated his employment effective April 3, 2006. His stock options and restricted stock shown in this table continue to vest until September 2, 2007, and his options will be exercisable for another 60 days thereafter.

- (13) The equity ownership reported in this table is based upon the holder's Form 13F filed with the SEC April 28, 2006. The business address of the reporting person is: 1301 First Avenue, Suite 201, Seattle, WA 98101. Steelhead Partners, LLC acts as general partner of J-K Navigator Fund, L.P., and J. Michael Johnston and Brian K. Klein act as the member-managers of Steelhead Partners, LLC. Accordingly, shares shown as beneficially held by Steelhead Partners, LLC, Mr. Johnston and Mr. Klein include shares beneficially held by J-K Navigator Fund, L.P.



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- (14) The equity ownership reported in this table is based on the holder's Schedule 13G/ A filed with the SEC on February 14, 2006. The address of the person is: 82 Devonshire Street, Boston, Massachusetts 02109. Fidelity Management & Research Company is a wholly-owned subsidiary of FMR Corp. and is the beneficial owner of 46,192,873 shares as a result of acting as investment adviser to various investment companies and includes: 31,231,402 shares resulting from the assumed conversion of 5.875% senior notes. Fidelity Management Trust Company, a wholly-owned subsidiary of FMR Corp. and is a beneficial owner of 3,066,115 shares as a result of acting as investment adviser to various investment companies and includes: 3,066,115 shares resulting from the assumed conversion of 5.875% senior notes. Fidelity International Limited ("FIL") provides investment advisory and management services to non-U.S. investment companies and certain institutional investors and is a beneficial owner of 3,228,800 shares. FIL is a separate and independent corporate entity from FMR Corp. Edward C. Johnson 3d, Chairman of FMR Corp. and FIL own shares of FIL voting stock with the right to cast approximately 38% of the total votes of FIL voting stock. Edward C. Johnson 3d, chairman of FMR Corp., and FMR Corp. each has sole power to dispose of 52,487,788 shares.
- (15) The equity ownership reported in this table is based upon holder's Schedule 13F filed with the SEC August 16, 2006. The address of the reporting person is: 101 California Street, 36<sup>th</sup> Floor, San Francisco, CA 94111.
- (16) The equity ownership reported in this table is based upon holder's Schedule 13F filed with the SEC August 14, 2006. The address of the reporting person is: 152 West 57<sup>th</sup> Street, 50<sup>th</sup> Floor, New York, NY 10019.

## CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

The following sets forth certain transactions in which we are involved and in which the directors, executive officers and affiliates of ours have or may have a material interest. The transactions fall generally into three broad categories:

- **Transactions in which Mr. Allen has an interest that arise directly out of Mr. Allen's investment in Charter and Charter Holdco.** A large number of the transactions described below arise out of Mr. Allen's direct and indirect (through Charter Investment, Inc. ("CII"), or the Vulcan entities, each of which Mr. Allen controls) investment in Charter and its subsidiaries, as well as commitments made as consideration for the investments themselves.
- **Transactions with third party providers of products, services and content in which Mr. Allen has or had a material interest.** Mr. Allen has had numerous investments in the areas of technology and media. We have a number of commercial relationships with third parties in which Mr. Allen has or had an interest.
- **Other Miscellaneous Transactions.** We have a limited number of transactions in which certain of the officers, directors and principal stockholders of Charter and its subsidiaries, other than Mr. Allen, have an interest.

A number of our debt instruments and those of our subsidiaries require delivery of fairness opinions for transactions with Mr. Allen or his affiliates involving more than \$50 million. Such fairness opinions have been obtained whenever required. All of our transactions with Mr. Allen or his affiliates have been considered for approval either by the board of directors of Charter or a committee of the board of directors. All of our transactions with Mr. Allen or his affiliates have been deemed by the board of directors or a committee of the board of directors to be in our best interest. Related party transactions are approved by our Audit Committee in compliance with the listing requirements applicable to Nasdaq Global Market listed companies. Except where noted below, we do not believe that these transactions present any unusual risks for us that would not be present in any similar commercial transaction. The chart below summarizes certain information with respect to these transactions. Additional information regarding these transactions is provided following the chart.

<u>Transaction</u>	<u>Interested Related Party</u>	<u>Description of Transaction</u>
Private Exchange	Paul G. Allen	Affiliates of Mr. Allen hold approximately \$56 million of Charter Holdings' that were the subject of the Private Exchange. Mr. Allen's affiliates tendered these notes in the Private Exchange and will likely participate in the exchange offer.
Intercompany Management Arrangements	Paul G. Allen	Subsidiaries of Charter Communications Holdings, LLC ("Charter Holdings") paid Charter approximately \$84 million, \$90 million, \$128 million and \$67 million for management services rendered in 2003, 2004 and 2005 and the six months ended June 30, 2006, respectively.

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<u>Transaction</u>	<u>Interested Related Party</u>	<u>Description of Transaction</u>
Mutual Services Agreement	Paul G. Allen	Charter paid Charter Holdco approximately \$73 million, \$74 million, \$89 million and \$52 million for services rendered in 2003, 2004 and 2005 and the six months ended June 30, 2006, respectively.
Previous Management Agreement	Paul G. Allen	No fees were paid in 2003, 2004, 2005 or 2006, although total management fees accrued and payable to CII, exclusive of interest, were approximately \$14 million at December 31, 2003, 2004 and 2005 and June 30, 2006.
Channel Access Agreement	Paul G. Allen W. Lance Conn Jo Allen Patton	At Vulcan Ventures' request, we will provide Vulcan Ventures with exclusive rights for carriage on eight of our digital cable channels as partial consideration for a 1999 capital contribution of approximately \$1.3 billion.
Equity Put Rights	Paul G. Allen	Certain sellers of cable systems that we acquired were granted, or previously had the right, as described below, to put to Paul Allen equity in Charter and CC VIII, LLC issued to such sellers in connection with such acquisitions.
Previous Funding Commitment of Vulcan Inc.	Paul G. Allen W. Lance Conn Jo Allen Patton	Pursuant to a commitment letter dated April 14, 2003, Vulcan Inc., which is an affiliate of Paul Allen, agreed to lend, under certain circumstances, or cause an affiliate to lend to Charter Holdings or any of its subsidiaries a total amount of up to \$300 million, which amount included a subfacility of up to \$100 million for the issuance of letters of credit. In November 2003, the commitment was terminated. We incurred expenses to Vulcan Inc. totaling \$5 million in connection with the commitment prior to termination.

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<u>Transaction</u>	<u>Interested Related Party</u>	<u>Description of Transaction</u>
TechTV Carriage Agreement	Paul G. Allen W. Lance Conn Jo Allen Patton Larry W. Wangberg	We recorded approximately \$1 million, \$5 million, \$1 million and \$0.6 million from TechTV under the affiliation agreement in 2003, 2004 and 2005 and the six months ended June 30, 2006, respectively, related to launch incentives as a reduction of programming expense.
Oxygen Media Corporation Carriage Agreement	Paul G. Allen W. Lance Conn Jo Allen Patton	We paid Oxygen Media approximately \$9 million, \$13 million, \$9 million and \$4 million under a carriage agreement in exchange for programming in 2003, 2004 and 2005 and the six months ended June 30, 2006, respectively. We recorded approximately \$1 million, \$1 million, \$0.1 million and \$0 in 2003, 2004 and 2005 and the six months ended June 30, 2006, respectively, from Oxygen Media related to launch incentives as a reduction of programming expense. We received 1 million shares of Oxygen Preferred Stock with a liquidation preference of \$33.10 per share in March 2005. We recognized approximately \$9 million, \$13 million, \$2 million and \$0 as a reduction of programming expense in 2003, 2004 and 2005 and the six months ended June 30, 2006, respectively, in recognition of the guaranteed value of the investment.
Portland Trail Blazers Carriage Agreement	Paul G. Allen	We paid approximately \$135,200, \$96,100, \$116,500 and \$115,600 for rights to carry the cable broadcast of certain Trail Blazers basketball games in 2003, 2004 and 2005 and the six months ended June 30, 2006, respectively.

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<u>Transaction</u>	<u>Interested Related Party</u>	<u>Description of Transaction</u>
Digeo, Inc. Broadband Carriage Agreement	Paul G. Allen Carl E. Vogel Jo Allen Patton W. Lance Conn Michael J. Lovett	We paid Digeo approximately \$4 million, \$3 million, \$3 million and \$1 million for customized development of the i-channels and the local content tool kit in 2003, 2004 and 2005 and for the six months ended June 30, 2006, respectively. We entered into a license agreement in 2004 for the Digeo software that runs DVR units purchased from a third party. We paid approximately \$0.5 million, \$1 million and \$3 million in license and maintenance fees in 2004, 2005 and for the six months ended June 30, 2006, respectively. In 2004 we executed a purchase agreement for the purchase of up to 70,000 DVR units and a related software license agreement, both subject to satisfaction of certain conditions. We paid approximately \$1 million, \$10 million and \$8 million in capital purchases in 2004, 2005 and for the six months ended June 30, 2006, respectively.
Viacom Networks	Jonathan L. Dolgen	We are party to certain affiliation agreements with networks of New Viacom and CBS Corporation, pursuant to which they provide Charter with programming for distribution via our cable systems. For the years ended December 31, 2003, 2004 and 2005, Charter paid Old Viacom approximately \$188 million, \$194 million, \$201 million, respectively, and for the six months ended June 30, 2006, Charter paid New Viacom \$62 million and CBS Corporation \$46 million for programming, and Charter recorded as receivables approximately \$5 million, \$8 million and \$15 million for launch incentives and marketing support for the years ended December 31, 2003, 2004 and 2005, respectively.

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<u>Transaction</u>	<u>Interested Related Party</u>	<u>Description of Transaction</u>
Payment for relative's services	Carl E. Vogel	Since June 2003, Mr. Vogel's brother-in-law has been an employee of Charter Holdco and has received a salary commensurate with his position in the engineering department
Radio advertising	Marc B. Nathanson	We believe that, through a third party advertising agency, we have paid approximately \$67,300, \$49,300, \$67,600 and \$56,500 in 2003, 2004 and 2005 and for the six months ended June 30, 2006, respectively, to Mapleton Communications, an affiliate of Mapleton Investments, LLC.
Enstar Limited Partnership Systems Purchase and Management Services	Charter officers who were appointed by a Charter subsidiary (as general partner) to serve as officers of Enstar limited partnerships	Certain of our subsidiaries purchased certain assets of the Enstar Limited Partnerships for approximately \$63 million in 2002. We also earned approximately \$469,300, \$0, \$0 and \$0 in 2003, 2004 and 2005 and for the six months ended June 30, 2006, respectively, by providing management services to the Enstar Limited Partnerships.
Indemnification Advances	Directors and current and former officers named in certain legal proceedings	Charter reimbursed certain of its current and former directors and executive officers a total of approximately \$8 million, \$3 million, \$16,200 and \$400 for costs incurred in connection with litigation matters in 2003, 2004 and 2005 and for the six months ended June 30, 2006, respectively.

The following sets forth additional information regarding the transactions summarized above.

### **Transactions Arising Out of Our Organizational Structure and Mr. Allen's Investment in Charter and Its Subsidiaries**

As noted above, a number of our related party transactions arise out of Mr. Allen's investment in Charter and its subsidiaries. Some of these transactions are with CII and Vulcan Ventures (both owned 100% by Mr. Allen), Charter (controlled by Mr. Allen) and Charter Holdco (approximately 55% owned by us and 45% owned by other affiliates of Mr. Allen). See "Summary — Organizational Structure" for more information regarding the ownership by Mr. Allen and certain of his affiliates.

#### ***Private Exchange***

Affiliates of Mr. Allen held approximately \$56 million of Charter Holdings' notes that were the subject of the Private Exchange. Mr. Allen's affiliates tendered these notes in the Private Exchange and will likely participate in the exchange offer.

### ***Intercompany Management Arrangements***

Charter is a party to management arrangements with Charter Holdco and certain of its subsidiaries. Under these agreements, Charter provides management services for the cable systems owned or operated by its subsidiaries. These management agreements provide for reimbursement to Charter for all costs and expenses incurred by it for activities relating to the ownership and operation of the managed cable systems, including corporate overhead, administration and salary expense.

The total amount paid by Charter Holdco and all of its subsidiaries is limited to the amount necessary to reimburse Charter for all of its expenses, costs, losses, liabilities and damages paid or incurred by it in connection with the performance of its services under the various management agreements and in connection with its corporate overhead, administration, salary expense and similar items. The expenses subject to reimbursement include fees Charter is obligated to pay under the mutual services agreement with CII. Payment of management fees by Charter's operating subsidiaries is subject to certain restrictions under the credit facilities and indentures of such subsidiaries and the indentures governing the Charter Holdings and its subsidiaries' public debt. If any portion of the management fee due and payable is not paid, it is deferred by Charter and accrued as a liability of such subsidiaries. Any deferred amount of the management fee will bear interest at the rate of 10% per year, compounded annually, from the date it was due and payable until the date it is paid. For the years ended December 31, 2003, 2004 and 2005 and the six months ended June 30, 2006, the subsidiaries of Charter Holdings paid approximately \$84 million, \$90 million, \$128 million and \$67 million, respectively, in management fees to Charter.

### ***Mutual Services Agreement***

Charter, Charter Holdco and CII are parties to a mutual services agreement whereby each party shall provide rights and services to the other parties as may be reasonably requested for the management of the entities involved and their subsidiaries, including the cable systems owned by their subsidiaries all on a cost-reimbursement basis. The officers and employees of each party are available to the other parties to provide these rights and services, and all expenses and costs incurred in providing these rights and services are paid by Charter. Each of the parties will indemnify and hold harmless the other parties and their directors, officers and employees from and against any and all claims that may be made against any of them in connection with the mutual services agreement except due to its or their gross negligence or willful misconduct. The mutual services agreement expires on November 12, 2009, and may be terminated at any time by any party upon thirty days' written notice to the other. For the years ended December 31, 2003, 2004 and 2005 and the six months ended June 30, 2006, Charter paid approximately \$73 million, \$74 million, \$89 million and \$52 million, respectively, to Charter Holdco for services rendered pursuant to the mutual services agreement. All such amounts are reimbursable to Charter pursuant to a management arrangement with our subsidiaries. See "— Intercompany Management Arrangements." The accounts and balances related to these services eliminate in consolidation. CII no longer provides services pursuant to this agreement.

### ***Previous Management Agreement with Charter Investment, Inc.***

Prior to November 12, 1999, CII provided management and consulting services to our operating subsidiaries for a fee equal to 3.5% of the gross revenues of the systems then owned, plus reimbursement of expenses. The balance of management fees payable under the previous management agreement was accrued with payment at the discretion of CII with interest payable on unpaid amounts. For the years ended December 31, 2003, 2004 and 2005, our subsidiaries did not pay any fees to CII to reduce management fees payable. As of December 31, 2003, 2004 and 2005 and June 30, 2006, total management fees payable by our subsidiaries to CII were approximately \$14 million, exclusive of any interest that may be charged and are included in deferred management fees-related party on our consolidated balance sheets.

### ***Vulcan Ventures Channel Access Agreement***

Vulcan Ventures, an entity controlled by Mr. Allen, Charter, CII and Charter Holdco are parties to an agreement dated September 21, 1999 granting to Vulcan Ventures the right to use up to eight of our digital cable channels as partial consideration for a prior capital contribution of \$1.325 billion. Specifically, at Vulcan Ventures' request, we will provide Vulcan Ventures with exclusive rights for carriage of up to eight

digital cable television programming services or channels on each of the digital cable systems with local and to the extent available, national control of the digital product owned, operated, controlled or managed by Charter or its subsidiaries now or in the future of 550 megahertz or more. If the system offers digital services but has less than 550 megahertz of capacity, then the programming services will be equitably reduced. Upon request of Vulcan Ventures, we will attempt to reach a comprehensive programming agreement pursuant to which it will pay the programmer, if possible, a fee per digital video customer. If such fee arrangement is not achieved, then we and the programmer shall enter into a standard programming agreement. The initial term of the channel access agreement was 10 years, and the term extends by one additional year (such that the remaining term continues to be 10 years) on each anniversary date of the agreement unless either party provides the other with notice to the contrary at least 60 days prior to such anniversary date. To date, Vulcan Ventures has not requested to use any of these channels. However, in the future it is possible that Vulcan Ventures could require us to carry programming that is less profitable to us than the programming that we would otherwise carry and our results would suffer accordingly.

#### ***Equity Put Rights***

**CC VIII.** As part of the acquisition of the cable systems owned by Bresnan Communications Company Limited Partnership in February 2000, CC VIII, Charter's indirect limited liability company subsidiary, issued, after adjustments, 24,273,943 Class A preferred membership units (collectively, the "CC VIII interest") with a value and an initial capital account of approximately \$630 million to certain sellers affiliated with AT&T Broadband, subsequently owned by Comcast Corporation (the "Comcast sellers"). Mr. Allen granted the Comcast sellers the right to sell to him the CC VIII interest for approximately \$630 million plus 4.5% interest annually from February 2000 (the "Comcast put right"). In April 2002, the Comcast sellers exercised the Comcast put right in full, and this transaction was consummated on June 6, 2003. Accordingly, Mr. Allen, indirectly through a company controlled by him, CII, became the holder of the CC VIII interest. In the event of a liquidation of CC VIII, Mr. Allen would be entitled to a priority distribution with respect to a 2% priority return (which will continue to accrete). Any remaining distributions in liquidation would be distributed to CC V Holdings, LLC and Mr. Allen in proportion to CC V Holdings, LLC's capital account and Mr. Allen's capital account (which will equal the initial capital account of the Comcast sellers of approximately \$630 million, increased or decreased by Mr. Allen's pro rata share of CC VIII's profits or losses (as computed for capital account purposes) after June 6, 2003).

An issue arose as to whether the documentation for the Bresnan transaction was correct and complete with regard to the ultimate ownership of the CC VIII interest following consummation of the Comcast put right. Thereafter, the board of directors of Charter formed a Special Committee (comprised of Messrs. Merritt, Tory and Wangberg) to investigate the matter and take any other appropriate action on behalf of Charter with respect to this matter. After conducting an investigation of the relevant facts and circumstances, the Special Committee determined that a "scrivener's error" had occurred in February 2000 in connection with the preparation of the last-minute revisions to the Bresnan transaction documents and that, as a result, Charter should seek the reformation of the Charter Holdco limited liability company agreement, or alternative relief, in order to restore and ensure the obligation that the CC VIII interest be automatically exchanged for Charter Holdco units. The Special Committee further determined that, as part of such contract reformation or alternative relief, Mr. Allen should be required to contribute the CC VIII interest to Charter Holdco in exchange for 24,273,943 Charter Holdco membership units. The Special Committee also recommended to the board of directors of Charter that, to the extent the contract reformation is achieved, the board of directors should consider whether the CC VIII interest should ultimately be held by Charter Holdco or Charter Holdings or another entity owned directly or indirectly by them.

Mr. Allen disagreed with the Special Committee's determinations described above and so notified the Special Committee. Mr. Allen contended that the transaction was accurately reflected in the transaction documentation and contemporaneous and subsequent company public disclosures. The Special Committee and Mr. Allen determined to utilize the Delaware Court of Chancery's program for mediation of complex business disputes in an effort to resolve the CC VIII interest dispute.

As of October 31, 2005, Mr. Allen, the Special Committee, Charter, Charter Holdco and certain of their affiliates agreed to settle the dispute, and execute certain permanent and irrevocable releases pursuant to the



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Settlement Agreement and Mutual Release agreement dated October 31, 2005 (the "Settlement"). Pursuant to the Settlement, CII has retained 30% of its CC VIII interest (the "Remaining Interests"). The Remaining Interests are subject to certain drag along, tag along and transfer restrictions as detailed in the revised CC VIII Limited Liability Company Agreement. CII transferred the other 70% of the CC VIII interest directly and indirectly, through Charter Holdco, to a newly formed entity, CCHC (a direct subsidiary of Charter Holdco and the direct parent of Charter Holdings). Of that other 70% of the CC VIII preferred interests, 7.4% has been transferred by CII to CCHC for a subordinated exchangeable note with an initial accreted value of \$48 million, accreting at 14%, compounded quarterly, with a 15-year maturity (the "CCHC note"). The remaining 62.6% has been transferred by CII to Charter Holdco, in accordance with the terms of the settlement for no additional monetary consideration. Charter Holdco contributed the 62.6% interest to CCHC.

As part of the Settlement, CC VIII issued approximately 49 million additional Class B units to CC V in consideration for prior capital contributions to CC VIII by CC V, with respect to transactions that were unrelated to the dispute in connection with CII's membership units in CC VIII. As a result, Mr. Allen's pro rata share of the profits and losses of CC VIII attributable to the Remaining Interests is approximately 5.6%.

The CCHC note is exchangeable, at CII's option, at any time, for Charter Holdco Class A common units at a rate equal to the then accreted value, divided by \$2.00 (the "Exchange Rate"). Customary anti-dilution protections have been provided that could cause future changes to the Exchange Rate. Additionally, the Charter Holdco Class A common units received will be exchangeable by the holder into Charter common stock in accordance with existing agreements between CII, Charter and certain other parties signatory thereto. Beginning February 28, 2009, if the closing price of Charter common stock is at or above the Exchange Rate for a certain period of time as specified in the Exchange Agreement, Charter Holdco may require the exchange of the CCHC note for Charter Holdco Class A common units at the Exchange Rate.

CCHC has the right to redeem the CCHC note under certain circumstances, for cash in an amount equal to the then accreted value, such amount, if redeemed prior to February 28, 2009, would also include a make whole up to the accreted value through February 28, 2009. CCHC must redeem the CCHC note at its maturity for cash in an amount equal to the initial stated value plus the accreted return through maturity.

There are no contractual or other obligations that would prevent the transfer or encumbrance of the CC VIII interest by CCHC.

**Rifkin.** On September 14, 1999, Mr. Allen and Charter Holdco entered into a put agreement with certain sellers of the Rifkin cable systems that received a portion of their purchase price in the form of 3,006,202 Class A preferred membership units of Charter Holdco. This put agreement allowed these holders to compel Charter Holdco to redeem their Class A preferred membership units at any time before September 14, 2004 at \$1.00 per unit, plus accretion thereon at 8% per year from September 14, 1999. Mr. Allen had guaranteed the redemption obligation of Charter Holdco. These units were put to Charter Holdco for redemption, and were redeemed on April 18, 2003 for a total price of approximately \$3.9 million.

Mr. Allen also was a party to a put agreement with certain sellers of the Rifkin cable systems that received a portion of their purchase price in the form of shares of Class A common stock of Charter. Under this put agreement, such holders have the right to sell to Mr. Allen any or all of such shares of the Class A common stock at \$19 per share (subject to adjustments for stock splits, reorganizations and similar events), plus interest at a rate of 4.5% per year, compounded annually from November 12, 1999. Approximately 4.6 million shares were put to Mr. Allen under these agreements prior to their expiration on November 12, 2003.

**Falcon.** Mr. Allen also was a party to a put agreement with certain sellers of the Falcon cable systems (including Mr. Nathanson, one of our directors) that received a portion of their purchase price in the form of shares of Class A common stock of Charter. Under the Falcon put agreement, such holders had the right to sell to Mr. Allen any or all shares of Class A common stock received in the Falcon acquisition at \$25.8548 per share (subject to adjustments for stock splits, reorganizations and similar events), plus interest at a rate of 4.5% per year, compounded annually from November 12, 1999. Approximately 19.4 million shares were put to Mr. Allen under these agreements prior to their expiration on November 12, 2003.

**Helicon.** In 1999 we purchased the Helicon cable systems. As part of that purchase Mr. Allen entered into a put agreement with a certain seller of the Helicon cable systems that received a portion of the purchase price in the form of a preferred membership interest in Charter Helicon LLC with a redemption price of \$25 million plus accrued interest. Under the Helicon put agreement, such holder has the right to sell to Mr. Allen any or all of the interest to Mr. Allen prior to its mandatory redemption in cash on July 30, 2009. On August 31, 2005, 40% of the preferred membership interest was put to Mr. Allen. The remaining 60% of the preferred interest in Charter Helicon LLC remained subject to the put to Mr. Allen. Such preferred interest was recorded in other long-term liabilities as of December 31, 2004. On October 6, 2005, Charter Helicon, LLC redeemed all of the preferred membership interest for the redemption price of \$25 million plus accrued interest.

***Previous Funding Commitment of Vulcan Inc.***

Effective April 14, 2003, our subsidiary, Charter Communications VII, LLC entered into a commitment letter with Vulcan Inc., which is an affiliate of Paul Allen, under which Vulcan Inc. agreed to lend, under certain circumstances, or cause an affiliate to lend initially to Charter Communications VII, LLC, or another subsidiary of Charter Holdings, up to \$300 million, which amount included a subfacility of up to \$100 million for the issuance of letters of credit. No amounts were ever drawn under the commitment letter. In November 2003, the commitment was terminated. We incurred expenses to Vulcan Inc. totaling \$5 million in connection with the commitment (including an extension fee) prior to termination. Ms. Jo Allen Patton is a director and the President and Chief Executive Officer of Vulcan Inc., and Mr. Lance Conn is Executive Vice President of Vulcan Inc.

***Allocation of Business Opportunities with Mr. Allen***

As described under “— Third Party Business Relationships in which Mr. Allen has or had an Interest” in this section, Mr. Allen and a number of his affiliates have interests in various entities that provide services or programming to our subsidiaries. Given the diverse nature of Mr. Allen’s investment activities and interests, and to avoid the possibility of future disputes as to potential business, Charter and Charter Holdco, under the terms of their respective organizational documents, may not, and may not allow their subsidiaries, to engage in any business transaction outside the cable transmission business except for the Digeo, Inc. joint venture; a joint venture to develop a digital video recorder set-top box; an existing investment in Cable Sports Southeast, LLC, a provider of regional sports programming; as an owner of the business of Interactive Broadcaster Services Corporation or, Chat TV; an investment in @Security Broadband Corp., a company developing broadband security applications; and incidental businesses engaged in as of the closing of Charter’s initial public offering in November 1999. This restriction will remain in effect until all of the shares of Charter’s high-vote Class B common stock have been converted into shares of the Class A common stock due to Mr. Allen’s equity ownership falling below specified thresholds.

Charter or Charter Holdco or any of their subsidiaries may not pursue, or allow their subsidiaries to pursue, a business transaction outside of this scope, unless Mr. Allen consents to Charter or its subsidiaries engaging in the business transaction. In any such case, the Restated Certificate of Incorporation of Charter and the limited liability company agreement of Charter Holdco would need to be amended accordingly to modify the current restrictions on the ability of such entities to engage in any business other than the cable transmission business. The cable transmission business means the business of transmitting video, audio, including telephone, and data over cable systems owned, operated or managed by Charter, Charter Holdco or any of their subsidiaries from time to time.

Under Delaware corporate law, each director of Charter, including Mr. Allen, is generally required to present to Charter, any opportunity he or she may have to acquire any cable transmission business or any company whose principal business is the ownership, operation or management of cable transmission businesses, so that we may determine whether we wish to pursue such opportunities. However, Mr. Allen and the other directors generally will not have an obligation to present other types of business opportunities to Charter, and they may exploit such opportunities for their own account.

Also, conflicts could arise with respect to the allocation of corporate opportunities between us and Mr. Allen and his affiliates in connection with his investments in businesses in which we are permitted to

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engage under the Restated Certificate of Incorporation of Charter. Certain of the indentures of Charter and its subsidiaries require the applicable issuer of notes to obtain, under certain circumstances, approval of the board of directors of Charter and, where a transaction or series of related transactions is valued at or in excess of \$50 million, a fairness opinion with respect to transactions in which Mr. Allen has an interest. Related party transactions are approved by Charter's Audit Committee in compliance with the listing requirements applicable to Nasdaq Global Market listed companies. We have not instituted any other formal plan or arrangement to address potential conflicts of interest.

### **Third Party Business Relationships in Which Mr. Allen has or had an Interest**

As previously noted, Mr. Allen has and has had extensive investments in the areas of media and technology. We have a number of commercial relationships with third parties in which Mr. Allen has an interest. Mr. Allen or his affiliates own equity interests or warrants to purchase equity interests in various entities with which we do business or which provide us with products, services or programming. Mr. Allen owns 100% of the equity of Vulcan Ventures Incorporated and Vulcan Inc. and is the president of Vulcan Ventures. Ms. Jo Allen Patton is a director and the President and Chief Executive Officer of Vulcan Inc. and is a director and Vice President of Vulcan Ventures. Mr. Lance Conn is Executive Vice President of Vulcan Inc. and Vulcan Ventures. The various cable, media, Internet and telephone companies in which Mr. Allen has invested may mutually benefit one another. We can give no assurance, nor should you expect, that any of these business relationships will be successful, that we will realize any benefits from these relationships or that we will enter into any business relationships in the future with Mr. Allen's affiliated companies.

#### ***TechTV, Inc.***

TechTV, Inc. ("TechTV") operated a cable television network that offered programming mostly related to technology. Pursuant to an affiliation agreement that originated in 1998 and that terminates in 2008, TechTV has provided us with programming for distribution via our cable systems. The affiliation agreement provides, among other things, that TechTV must offer Charter Holdco certain terms and conditions that are no less favorable in the affiliation agreement than are given to any other distributor that serves the same number of or fewer TechTV viewing customers. Additionally, pursuant to the affiliation agreement, we were entitled to incentive payments for channel launches through December 31, 2003.

In March 2004, Charter Holdco entered into agreements with Vulcan Programming and TechTV, which provide for (a) Charter Holdco and TechTV to amend the affiliation agreement which, among other things, revises the description of the TechTV network content, provides for Charter Holdco to waive certain claims against TechTV relating to alleged breaches of the affiliation agreement and provides for TechTV to make payment of outstanding launch receivables due to Charter Holdco under the affiliation agreement, (b) Vulcan Programming to pay approximately \$10 million and purchase over a 24-month period, at fair market rates, \$2 million of advertising time across various cable networks on Charter cable systems in consideration of the agreements, obligations, releases and waivers under the agreements and in settlement of the aforementioned claims and (c) TechTV to be a provider of content relating to technology and video gaming for Charter's interactive television platforms through December 31, 2006 (exclusive for the first year). For the years ended December 31, 2003, 2004 and 2005 and the six months ended June 30, 2006 we recognized approximately \$1 million, \$5 million, \$1 million and \$0.6 million respectively, of the Vulcan Programming payment as an offset to programming expense.

We believe that Vulcan Programming, which is 100% owned by Mr. Allen, owned an approximate 98% equity interest in TechTV at the time Vulcan Programming sold TechTV to an unrelated third party in May 2004.

#### ***Oxygen Media Corporation***

Oxygen Media LLC ("Oxygen") provides programming content aimed at the female audience for distribution over cable systems and satellite. On July 22, 2002, Charter Holdco entered into a carriage agreement with Oxygen, whereby we agreed to carry programming content from Oxygen. Under the carriage agreement, we currently make Oxygen programming available to approximately 5 million of our video

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customers. In August 2004, Charter Holdco and Oxygen entered into agreements that amended and renewed the carriage agreement. The amendment to the carriage agreement (a) revised the number of our customers to which Oxygen programming must be carried and for which we must pay, (b) released Charter Holdco from any claims related to the failure to achieve distribution benchmarks under the carriage agreement, (c) required Oxygen to make payment on outstanding receivables for launch incentives due to us under the carriage agreement, and (d) requires that Oxygen provide its programming content to us on economic terms no less favorable than Oxygen provides to any other cable or satellite operator having fewer subscribers than us. The renewal of the carriage agreement (a) extends the period that we will carry Oxygen programming to our customers through January 31, 2008, and (b) requires license fees to be paid based on customers receiving Oxygen programming, rather than for specific customer benchmarks. For the years ended December 31, 2003, 2004 and 2005 and the six months ended June 30, 2006, we paid Oxygen approximately \$9 million, \$13 million, \$9 million and \$4 million, respectively, for programming content. In addition, Oxygen pays us launch incentives for customers launched after the first year of the term of the carriage agreement up to a total of \$4 million. We recorded approximately \$1 million, \$1 million, \$0.1 million and \$0 related to these launch incentives as a reduction of programming expense for the years ended December 31, 2003, 2004 and 2005 and the six months ended June 30, 2006, respectively.

In August 2004, Charter Holdco and Oxygen amended an equity issuance agreement to provide for the issuance of 1 million shares of Oxygen Preferred Stock with a liquidation preference of \$33.10 per share plus accrued dividends to Charter Holdco in place of the \$34 million of unregistered shares of Oxygen Media common stock required under the original equity issuance agreement. Oxygen Media delivered these shares in March 2005. The preferred stock is convertible into common stock after December 31, 2007 at a conversion ratio, the numerator of which is the liquidation preference and the denominator which is the fair market value per share of Oxygen Media common stock on the conversion date.

We recognized the guaranteed value of the investment over the life of the carriage agreement as a reduction of programming expense. For the years ended December 31, 2003, 2004 and 2005 and the six months ended June 30, 2006, we recorded approximately \$9 million, \$13 million, \$2 million and \$0, respectively, as a reduction of programming expense. The carrying value of our investment in Oxygen was approximately \$19 million, \$32 million, \$33 million and \$33 million as of December 31, 2003, 2004 and 2005 and June 30, 2006, respectively.

As of December 31, 2005, through Vulcan Programming, Mr. Allen owned an approximate 31% interest in Oxygen assuming no exercises of outstanding warrants or conversion or exchange of convertible or exchangeable securities. Ms. Jo Allen Patton is a director and the President of Vulcan Programming. Mr. Lance Conn is a Vice President of Vulcan Programming. Marc Nathanson has an indirect beneficial interest of less than 1% in Oxygen.

### ***Portland Trail Blazers***

On October 7, 1996, the former owner of our Falcon cable systems entered into a letter agreement and a cable television agreement with Trail Blazers Inc. for the cable broadcast in the metropolitan area surrounding Portland, Oregon of pre-season, regular season and playoff basketball games of the Portland Trail Blazers, a National Basketball Association basketball team. Mr. Allen is the 100% owner of the Portland Trail Blazers and Trail Blazers Inc. Under the letter agreement, Trail Blazers Inc. was paid a fixed fee for each customer in areas directly served by the Falcon cable systems. Under the cable television agreement, we shared subscription revenues with Trail Blazers Inc. For the years ended December 31, 2003, 2004 and 2005 and the six months ended June 30, 2006, we paid approximately \$135,200, \$96,100, \$116,500 and \$115,600, respectively, in connection with the cable broadcast of Portland Trail Blazers basketball games under the October 1996 cable television agreement and subsequent local cable distribution agreements.

### ***Digeo, Inc.***

In March 2001, a subsidiary of CCH II, Charter Communications Ventures, LLC ("Charter Ventures") and Vulcan Ventures Incorporated formed DBroadband Holdings, LLC for the sole purpose of purchasing equity interests in Digeo, Inc. ("Digeo"), an entity controlled by Paul Allen. In connection with the execution of the broadband carriage agreement, DBroadband Holdings, LLC purchased an equity interest in Digeo

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funded by contributions from Vulcan Ventures Incorporated. At that time, the equity interest was subject to a priority return of capital to Vulcan Ventures up to the amount contributed by Vulcan Ventures on Charter Ventures' behalf. After Vulcan Ventures recovered its amount contributed (the "Priority Return"), Charter Ventures should have had a 100% profit interest in DBroadband Holdings, LLC. Charter Ventures is not required to make any capital contributions, including capital calls, to DBroadband Holdings, LLC. Pursuant to an amended version of this arrangement, in 2003, Vulcan Ventures contributed a total of \$29 million to Digeo, \$7 million of which was contributed on Charter Ventures' behalf, subject to Vulcan Ventures' aforementioned priority return. Since the formation of DBroadband Holdings, LLC, Vulcan Ventures has contributed approximately \$56 million on Charter Ventures' behalf. On October 3, 2006, Vulcan Ventures and Digeo recapitalized Digeo. In connection with such recapitalization, DBroadband Holdings, LLC consented to the conversion of its preferred stock holdings in Digeo to common stock, and Vulcan Ventures agreed in principle to surrender this Priority Return to Charter Ventures.

On March 2, 2001, Charter Ventures entered into a broadband carriage agreement with Digeo Interactive, LLC ("Digeo Interactive"), a wholly owned subsidiary of Digeo. The carriage agreement provided that Digeo Interactive would provide to Charter a "portal" product, which would function as the television-based Internet portal (the initial point of entry to the Internet) for Charter's customers who received Internet access from Charter. The agreement term was for 25 years and Charter agreed to use the Digeo portal exclusively for six years. Before the portal product was delivered to Charter, Digeo terminated development of the portal product.

On September 27, 2001, Charter and Digeo Interactive amended the broadband carriage agreement. According to the amendment, Digeo Interactive would provide to Charter the content for enhanced "Wink" interactive television services, known as Charter Interactive Channels ("i-channels"). In order to provide the i-channels, Digeo Interactive sublicensed certain Wink technologies to Charter. Charter is entitled to share in the revenues generated by the i-channels. Currently, our digital video customers who receive i-channels receive the service at no additional charge.

On September 28, 2002, Charter entered into a second amendment to its broadband carriage agreement with Digeo Interactive. This amendment superseded the amendment of September 27, 2001. It provided for the development by Digeo Interactive of future features to be included in the Basic i-TV service to be provided by Digeo and for Digeo's development of an interactive "toolkit" to enable Charter to develop interactive local content. Furthermore, Charter could request that Digeo Interactive manage local content for a fee. The amendment provided for Charter to pay for development of the Basic i-TV service as well as license fees for customers who would receive the service, and for Charter and Digeo to split certain revenues earned from the service. In 2003, 2004, 2005 and the six months ended June 30, 2006, we paid Digeo Interactive approximately \$4 million, \$3 million, \$3 million and \$1 million respectively, for customized development of the i-channels and the local content tool kit. This amendment expired pursuant to its terms on December 31, 2003. Digeo Interactive is continuing to provide the Basic i-TV service on a month-to-month basis.

On June 30, 2003, Charter Holdco entered into an agreement with Motorola, Inc. for the purchase of 100,000 digital video recorder ("DVR") units. The software for these DVR units is being supplied by Digeo Interactive, LLC under a license agreement entered into in April 2004. Under the license agreement Digeo Interactive granted to Charter Holdco the right to use Digeo's proprietary software for the number of DVR units that Charter deployed from a maximum of 10 headends through year-end 2004. This maximum number of headends restriction was expanded and eventually eliminated through successive agreement amendments and the date for entering into license agreements for units deployed was extended. The license granted for each unit deployed under the agreement is valid for five years. In addition, Charter will pay certain other fees including a per-headend license fee and maintenance fees. Maximum license and maintenance fees during the term of the agreement are expected to be approximately \$7 million. The agreement includes an "MFN clause" pursuant to which Charter is entitled to receive contract terms, considered on the whole, and license fees, considered apart from other contract terms, no less favorable than those accorded to any other Digeo customer. Charter paid approximately \$0.5 million, \$1 million and

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\$3 million in license and maintenance fees for the years ended December 31, 2004 and 2005 and the six months ended June 30, 2006, respectively.

In April 2004, we launched DVR service (using units containing the Digeo software) in our Rochester, Minnesota market using a broadband media center that is an integrated set-top box with a cable converter, DVR hard drive and connectivity to other consumer electronics devices (such as stereos, MP3 players, and digital cameras).

In May 2004, Charter Holdco entered into a binding term sheet with Digeo Interactive for the development, testing and purchase of 70,000 Digeo PowerKey DVR units. The term sheet provided that the parties would proceed in good faith to negotiate, prior to year-end 2004, definitive agreements for the development, testing and purchase of the DVR units and that the parties would enter into a license agreement for Digeo's proprietary software on terms substantially similar to the terms of the license agreement described above. In November 2004, Charter Holdco and Digeo Interactive executed the license agreement and in December 2004, the parties executed the purchase agreement, each on terms substantially similar to the binding term sheet. Total purchase price and license and maintenance fees during the term of the definitive agreements are expected to be approximately \$41 million. The definitive agreements are terminable at no penalty to Charter in certain circumstances. We paid approximately \$1 million, \$10 million and \$8 million in capital purchases under this agreement for the years ended December 31, 2004 and 2005 and the six months ended June 30, 2006, respectively.

In late 2003, Microsoft filed suit against Digeo for \$9 million in a breach of contract action, involving an agreement that Digeo and Microsoft had entered into in 2001. Digeo informed Charter that it believed it had an indemnification claim against Charter for half that amount. Digeo settled with Microsoft agreeing to make a cash payment and to purchase certain amounts of Microsoft software products and consulting services through 2008. In consideration of Digeo agreeing to release Charter from its potential claim against Charter, after consultation with outside counsel Charter agreed, in June 2005, to purchase a total of \$2.3 million in Microsoft consulting services through 2008, a portion of which amounts Digeo has informed Charter will count against Digeo's purchase obligations with Microsoft.

In October 2005, Charter Holdco and Digeo Interactive entered into a binding term sheet for the test market deployment of the Moxi Entertainment Applications Pack ("MEAP"). The MEAP is an addition to the Moxi Client Software and will contain ten games (such as Video Poker and Blackjack), a photo application and jukebox application. The term sheet is limited to a test market application of approximately 14,000 subscribers and the aggregate value is not expected to exceed \$0.1 million. In the event the test market proves successful, the companies will replace the term sheet with a long form agreement including a planned roll-out across additional markets. The term sheet expires on August 30, 2006.

We believe that Vulcan Ventures, an entity controlled by Mr. Allen, owns an approximate 60% equity interest in Digeo, Inc., on a fully converted non-diluted basis. Messrs. Allen and Conn and Ms. Patton are directors of Digeo. Mr. Lovett was a director of Digeo from December 2005 to October 2006. Mr. Fawaz was a director of Digeo and resigned from such position in October 2006. Mr. Vogel was a director of Digeo in 2004. During 2004 and 2005, Mr. Vogel held options to purchase 10,000 shares of Digeo common stock.

## **Other Miscellaneous Relationships**

### ***Viacom Networks***

Pursuant to certain affiliation agreements with networks of New Viacom, including MTV, MTV2, Nickelodeon, VH1, TVLand, CMT, Spike TV, Comedy Central and Viacom Digital Suite, and stations and networks of CBS Corporation including CBS-owned and operated broadcast stations, Showtime, The Movie Channel, and Flix, New Viacom and CBS Corporation provide Charter with programming for distribution via our cable systems. The affiliation agreements provide for, among other things, rates and terms of carriage, advertising on these networks, which Charter can sell to local advertisers and marketing support. For the years ended December 31, 2003, 2004 and 2005, Charter paid Old Viacom approximately \$188 million, \$194 million and \$201 million, respectively, and for the six months ended June 30, 2006, Charter paid New Viacom \$62 million and CBS Corporation \$46 million for programming. Charter recorded approximately \$5 million, \$8 million and \$15 million as receivables from Old Viacom networks related to launch incentives

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for certain channels and marketing support, respectively, for the years ended December 31, 2003, 2004 and 2005. From April 1994 to July 2004, Mr. Dolgen served as Chairman and Chief Executive Officer of the Viacom Entertainment Group.

### ***Payments for Relative's Services***

Since June 2003, Mr. Vogel's brother-in-law has been an employee of Charter Holdco and has received a salary commensurate with his position in the engineering department.

### ***Radio Advertising***

We believe that, through a third party advertising agency, we have paid approximately \$67,300, \$49,300, \$67,600 and \$56,500 in 2003, 2004 and 2005 and the six months ended June 30, 2006, respectively, to Mapleton Communications, an affiliate of Mapleton Investments, LLC that owns radio stations in Oregon and California. Mr. Nathanson is the Chairman and owner of Mapleton Investments, LLC.

### ***Enstar Management Fees***

Enstar Cable Corporation, the manager of the Enstar limited partnerships through a management agreement, engaged Charter Holdco to manage the Enstar limited partnerships. Pursuant to the management agreement, Charter Holdco provides management services to the Enstar limited partnerships in exchange for management fees. The Enstar limited partnerships also purchase basic and premium programming for their systems at cost from Charter Holdco. For the years ended December 31, 2003, 2004 and 2005 and the six months ended June 30, 2006, Charter Holdco earned approximately \$469,300, \$0, \$0 and \$0, respectively, by providing management services to the Enstar limited partnerships. In September 2003 the Enstar limited partnerships completed sales of all their remaining assets, and as a result no further management fees were paid in 2004. In November 2004, the Enstar limited partnerships were dissolved.

All of the executive officers of Charter (with the exception of Mr. Allen), Charter Holdco and Charter Holdings acted as officers of Enstar Communications Corporation.

### ***Indemnification Advances***

Pursuant to Charter's Bylaws (and the employment agreements of certain of our current and former officers), Charter is obligated (subject to certain limitations) to indemnify and hold harmless, to the fullest extent permitted by law, any officer, director or employee against all expense, liability and loss (including, among other things, attorneys' fees) reasonably incurred or suffered by such officer, director or employee as a result of the fact that he or she is a party or is threatened to be made a party or is otherwise involved in any action, suit or proceeding by reason of the fact that he or she is or was a director, officer or employee of Charter. In addition, Charter is obligated to pay, as an advancement of its indemnification obligation, the expenses (including attorneys' fees) incurred by any officer, director or employee in defending any such action, suit or proceeding in advance of its final disposition, subject to an obligation to repay those amounts under certain circumstances. Pursuant to these indemnification arrangements and as an advancement of costs, Charter has reimbursed certain of its current and former directors and executive officers a total of approximately \$8 million, \$3 million, \$16,200 and \$400 in respect of invoices received in 2003, 2004 and 2005 and the six months ended June 30, 2006, respectively, in connection with their defense of certain legal actions. These amounts were submitted to Charter's director and officer insurance carrier and have been reimbursed consistent with the terms of the settlement of the legal actions.

## DESCRIPTION OF OTHER INDEBTEDNESS

The following description of our external indebtedness is qualified in its entirety by reference to the relevant credit facilities, indentures and related documents governing such indebtedness. Intercompany indebtedness is not included or described herein. As used herein.

### Description of Our Outstanding Debt

As of June 30, 2006 and December 31, 2005, Charter Holdings' accreted value of debt was approximately \$19.0 billion and \$18.5 billion, respectively, and as summarized below (dollars in millions):

	June 30, 2006		December 31, 2005		Semi-Annual Interest Payment Dates	Start Date for Interest Payment on Discount Notes	Maturity Date(b)
	Principal Amount	Accreted Value(a)	Principal Amount	Accreted Value(a)			
<b>Credit Facilities</b>							
Charter Operating	\$ 5,800	\$ 5,800	\$ 5,731	\$ 5,731			
<b>Renaissance Media Group LLC:</b>							
10.000% senior discount notes due 2008	—	—	114	115	4/15 & 10/15	10/15/03	4/15/08
<b>Charter Operating:</b>							
8% senior second-lien notes due 2012	1,100	1,100	1,100	1,100	4/30 & 10/30		4/30/12
8 <sup>3</sup> / <sub>8</sub> % senior second-lien notes due 2014	770	770	733	733	4/30 & 10/30		4/30/14
<b>CCO Holdings, LLC:</b>							
8 <sup>3</sup> / <sub>4</sub> % senior notes due 2013	800	795	800	794	5/15 & 11/15		11/15/13
Senior floating notes due 2010	550	550	550	550	3/15, 6/15, 9/15 & 12/15		12/15/10
<b>CCH II, LLC:</b>							
10.250% senior notes due 2010	2,051	2,042	1,601	1,601	3/15 & 9/15		9/15/10
<b>Total CCH II, LLC</b>	<u>11,071</u>	<u>11,057</u>	<u>10,629</u>	<u>10,624</u>			
<b>CCH I(a):</b>							
11.00% senior notes due 2015	3,525	3,678	3,525	3,683	4/1 & 10/1		10/1/15
<b>Total CCH I, LLC</b>	<u>14,596</u>	<u>14,735</u>	<u>14,154</u>	<u>14,307</u>			
<b>CIH(a):</b>							
11.125% senior notes due 2014	151	151	151	151	1/15 & 7/15		1/15/14
9.920% senior discount notes due 2014	471	471	471	471	4/1 & 10/1		4/1/14
10.000% senior notes due 2014	299	299	299	299	5/15 & 11/15		5/15/14
11.750% senior discount notes due 2014	815	815	815	781	5/15 & 11/15	11/15/06	5/15/14
13.500% senior discount notes due 2014	581	581	581	578	1/15 & 7/15	7/15/06	1/15/14
12.125% senior discount notes due 2015	217	203	217	192	1/15 & 7/15	7/15/07	1/15/15
<b>Charter Holdings:</b>							
8.250% senior notes due 2007	105	105	105	105	4/1 & 10/1		4/1/07
8.625% senior notes due 2009	292	292	292	292	4/1 & 10/1		4/1/09
9.920% senior discount notes due 2011	198	198	198	198	4/1 & 10/1	10/1/04	4/1/11
10.000% senior notes due 2009	154	154	154	154	4/1 & 10/1		4/1/09
10.250% senior notes due 2010	49	49	49	49	1/15 & 7/15		1/15/10



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	<u>June 30, 2006</u>		<u>December 31, 2005</u>		<u>Semi-Annual Interest Payment Dates</u>	<u>Start Date for Interest Payment on Discount Notes</u>	<u>Maturity Date(b)</u>
	<u>Principal Amount</u>	<u>Accreted Value(a)</u>	<u>Principal Amount</u>	<u>Accreted Value(a)</u>			
11.750% senior discount notes due 2010	43	43	43	43	1/15 & 7/15	7/15/05	1/15/10
10.750% senior notes due 2009	131	131	131	131	4/1 & 10/1		10/1/09
11.125% senior notes due 2011	217	217	217	217	1/15 & 7/15		1/15/11
13.500% senior discount notes due 2011	94	94	94	94	1/15 & 7/15	7/15/06	1/15/11
9.625% senior notes due 2009	107	107	107	107	5/15 & 11/15		11/15/09
10.000% senior notes due 2011	137	136	137	136	5/15 & 11/15		5/15/11
11.750% senior discount notes due 2011	125	125	125	120	5/15 & 11/15	11/15/06	5/15/11
12.125% senior discount notes due 2012	113	106	113	100	1/15 & 7/15	7/15/07	1/15/12
<b>Total Charter Holdings</b>	<u>\$ 18,895</u>	<u>\$ 19,012</u>	<u>\$ 18,453</u>	<u>\$ 18,525</u>			

- (a) The accreted value presented above generally represents the principal amount of the notes less the original issue discount at the time of sale plus the accretion to the balance sheet date except as follows. The accreted value of the CIH notes issued in exchange for Charter Holdings notes and the CCH I notes issued in exchange for the 8.625% Charter Holdings notes due 2009 are recorded at the historical book values of the Charter Holdings notes for financial reporting purposes as opposed to the current accreted value for legal purposes and notes indenture purposes (which, for both purposes, is the amount that would become payable if the debt becomes immediately due). As of June 30, 2006 and December 31, 2005, the accreted value of Charter Holdings' debt for legal purposes and notes and indentures purposes is approximately \$18.6 billion and \$18.0 billion, respectively.
- (b) In general, the obligors have the right to redeem all of the notes set forth in the above table (except with respect to the 8.25% Charter Holdings notes due 2007, the 10.000% Charter Holdings notes due 2009, the 10.75% Charter Holdings notes due 2009 and the 9.625% Charter Holdings notes due 2009) in whole or part at their option, beginning at various times prior to their stated maturity dates, subject to certain conditions, upon the payment of the outstanding principal amount (plus a specified redemption premium) and all accrued and unpaid interest. For additional information, see Note 9 to the accompanying consolidated financial statements included elsewhere in this Prospectus.

As of June 30, 2006 and December 31, 2005, Charter Holdings long-term debt totaled approximately \$19.0 billion and \$18.5 billion, respectively. This debt was comprised of approximately \$5.8 billion and \$5.7 billion of credit facility debt and \$13.2 billion and \$12.8 billion accreted amount of high-yield notes at June 30, 2006 and December 31, 2005, respectively.

As of June 30, 2006 and December 31, 2005, the weighted average interest rate on the credit facility debt was approximately 8.0% and 7.8%, the weighted average interest rate on Charter Holdings high-yield notes was approximately 10.3% and 10.2% respectively, resulting in a blended weighted average interest rate of 9.6% and 9.5%, respectively. The interest rate on approximately 76% of the total principal amount of Charter Holdings debt was effectively fixed, including the effects of Charter Holdings interest rate hedge agreements as of June 30, 2006 and December 31, 2005. The fair value of Charter Holdings high-yield notes was \$11.0 billion and \$10.4 billion at June 30, 2006 and December 31, 2005, respectively. The fair value of Charter Holdings credit facilities is \$5.8 billion and \$5.7 billion at June 30, 2006 and December 31, 2005, respectively.

The fair value of high-yield is based on quoted market prices, and the fair value of the credit facilities is based on dealer quotations.

The following description is a summary of certain material provisions of the amended and restated Charter Operating credit facilities and our other notes and those of our subsidiaries (collectively, the “Debt Agreements”). The summary does not restate the terms of the Debt Agreements in their entirety, nor does it describe all terms of the Debt Agreements. The agreements and instruments governing each of the Debt Agreements are complicated and you should consult such agreements and instruments for more detailed information regarding the Debt Agreements.

### **Charter Operating Credit Facilities — General**

The Charter Operating credit facilities were amended and restated in April 2006, among other things, to defer maturities and increase availability under these facilities. The Charter Operating credit facilities provide borrowing availability of up to \$6.85 billion as follows:

- a term facility with a total principal amount of \$5.0 billion, which shall be repayable in 23 equal quarterly installments, commencing September 30, 2007, aggregating in each loan year to 1% of the original amount of the term facility, with the remaining balance due at final maturity in 2013;
- a revolving credit facility, in a total amount of \$1.5 billion, with a maturity date in 2010; and
- a revolving credit facility (the “R/ T Facility”), in a total amount of \$350.0 million, that converts to term loans in April 2007, repayable on the same terms as the term facility described above.

Amounts outstanding under the Charter Operating credit facilities bear interest, at Charter Operating’s election, at a base rate or the Eurodollar rate, as defined, plus a margin for Eurodollar loans of up to 3.00% for the revolving credit facility and R/ T Facility (until converted to term loans), and up to 2.625% for the term facility and R/ T Facility loans after converting to term loans, and for base rate loans of up to 2.00% for the revolving credit facility and R/ T Facility (until converted to term loans), and up to 1.625% for the term facility and R/ T Facility loans after converting to term loans. A quarterly commitment fee of up to .75% is payable on the average daily unborrowed balance of the revolving credit facility and, until April 2007, the R/ T Facility.

The obligations of our subsidiaries under the Charter Operating credit facilities (the “Obligations”) are guaranteed by Charter Operating’s immediate parent company, CCO Holdings, and the subsidiaries of Charter Operating, except for immaterial subsidiaries and subsidiaries precluded from guaranteeing by reason of the provisions of other indebtedness to which they are subject (the “non-guarantor subsidiaries”). The Obligations are also secured by (i) a lien on all of the assets of Charter Operating and its subsidiaries (other than assets of the non-guarantor subsidiaries), to the extent such lien can be perfected under the Uniform Commercial Code by the filing of a financing statement, and (ii) a pledge by CCO Holdings of the equity interests owned by it in Charter Operating or any of Charter Operating’s subsidiaries, as well as intercompany obligations owing to it by any of such entities.

### **Charter Operating Credit Facilities — Restrictive Covenants**

The Charter Operating credit facilities contain representations and warranties and affirmative and negative covenants customary for financings of this type. The financial covenants measure performance against standards set for leverage, debt service coverage, and interest coverage, tested as of the end of each quarter. The maximum allowable leverage ratio is 4.25 to 1.0 and the minimum allowable interest coverage ratio (applicable to the revolving credit facility and R/ T Facility (until converted to term loans) only) is 1.10 to 1.0. Additionally, the Charter Operating credit facilities contain provisions requiring mandatory loan prepayments when significant amounts of assets are sold and the proceeds are not reinvested in assets useful in the business of the borrower within a specified period.

The Charter Operating credit facilities permit Charter Operating and its subsidiaries to make distributions to pay interest on the CCO Holdings senior notes, the CCH II senior notes, the CCH I Notes, the CIH

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senior notes, the Charter Holdings senior notes and the Convertible Notes; provided that, among other things, no default has occurred and is continuing under the Charter Operating credit facilities. The Charter Operating credit facilities restrict the ability of Charter Operating and its subsidiaries to make distributions for the purpose of repaying indebtedness of their parent companies, except if certain conditions are met, including (1) the satisfaction of a 1.5 to 1.0 interest coverage ratio test, (2) a minimum available liquidity requirement of \$250 million, (3) the requirement that no default under the credit facilities or parent indentures exist or be caused by such distribution and (4) the requirement that the debt repayment take place within 60 days of the distribution, except that the 1.5 to 1.0 interest coverage test does not have to be met for any such debt repayments made with proceeds of certain asset sales that do not need to be applied to prepay loans under the credit facilities in order to keep the leverage ratio at the same level as it was prior to such sale, after giving pro forma effect to such sale, up to a total amount of \$3 billion of such asset sales. Conditions to future borrowings include absence of a default or an event of default under the Charter Operating credit facilities and the continued accuracy in all material respects of the representations and warranties, including the absence since December 31, 2005 of any event, development or circumstance that has had or could reasonably be expected to have a material adverse effect on our business.

The events of default under the Charter Operating credit facilities include, among other things:

- (i) the failure to make payments when due or within the applicable grace period,
- (ii) the failure to comply with specified covenants, including but not limited to a covenant to deliver audited financial statements with an unqualified opinion from our independent auditors,
- (iii) the failure to pay or the occurrence of events that cause or permit the acceleration of other indebtedness owing by CCO Holdings, Charter Operating or Charter Operating's subsidiaries in amounts in excess of \$50 million in aggregate principal amount,
- (iv) the failure to pay or the occurrence of events that result in the acceleration of other indebtedness owing by certain of CCO Holdings' direct and indirect parent companies in amounts in excess of \$200 million in aggregate principal amount,
- (v) Paul Allen and/or certain of his family members and/or their exclusively owned entities (collectively, the "Paul Allen Group") ceasing to have the power, directly or indirectly, to vote at least 35% of the ordinary voting power of Charter Operating,
- (vi) the consummation of any transaction resulting in any person or group (other than the Paul Allen Group) having power, directly or indirectly, to vote more than 35% of the ordinary voting power of Charter Operating, unless the Paul Allen Group holds a greater share of ordinary voting power of Charter Operating,
- (vii) certain of Charter Operating's indirect or direct parent companies, Charter Operating or Charter Operating's subsidiaries having indebtedness in excess of \$500 million aggregate principal amount (other than under the Charter Operating credit facilities) which remains undefeased three months prior to the final maturity of such indebtedness, and
- (viii) Charter Operating ceasing to be a wholly-owned direct subsidiary of CCO Holdings, except in certain very limited circumstances.

### **CCO Holdings, LLC Notes**

#### ***8<sup>3</sup>/<sub>4</sub>% Senior Notes due 2013***

In November 2003 and August 2005, CCO Holdings and CCO Holdings Capital Corp. jointly issued \$500 million and \$300 million, respectively, total principal amount of 8<sup>3</sup>/<sub>4</sub>% senior notes due 2013. Interest on the CCO Holdings senior notes accrues at 8<sup>3</sup>/<sub>4</sub>% per year and is payable semi-annually in arrears on each May 15 and November 15.

At any time prior to November 15, 2006, the issuers of the CCO Holdings senior notes may redeem up to 35% of the total principal amount of the CCO Holdings senior notes to the extent of public equity proceeds

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they have received on a pro rata basis at a redemption price equal to 108.75% of the principal amount of CCO Holdings senior notes redeemed, plus any accrued and unpaid interest. On or after November 15, 2008, the issuers of the CCO Holdings senior notes may redeem all or a part of the notes at a redemption price that declines ratably from the initial redemption price of 104.375% to a redemption price on or after November 15, 2011 of 100.0% of the principal amount of the CCO Holdings senior notes redeemed, plus, in each case, any accrued and unpaid interest.

### ***Senior Floating Rate Notes Due 2010***

In December 2004, CCO Holdings and CCO Holdings Capital Corp. jointly issued \$550 million total principal amount of senior floating rate notes due 2010. The CCO Holdings senior floating rate notes have an annual interest rate of LIBOR plus 4.125%, which resets and is payable quarterly in arrears on each March 15, June 15, September 15 and December 15.

At any time prior to December 15, 2006, CCO Holdings and CCO Holdings Capital Corp. may redeem up to 35% of the notes in an amount not to exceed the amount of proceeds of one or more public equity offerings at a redemption price equal to 100% of the principal amount, plus a premium equal to the interest rate per annum applicable to the notes on the date notice of redemption is given, plus accrued and unpaid interest, if any, to the redemption date, provided that at least 65% of the original aggregate principal amount of the notes issued remains outstanding after the redemption. CCO Holdings and CCO Holdings Capital Corp. may redeem the notes in whole or in part at the issuers' option from December 15, 2006 until December 14, 2007 for 102% of the principal amount, from December 15, 2007 until December 14, 2008 for 101% of the principal amount and from and after December 15, 2008, at par, in each case, plus accrued and unpaid interest.

### ***Additional Terms of the CCO Holdings Senior Notes and Senior Floating Rate Notes***

The CCO Holdings notes are general unsecured obligations of CCO Holdings and CCO Holdings Capital Corp. They rank equally with all other current or future unsubordinated obligations of CCO Holdings and CCO Holdings Capital Corp. The CCO Holdings notes are structurally subordinated to all obligations of subsidiaries of CCO Holdings, including the Charter Operating notes and the Charter Operating credit facilities.

In the event of specified change of control events, CCO Holdings must offer to purchase the outstanding CCO Holdings senior notes from the holders at a purchase price equal to 101% of the total principal amount of the notes, plus any accrued and unpaid interest.

The indenture governing the CCO Holdings senior notes contains restrictive covenants that limit certain transactions or activities by CCO Holdings and its restricted subsidiaries, including the covenants summarized below. Substantially all of CCO Holdings' direct and indirect subsidiaries are currently restricted subsidiaries.

The covenant in the indenture governing the CCO Holdings senior notes that restricts incurrence of debt and issuance of preferred stock permits CCO Holdings and its subsidiaries to incur or issue specified amounts of debt or preferred stock, if, after giving pro forma effect to the incurrence or issuance, CCO Holdings could meet a leverage ratio (ratio of consolidated debt to four times EBITDA, as defined, from the most recent fiscal quarter for which internal financial reports are available) of 4.5 to 1.0. In addition, regardless of whether the leverage ratio could be met, so long as no default exists or would result from the incurrence or issuance, CCO Holdings and its restricted subsidiaries are permitted to incur or issue:

- up to \$9.75 billion of debt under credit facilities, including debt under credit facilities outstanding on the issue date of the CCO Holdings senior notes;
- up to \$75 million of debt incurred to finance the purchase or capital lease of new assets;
- up to \$300 million of additional debt for any purpose; and

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- other items of indebtedness for specific purposes such as intercompany debt, refinancing of existing debt, and interest rate swaps to provide protection against fluctuation in interest rates.

The restricted subsidiaries of CCO Holdings are generally not permitted to issue debt securities contractually subordinated to other debt of the issuing subsidiary or preferred stock, in either case in any public or Rule 144A offering.

The CCO Holdings indenture permits CCO Holdings and its restricted subsidiaries to incur debt under one category, and later reclassify that debt into another category. The Charter Operating credit facilities generally impose more restrictive limitations on incurring new debt than CCO Holdings' indenture, so our subsidiaries that are subject to credit facilities are not permitted to utilize the full debt incurrence that would otherwise be available under the CCO Holdings indenture covenants.

Generally, under CCO Holdings' indenture, CCO Holdings and its restricted subsidiaries are permitted to pay dividends on equity interests, repurchase interests, or make other specified restricted payments only if CCO Holdings can incur \$1.00 of new debt under the leverage ratio test, which requires that CCO Holdings meet a 4.5 to 1.0 leverage ratio after giving effect to the transaction, and if no default exists or would exist as a consequence of such incurrence. If those conditions are met, restricted payments are permitted in a total amount of up to 100% of CCO Holdings' consolidated EBITDA, as defined, minus 1.3 times its consolidated interest expense, plus 100% of new cash and appraised non-cash equity proceeds received by CCO Holdings and not allocated to the debt incurrence covenant, all cumulatively from the fiscal quarter commenced on October 1, 2003, plus \$100 million.

In addition, CCO Holdings may make distributions or restricted payments, so long as no default exists or would be caused by the transaction:

- to repurchase management equity interests in amounts not to exceed \$10 million per fiscal year;
- to pay, regardless of the existence of any default, pass-through tax liabilities in respect of ownership of equity interests in Charter Holdings or its restricted subsidiaries;
- to pay, regardless of the existence of any default, interest when due on the Convertible Notes, Charter Holdings notes, CIH notes, CCH I notes and the CCH II Notes;
- to purchase, redeem or refinance Charter Holdings notes, CIH notes, CCH I notes, CCH II Notes, Charter notes, and other direct or indirect parent company notes, so long as CCO Holdings could incur \$1.00 of indebtedness under the 4.5 to 1.0 leverage ratio test referred to above and there is no default; or
- to make other specified restricted payments including merger fees up to 1.25% of the transaction value, repurchases using concurrent new issuances, and certain dividends on existing subsidiary preferred equity interests.

The indenture governing the CCO Holdings senior notes restricts CCO Holdings and its restricted subsidiaries from making investments, except specified permitted investments, or creating new unrestricted subsidiaries, if there is a default under the indenture or if CCO Holdings could not incur \$1.00 of new debt under the 4.5 to 1.0 leverage ratio test described above after giving effect to the transaction.

Permitted investments include:

- investments by CCO Holdings and its restricted subsidiaries in CCO Holdings and in other restricted subsidiaries, or entities that become restricted subsidiaries as a result of the investment,
- investments aggregating up to 100% of new cash equity proceeds received by CCO Holdings since November 10, 2003 to the extent the proceeds have not been allocated to the restricted payments covenant described above,
- other investments up to \$750 million outstanding at any time, and

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- certain specified additional investments, such as investments in customers and suppliers in the ordinary course of business and investments received in connection with permitted asset sales.

CCO Holdings is not permitted to grant liens on its assets other than specified permitted liens. Permitted liens include liens securing debt and other obligations incurred under our subsidiaries' credit facilities, liens securing the purchase price of new assets, liens securing indebtedness up to \$50 million and other specified liens incurred in the ordinary course of business. The lien covenant does not restrict liens on assets of subsidiaries of CCO Holdings. CCO Holdings and CCO Holdings Capital Corp., its co-issuer, are generally not permitted to sell all or substantially all of their assets or merge with or into other companies unless their leverage ratio after any such transaction would be no greater than their leverage ratio immediately prior to the transaction, or unless CCO Holdings and its subsidiaries could incur \$1.00 of new debt under the 4.5 to 1.0 leverage ratio test described above after giving effect to the transaction, no default exists, and the surviving entity is a U.S. entity that assumes the CCO Holdings senior notes.

CCO Holdings and its restricted subsidiaries may generally not otherwise sell assets or, in the case of restricted subsidiaries, issue equity interests, unless they receive consideration at least equal to the fair market value of the assets or equity interests, consisting of at least 75% in cash, assumption of liabilities, securities converted into cash within 60 days or productive assets. CCO Holdings and its restricted subsidiaries are then required within 365 days after any asset sale either to commit to use the net cash proceeds over a specified threshold to acquire assets, including current assets, used or useful in their businesses or use the net cash proceeds to repay debt, or to offer to repurchase the CCO Holdings senior notes with any remaining proceeds.

CCO Holdings and its restricted subsidiaries may generally not engage in sale and leaseback transactions unless, at the time of the transaction, CCO Holdings could have incurred secured indebtedness in an amount equal to the present value of the net rental payments to be made under the lease, and the sale of the assets and application of proceeds is permitted by the covenant restricting asset sales.

CCO Holdings' restricted subsidiaries may generally not enter into restrictions on their ability to make dividends or distributions or transfer assets to CCO Holdings on terms that are materially more restrictive than those governing their debt, lien, asset sale, lease and similar agreements existing when they entered into the indenture, unless those restrictions are on customary terms that will not materially impair CCO Holdings' ability to repay its notes.

The restricted subsidiaries of CCO Holdings are generally not permitted to guarantee or pledge assets to secure debt of CCO Holdings, unless the guarantying subsidiary issues a guarantee of the notes of comparable priority and tenor, and waives any rights of reimbursement, indemnity or subrogation arising from the guarantee transaction for at least one year.

The indenture also restricts the ability of CCO Holdings and its restricted subsidiaries to enter into certain transactions with affiliates involving consideration in excess of \$15 million without a determination by the board of directors that the transaction is on terms no less favorable than arms-length, or transactions with affiliates involving over \$50 million without receiving an independent opinion as to the fairness of the transaction to the holders of the CCO Holdings notes.

### **Charter Communications Operating, LLC Notes**

On April 27, 2004, Charter Operating and Charter Communications Operating Capital Corp. jointly issued \$1.1 billion of 8% senior second-lien notes due 2012 and \$400 million of 8<sup>3/8</sup>% senior second-lien notes due 2014, for total gross proceeds of \$1.5 billion. In March and June 2005, Charter Operating consummated exchange transactions with a small number of institutional holders of Charter Holdings 8.25% senior notes due 2007 pursuant to which Charter Operating issued, in private placement transactions, approximately \$333 million principal amount of its 8<sup>3/8</sup>% senior second-lien notes due 2014 in exchange for approximately \$346 million of the Charter Holdings 8.25% senior notes due 2007. Interest on the Charter Operating notes is payable semi-annually in arrears on each April 30 and October 30.

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The Charter Operating notes were sold in a private transaction that was not subject to the registration requirements of the Securities Act of 1933. The Charter Operating notes are not expected to have the benefit of any exchange or other registration rights, except in specified limited circumstances.

On the issue date of the Charter Operating notes, because of restrictions contained in the Charter Holdings indentures, there were no Charter Operating note guarantees, even though Charter Operating's immediate parent, CCO Holdings, and certain of our subsidiaries were obligors and/or guarantors under the Charter Operating credit facilities. Upon the occurrence of the guarantee and pledge date (generally, the fifth business day after the Charter Holdings leverage ratio was certified to be below 8.75 to 1.0), CCO Holdings and those subsidiaries of Charter Operating that were then guarantors of, or otherwise obligors with respect to, indebtedness under the Charter Operating credit facilities and related obligations were required to guarantee the Charter Operating notes. The note guarantee of each such guarantor is:

- a senior obligation of such guarantor;
- structurally senior to the outstanding senior notes of CCO Holdings (except in the case of CCO Holdings' note guarantee, which is structurally *pari passu* with such senior notes), the outstanding CCH II Notes, the outstanding CCH I notes, the outstanding CIH notes, the outstanding Charter Holdings notes and the outstanding Convertible Notes (but subject to provisions in the Charter Operating indenture that permit interest and, subject to meeting the 4.25 to 1.0 leverage ratio test, principal payments to be made thereon); and
- senior in right of payment to any future subordinated indebtedness of such guarantor.

As a result of the above leverage ratio test being met, CCO Holdings and certain of its subsidiaries provided the additional guarantees described above during the first quarter of 2005. All the subsidiaries of Charter Operating (except CCO NR Sub, LLC, and certain other subsidiaries that are not deemed material and are designated as nonrecourse subsidiaries under the Charter Operating credit facilities) are restricted subsidiaries of Charter Operating under the Charter Operating notes. Unrestricted subsidiaries generally will not be subject to the restrictive covenants in the Charter Operating indenture.

In the event of specified change of control events, Charter Operating must offer to purchase the Charter Operating notes at a purchase price equal to 101% of the total principal amount of the Charter Operating notes repurchased plus any accrued and unpaid interest thereon.

The limitations on incurrence of debt contained in the indenture governing the Charter Operating notes permit Charter Operating and its restricted subsidiaries that are guarantors of the Charter Operating notes to incur additional debt or issue shares of preferred stock if, after giving pro forma effect to the incurrence, Charter Operating could meet a leverage ratio test (ratio of consolidated debt to four times EBITDA, as defined, from the most recent fiscal quarter for which internal financial reports are available) of 4.25 to 1.0.

In addition, regardless of whether the leverage ratio test could be met, so long as no default exists or would result from the incurrence or issuance, Charter Operating and its restricted subsidiaries are permitted to incur or issue:

- up to \$6.8 billion of debt under credit facilities (but such incurrence is permitted only by Charter Operating and its restricted subsidiaries that are guarantors of the Charter Operating notes, so long as there are such guarantors), including debt under credit facilities outstanding on the issue date of the Charter Operating notes;
- up to \$75 million of debt incurred to finance the purchase or capital lease of assets;
- up to \$300 million of additional debt for any purpose, and
- other items of indebtedness for specific purposes such as refinancing of existing debt and interest rate swaps to provide protection against fluctuation in interest rates and, subject to meeting the leverage ratio test, debt existing at the time of acquisition of a restricted subsidiary.

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The indenture governing the Charter Operating notes permits Charter Operating to incur debt under one of the categories above, and later reclassify the debt into a different category. The Charter Operating credit facilities generally impose more restrictive limitations on incurring new debt than the Charter Operating indenture, so our subsidiaries that are subject to the Charter Operating credit facilities are not permitted to utilize the full debt incurrence that would otherwise be available under the Charter Operating indenture covenants.

Generally, under Charter Operating's indenture, Charter Operating and its restricted subsidiaries are permitted to pay dividends on equity interests, repurchase interests, or make other specified restricted payments only if Charter Operating could incur \$1.00 of new debt under the leverage ratio test, which requires that Charter Operating meet a 4.25 to 1.0 leverage ratio after giving effect to the transaction, and if no default exists or would exist as a consequence of such incurrence. If those conditions are met, restricted payments are permitted in a total amount of up to 100% of Charter Operating's consolidated EBITDA, as defined, minus 1.3 times its consolidated interest expense, plus 100% of new cash and appraised non-cash equity proceeds received by Charter Operating and not allocated to the debt incurrence covenant, all cumulatively from the fiscal quarter commenced April 1, 2004, plus \$100 million.

In addition, Charter Operating may make distributions or restricted payments, so long as no default exists or would be caused by the transaction:

- to repurchase management equity interests in amounts not to exceed \$10 million per fiscal year;
- regardless of the existence of any default, to pay pass-through tax liabilities in respect of ownership of equity interests in Charter Operating or its restricted subsidiaries;
- to pay, regardless of the existence of any default, interest when due on the Convertible Notes, the Charter Holdings notes, the CIH notes, the CCH I notes, the CCH II Notes and the CCO Holdings notes;
- to purchase, redeem or refinance the Charter Holdings notes, the CIH notes, the CCH I notes, the CCH II Notes, the CCO Holdings notes, the Convertible Notes, and other direct or indirect parent company notes, so long as Charter Operating could incur \$1.00 of indebtedness under the 4.25 to 1.0 leverage ratio test referred to above and there is no default, or
- to make other specified restricted payments including merger fees up to 1.25% of the transaction value, repurchases using concurrent new issuances, and certain dividends on existing subsidiary preferred equity interests.

The indenture governing the Charter Operating notes restricts Charter Operating and its restricted subsidiaries from making investments, except specified permitted investments, or creating new unrestricted subsidiaries, if there is a default under the indenture or if Charter Operating could not incur \$1.00 of new debt under the 4.25 to 1.0 leverage ratio test described above after giving effect to the transaction.

Permitted investments include:

- investments by Charter Operating and its restricted subsidiaries in Charter Operating and in other restricted subsidiaries, or entities that become restricted subsidiaries as a result of the investment,
- investments aggregating up to 100% of new cash equity proceeds received by Charter Operating since April 27, 2004 to the extent the proceeds have not been allocated to the restricted payments covenant described above,
- other investments up to \$750 million outstanding at any time, and
- certain specified additional investments, such as investments in customers and suppliers in the ordinary course of business and investments received in connection with permitted asset sales.

Charter Operating and its restricted subsidiaries are not permitted to grant liens senior to the liens securing the Charter Operating notes, other than permitted liens, on their assets to secure indebtedness or other obligations, if, after giving effect to such incurrence, the senior secured leverage ratio (generally, the



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ratio of obligations secured by first priority liens to four times EBITDA, as defined, from the most recent fiscal quarter for which internal financial reports are available) would exceed 3.75 to 1.0. Permitted liens include liens securing indebtedness and other obligations under permitted credit facilities, liens securing the purchase price of new assets, liens securing indebtedness of up to \$50 million and other specified liens incurred in the ordinary course of business.

Charter Operating and Charter Communications Operating Capital Corp., its co-issuer, are generally not permitted to sell all or substantially all of their assets or merge with or into other companies unless their leverage ratio after any such transaction would be no greater than their leverage ratio immediately prior to the transaction, or unless Charter Operating and its subsidiaries could incur \$1.00 of new debt under the 4.25 to 1.0 leverage ratio test described above after giving effect to the transaction, no default exists, and the surviving entity is a U.S. entity that assumes the Charter Operating notes.

Charter Operating and its restricted subsidiaries generally may not otherwise sell assets or, in the case of restricted subsidiaries, issue equity interests, unless they receive consideration at least equal to the fair market value of the assets or equity interests, consisting of at least 75% in cash, assumption of liabilities, securities converted into cash within 60 days or productive assets. Charter Operating and its restricted subsidiaries are then required within 365 days after any asset sale either to commit to use the net cash proceeds over a specified threshold to acquire assets, including current assets, used or useful in their businesses or use the net cash proceeds to repay debt, or to offer to repurchase the Charter Operating notes with any remaining proceeds.

Charter Operating and its restricted subsidiaries may generally not engage in sale and leaseback transactions unless, at the time of the transaction, Charter Operating could have incurred secured indebtedness in an amount equal to the present value of the net rental payments to be made under the lease, and the sale of the assets and application of proceeds is permitted by the covenant restricting asset sales.

Charter Operating's restricted subsidiaries may generally not enter into restrictions on their ability to make dividends or distributions or transfer assets to Charter Operating on terms that are materially more restrictive than those governing their debt, lien, asset sale, lease and similar agreements existing when Charter Operating entered into the indenture governing the Charter Operating senior second-lien notes unless those restrictions are on customary terms that will not materially impair Charter Operating's ability to repay the Charter Operating notes.

The restricted subsidiaries of Charter Operating are generally not permitted to guarantee or pledge assets to secure debt of Charter Operating, unless the guarantying subsidiary issues a guarantee of the notes of comparable priority and tenor, and waives any rights of reimbursement, indemnity or subrogation arising from the guarantee transaction for at least one year.

The indenture also restricts the ability of Charter Operating and its restricted subsidiaries to enter into certain transactions with affiliates involving consideration in excess of \$15 million without a determination by the board of directors that the transaction is on terms no less favorable than arms-length, or transactions with affiliates involving over \$50 million without receiving an independent opinion as to the fairness of the transaction to the holders of the Charter Operating notes.

Charter Operating and its restricted subsidiaries are generally not permitted to transfer equity interests in restricted subsidiaries unless the transfer is of all of the equity interests in the restricted subsidiary or the restricted subsidiary remains a restricted subsidiary and net proceeds of the equity sale are applied in accordance with the asset sales covenant.

- Until the guarantee and pledge date, the Charter Operating notes are secured by a second-priority lien on all of Charter Operating's assets that secure the obligations of Charter Operating under the Charter Operating credit facility and specified related obligations. The collateral secures the obligations of Charter Operating with respect to the 8% senior second-lien notes due 2012 and the 8<sup>3/8</sup>% senior second-lien notes due 2014 on a ratable basis. The collateral consists of substantially all of Charter Operating's assets in which security interests may be perfected under the Uniform Commercial Code

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by filing a financing statement (including capital stock and intercompany obligations), including, but not limited to:

- all of the capital stock of all of Charter Operating's direct subsidiaries, including, but not limited to, CCO NR Holdings, LLC; and
- all intercompany obligations owing to Charter Operating including, but not limited to, intercompany notes from CC VI Operating, CC VIII Operating and Falcon, which notes are supported by the same guarantees and collateral that supported these subsidiaries' credit facilities prior to the amendment and restatement of the Charter Operating credit facilities.

Since the occurrence of the guarantee and pledge date, the collateral for the Charter Operating notes consists of all of Charter Operating's and its subsidiaries' assets that secure the obligations of Charter Operating or any subsidiary of Charter Operating with respect to the Charter Operating credit facilities and the related obligations. The collateral currently consists of the capital stock of Charter Operating held by CCO Holdings, all of the intercompany obligations owing to CCO Holdings by Charter Operating or any subsidiary of Charter Operating, and substantially all of Charter Operating's and the guarantors' assets (other than the assets of CCO Holdings) in which security interests may be perfected under the Uniform Commercial Code by filing a financing statement (including capital stock and intercompany obligations), including, but not limited to:

- with certain exceptions, all capital stock (limited in the case of capital stock of foreign subsidiaries, if any, to 66% of the capital stock of first tier foreign Subsidiaries) held by Charter Operating or any guarantor; and
- with certain exceptions, all intercompany obligations owing to Charter Operating or any guarantor.

In March 2005, CC V Holdings, LLC redeemed in full the notes outstanding under the CC V indenture. In June 2006, Renaissance Media (Louisiana) LLC, Renaissance Media (Tennessee) LLC and Renaissance Media Holdings Capital Corporation redeemed in full the notes outstanding under the Renaissance indenture. Following the redemptions CC V Holdings, LLC and its subsidiaries and Renaissance Media LLC, respectively, guaranteed the Charter Operating credit facilities and the related obligations and secured those guarantees with first-priority liens, and guaranteed the notes and secured the Charter Operating senior second-lien notes with second-priority liens, on substantially all of their assets in which security interests may be perfected under the Uniform Commercial Code by filing a financing statement (including capital stock and intercompany obligations).

In the event that additional liens are granted by Charter Operating or its subsidiaries to secure obligations under the Charter Operating credit facilities or the related obligations, second priority liens on the same assets will be granted to secure the Charter Operating notes, which liens will be subject to the provisions of an intercreditor agreement (to which none of Charter Operating or its affiliates are parties). Notwithstanding the foregoing sentence, no such second priority liens need be provided if the time such lien would otherwise be granted is not during a guarantee and pledge availability period (when the Leverage Condition is satisfied), but such second priority liens will be required to be provided in accordance with the foregoing sentence on or prior to the fifth business day of the commencement of the next succeeding guarantee and pledge availability period.

### **Charter Communications Holdings, LLC Notes**

#### ***March 1999 Charter Holdings Notes***

The March 1999 Charter Holdings notes were issued under three separate indentures, each dated as of March 17, 1999, among Charter Holdings and Charter Communications Holdings Capital Corporation ("Charter Holdings Capital"), as the issuers, and BNY Midwest Trust Company, as trustee. Charter Holdings and Charter Holdings Capital exchanged these notes for new notes with substantially similar terms, except that the new notes are registered under the Securities Act.

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The March 1999 Charter Holdings notes are general unsecured obligations of Charter Holdings and Charter Holdings Capital. Cash interest on the March 1999 9.920% Charter Holdings notes began to accrue on April 1, 2004.

The March 1999 Charter Holdings notes are senior debt obligations of Charter Holdings and Charter Holdings Capital. They rank equally with all other current and future unsubordinated obligations of Charter Holdings and Charter Holdings Capital. They are structurally subordinated to the obligations of Charter Holdings' subsidiaries, including the CIH notes, the CCH I notes, the CCH II Notes, the CCO Holdings notes, the Charter Operating notes and the Charter Operating credit facilities.

Charter Holdings and Charter Holdings Capital will not have the right to redeem the March 1999 8.250% Charter Holdings notes prior to their maturity date on April 1, 2007. Charter Holdings and Charter Holdings Capital may redeem some or all of the March 1999 8.625% Charter Holdings notes and the March 1999 9.920% Charter Holdings notes at any time, in each case, at a premium. The optional redemption price declines to 100% of the principal amount of March 1999 Charter Holdings notes redeemed, plus accrued and unpaid interest, if any, for redemption on or after April 1, 2007.

In the event that a specified change of control event occurs, Charter Holdings and Charter Holdings Capital must offer to repurchase any then outstanding March 1999 Charter Holdings notes at 101% of their principal amount or accreted value, as applicable, plus accrued and unpaid interest, if any.

The indentures governing the March 1999 Charter Holdings notes contain restrictive covenants that limit certain transactions or activities by Charter Holdings and its restricted subsidiaries. Substantially all of Charter Holdings' direct and indirect subsidiaries are currently restricted subsidiaries. See "— Summary of Restrictive Covenants Under the Charter Holdings High Yield Notes."

### ***January 2000 Charter Holdings Notes***

The January 2000 Charter Holdings notes were issued under three separate indentures, each dated as of January 12, 2000, among Charter Holdings and Charter Holdings Capital, as the issuers, and BNY Midwest Trust Company, as trustee. In June 2000, Charter Holdings and Charter Holdings Capital exchanged these notes for new notes with substantially similar terms, except that the new notes are registered under the Securities Act.

The January 2000 Charter Holdings notes are general unsecured obligations of Charter Holdings and Charter Holdings Capital. Cash interest on the January 2000 11.75% Charter Holdings notes began to accrue on January 15, 2005.

The January 2000 Charter Holdings notes are senior debt obligations of Charter Holdings and Charter Holdings Capital. They rank equally with all other current and future unsubordinated obligations of Charter Holdings and Charter Holdings Capital. They are structurally subordinated to the obligations of Charter Holdings' subsidiaries, including the CIH notes, the CCH I notes, the CCH II Notes, the CCO Holdings notes, the Charter Operating notes and the Charter Operating credit facilities.

Charter Holdings and Charter Holdings Capital will not have the right to redeem the January 2000 10.00% Charter Holdings notes prior to their maturity on April 1, 2009. Charter Holdings and Charter Holdings Capital may redeem some or all of the January 2000 10.25% Charter Holdings notes and the January 2000 11.75% Charter Holdings notes at any time, in each case, at a premium. The optional redemption price declines to 100% of the principal amount of the January 2000 Charter Holdings notes redeemed, plus accrued and unpaid interest, if any, for redemption on or after January 15, 2008.

In the event that a specified change of control event occurs, Charter Holdings and Charter Holdings Capital must offer to repurchase any then outstanding January 2000 Charter Holdings notes at 101% of their total principal amount or accreted value, as applicable, plus accrued and unpaid interest, if any.

The indentures governing the January 2000 Charter Holdings notes contain substantially identical events of default, affirmative covenants and negative covenants as those contained in the indentures governing the

March 1999 Charter Holdings notes. See “— Summary of Restrictive Covenants Under the Charter Holdings High-Yield Notes.”

***January 2001 Charter Holdings Notes***

The January 2001 Charter Holdings notes were issued under three separate indentures, each dated as of January 10, 2001, each among Charter Holdings and Charter Holdings Capital, as the issuers, and BNY Midwest Trust Company, as trustee. In March 2001, Charter Holdings and Charter Holdings Capital exchanged these notes for new notes with substantially similar terms, except that the new notes are registered under the Securities Act.

The January 2001 Charter Holdings notes are general unsecured obligations of Charter Holdings and Charter Holdings Capital. Cash interest on the January 2001 13.500% Charter Holdings notes began to accrue on January 15, 2006.

The January 2001 Charter Holdings notes are senior debt obligations of Charter Holdings and Charter Holdings Capital. They rank equally with all other current and future unsubordinated obligations of Charter Holdings and Charter Holdings Capital. They are structurally subordinated to the obligations of Charter Holdings’ subsidiaries, including the CIH notes, the CCH I notes, the CCH II Notes, the CCO Holdings notes, the Charter Operating notes and the Charter Operating credit facilities.

Charter Holdings and Charter Holdings Capital will not have the right to redeem the January 2001 10.750% Charter Holdings notes prior to their maturity on October 1, 2009. Charter Holdings and Charter Holdings Capital may redeem some or all of the January 2001 11.125% Charter Holdings notes and the January 2001 13.500% Charter Holdings notes at any time, in each case, at a premium. The optional redemption price declines to 100% of the principal amount of the January 2001 Charter Holdings notes redeemed, plus accrued and unpaid interest, if any, for redemption on or after January 15, 2009.

In the event that a specified change of control event occurs, Charter Holdings and Charter Holdings Capital must offer to repurchase any then outstanding January 2001 Charter Holdings notes at 101% of their total principal amount or accreted value, as applicable, plus accrued and unpaid interest, if any.

The indentures governing the January 2001 Charter Holdings notes contain substantially identical events of default, affirmative covenants and negative covenants as those contained in the indentures governing the March 1999 and January 2000 Charter Holdings notes. See “— Summary of Restrictive Covenants Under the Charter Holdings High-Yield Notes.”

***May 2001 Charter Holdings Notes***

The May 2001 Charter Holdings notes were issued under three separate indentures, each among Charter Holdings and Charter Holdings Capital, as the issuers, and BNY Midwest Trust Company, as trustee. In September 2001, Charter Holdings and Charter Holdings Capital exchanged substantially all of these notes for new notes with substantially similar terms, except that the new notes are registered under the Securities Act.

The May 2001 Charter Holdings notes are general unsecured obligations of Charter Holdings and Charter Holdings Capital. Cash interest on the May 2001 11.750% Charter Holdings notes will not accrue prior to May 15, 2006.

The May 2001 Charter Holdings notes are senior debt obligations of Charter Holdings and Charter Holdings Capital. They rank equally with all other current and future unsubordinated obligations of Charter Holdings and Charter Holdings Capital. They are structurally subordinated to the obligations of Charter Holdings’ subsidiaries, including the CIH notes, the CCH I notes, the CCH II Notes, the CCO Holdings notes, the Charter Operating notes and the Charter Operating credit facilities.

Charter Holdings and Charter Holdings Capital will not have the right to redeem the May 2001 9.625% Charter Holdings notes prior to their maturity on November 15, 2009. On or after May 15, 2006, Charter Holdings and Charter Holdings Capital may redeem some or all of the May 2001 10.000% Charter Holdings

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notes and the May 2001 11.750% Charter Holdings notes at any time, in each case, at a premium. The optional redemption price declines to 100% of the principal amount of the May 2001 Charter Holdings notes redeemed, plus accrued and unpaid interest, if any, for redemption on or after May 15, 2009.

In the event that a specified change of control event occurs, Charter Holdings and Charter Holdings Capital must offer to repurchase any then outstanding May 2001 Charter Holdings notes at 101% of their total principal amount or accreted value, as applicable, plus accrued and unpaid interest, if any.

The indentures governing the May 2001 Charter Holdings notes contain substantially identical events of default, affirmative covenants and negative covenants as those contained in the indentures governing the March 1999, January 2000 and January 2001 Charter Holdings notes. See “— Summary of Restrictive Covenants Under the Charter Holdings High-Yield Notes.”

### ***January 2002 Charter Holdings Notes***

The January 2002 Charter Holdings notes were issued under three separate indentures, each among Charter Holdings and Charter Holdings Capital, as the issuers, and BNY Midwest Trust Company, as trustee, two of which were supplements to the indentures for the May 2001 Charter Holdings notes. In July 2002, Charter Holdings and Charter Holdings Capital exchanged substantially all of these notes for new notes with substantially similar terms, except that the new notes are registered under the Securities Act.

The January 2002 Charter Holdings notes are general unsecured obligations of Charter Holdings and Charter Holdings Capital. Cash interest on the January 2002 12.125% Charter Holdings notes will not accrue prior to January 15, 2007.

The January 2002 Charter Holdings notes are senior debt obligations of Charter Holdings and Charter Holdings Capital. They rank equally with the current and future unsecured and unsubordinated debt of Charter Holdings and Charter Holdings Capital. They are structurally subordinated to the obligations of Charter Holdings’ subsidiaries, including the CIH notes, the CCH I notes, the CCH II Notes, the CCO Holdings notes, the Charter Operating notes and the Charter Operating credit facilities.

The Charter Holdings 12.125% senior discount notes are redeemable at the option of the issuers at amounts decreasing from 106.063% to 100% of accreted value beginning January 15, 2007.

In the event that a specified change of control event occurs, Charter Holdings and Charter Holdings Capital must offer to repurchase any then outstanding January 2002 Charter Holdings notes at 101% of their total principal amount or accreted value, as applicable, plus accrued and unpaid interest, if any.

The indentures governing the January 2002 Charter Holdings notes contain substantially identical events of default, affirmative covenants and negative covenants as those contained in the indentures governing the March 1999, January 2000, January 2001 and May 2001 Charter Holdings notes. See “— Summary of Restrictive Covenants Under the Charter Holdings High-Yield Notes.”

### ***Summary of Restrictive Covenants Under the Charter Holdings High-Yield Notes***

The limitations on incurrence of debt and issuance of preferred stock contained in Charter Holdings’ indentures permit Charter Holdings and its subsidiaries to incur additional debt or issue preferred stock, so long as there is no default under the Charter Holdings indentures. These limitations restrict the incurrence of debt unless, after giving pro forma effect to the incurrence, the Charter Holdings leverage ratio would be below 8.75 to 1.0. In addition, regardless of whether the leverage ratio could be met, so long as no default exists or would result from the incurrence or issuance, Charter Holdings and its restricted subsidiaries are permitted to issue:

- up to \$3.5 billion of debt under credit facilities,
- up to \$75 million of debt incurred to finance the purchase or capital lease of new assets,
- up to \$300 million of additional debt for any purpose,

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- additional debt in an amount equal to 200% of new cash equity proceeds received by Charter Holdings and its restricted subsidiaries since March 1999, the date of its first indenture, and not allocated for restricted payments or permitted investments, and
- other items of indebtedness for specific purposes such as intercompany debt, refinancing of existing debt, and interest rate swaps to provide protection against fluctuation in interest rates.

Indebtedness under a single facility or agreement may be incurred in part under one of the categories listed above and in part under another. Accordingly, indebtedness under our credit facilities is incurred under a combination of the categories of permitted indebtedness listed above.

The restricted subsidiaries of Charter Holdings are generally not permitted to issue debt securities contractually subordinated in right of payment to other debt of the issuing subsidiary or preferred stock, in either case in any public or Rule 144A offering.

The Charter Holdings indentures permit Charter Holdings and its restricted subsidiaries to incur debt under one category, and later reclassify that debt into another category. The Charter Operating credit facilities generally impose more restrictive limitations on incurring new debt than Charter Holdings' indentures, so our subsidiaries that are subject to the Charter Operating credit facilities may not be permitted to utilize the full debt incurrence that would otherwise be available under the Charter Holdings indenture covenants.

Generally, under Charter Holdings' high-yield indentures, Charter Holdings and its restricted subsidiaries are generally permitted to pay dividends on equity interests, repurchase interests, or make other specified restricted payments only if, Charter Holdings can incur \$1.00 of new debt under the Charter Holdings leverage ratio test which requires 8.75 to 1.0 leverage ratio after giving effect to the transaction and if no default exists or would exist as a consequence of such incurrence. If those conditions are met, restricted payments in a total amount of up to 100% of Charter Holdings' consolidated EBITDA, as defined, minus 1.2 times its consolidated interest expense, plus 100% of new cash and non-cash equity proceeds received by Charter Holdings and not allocated to the debt incurrence covenant or to permitted investments, all cumulatively from March 1999, the date of the first Charter Holdings indenture, plus \$100 million.

In addition, Charter Holdings may make distributions or restricted payments, so long as no default exists or would be caused by transactions:

- to repurchase management equity interests in amounts not to exceed \$10 million per fiscal year,
- regardless of the existence of any default, to pay pass-through tax liabilities in respect of ownership of equity interests in Charter Holdings or its restricted subsidiaries, or
- to make other specified restricted payments including merger fees up to 1.25% of the transaction value, repurchases using concurrent new issuances, and certain dividends on existing subsidiary preferred equity interests.

Charter Holdings and its restricted subsidiaries may not make investments except permitted investments if there is a default under the indentures or if, after giving effect to the transaction, the Charter Holdings leverage ratio would be above 8.75 to 1.0. Permitted investments include:

- investments by Charter Holdings in restricted subsidiaries or by restricted subsidiaries in Charter Holdings,
- investments in productive assets (including through equity investments) aggregating up to \$150 million since March 1999,
- investments aggregating up to 100% of new cash equity proceeds received by Charter Holdings since March 1999 and not allocated to the debt incurrence or restricted payments covenant, and
- other investments aggregating up to \$50 million since March 1999.

Charter Holdings is not permitted to grant liens on its assets other than specified permitted liens. Permitted liens include liens securing debt and other obligations incurred under Charter Holdings' and its

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subsidiaries' credit facilities, liens securing the purchase price of new assets, liens securing indebtedness of up to \$50 million and other specified liens incurred in the ordinary course of business. The lien covenant does not restrict liens on assets of subsidiaries of Charter Holdings.

Charter Holdings and Charter Holdings Capital, its co-issuer, are generally not permitted to sell all or substantially all of their assets or merge with or into other companies unless their leverage ratio after any such transaction would be no greater than their leverage ratio immediately prior to the transaction, or unless after giving effect to the transaction, the Charter Holdings leverage ratio would be below 8.75 to 1.0, no default exists, and the surviving entity is a U.S. entity that assumes the Charter Holdings notes.

Charter Holdings and its restricted subsidiaries may generally not otherwise sell assets or, in the case of restricted subsidiaries, issue equity interests, unless they receive consideration at least equal to the fair market value of the assets or equity interests, consisting of at least 75% in cash, assumption of liabilities, securities converted into cash within 60 days or productive assets. Charter Holdings and its restricted subsidiaries are then required within 365 days after any asset sale either to commit to use the net cash proceeds over a specified threshold to acquire assets, including current assets, used or useful in their businesses or use the net cash proceeds to repay debt, or to offer to repurchase the Charter Holdings notes with any remaining proceeds.

Charter Holdings and its restricted subsidiaries may generally not engage in sale and leaseback transactions unless, at the time of the transaction, Charter Holdings could have incurred secured indebtedness in an amount equal to the present value of the net rental payments to be made under the lease, and the sale of the assets and application of proceeds is permitted by the covenant restricting asset sales.

Charter Holdings' restricted subsidiaries may generally not enter into restrictions on their ability to make dividends or distributions or transfer assets to Charter Holdings on terms that are materially more restrictive than those governing their debt, lien, asset sale, lease and similar agreements existing when they entered into the indentures, unless those restrictions are on customary terms that will not materially impair Charter Holdings' ability to repay the high-yield notes.

The restricted subsidiaries of Charter Holdings are generally not permitted to guarantee or pledge assets to secure debt of Charter Holdings, unless the guaranteeing subsidiary issues a guarantee of the notes of comparable priority and tenor, and waives any rights of reimbursement, indemnity or subrogation arising from the guarantee transaction for at least one year.

The indentures also restrict the ability of Charter Holdings and its restricted subsidiaries to enter into certain transactions with affiliates involving consideration in excess of \$15 million without a determination by the board of directors of Charter Holdings that the transaction is on terms no less favorable than arms length, or transactions with affiliates involving over \$50 million without receiving an independent opinion as to the fairness of the transaction addressed to the holders of the Charter Holdings notes.

### **CCH I Holdings, LLC Notes**

In September 2005, CIH and CCH I Holdings Capital Corp. jointly issued \$2.5 billion total principal amount of 9.92% to 13.50% senior accreting notes due 2014 and 2015 in exchange for an aggregate amount of \$2.4 billion of Charter Holdings notes due 2011 and 2012, spread over six series of notes and with varying interest rates as set forth in the table under "Description of Other Indebtedness." The notes are guaranteed by Charter Holdings.

The CIH notes are senior debt obligations of CIH and CCH I Holdings Capital Corp. They rank equally with all other current and future unsecured, unsubordinated obligations of CIH and CCH I Holdings Capital Corp. The CIH notes are structurally subordinated to all obligations of subsidiaries of CIH, including the CCH I notes, the CCH II Notes, the CCO Holdings notes, the Renaissance notes, the Charter Operating notes and the Charter Operating credit facilities.

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The CIH notes may not be redeemed at the option of the issuers until September 30, 2007. On or after such date, the CIH notes may be redeemed in accordance with the following table.

<u>Note Series</u>	<u>Redemption Dates</u>	<u>Percentage of Principal</u>
11.125%	September 30, 2007 - January 14, 2008	103.708%
	January 15, 2008 - January 14, 2009	101.854%
	Thereafter	100.0%
9.92%	September 30, 2007 - Thereafter	100.0%
10.0%	September 30, 2007 - May 14, 2008	103.333%
	May 15, 2008 - May 14, 2009	101.667%
	Thereafter	100.0%
11.75%	September 30, 2007 - May 14, 2008	103.917%
	May 15, 2008 - May 14, 2009	101.958%
	Thereafter	100.0%
13.5%	September 30, 2007 - January 14, 2008	104.5%
	January 15, 2008 - January 14, 2009	102.25%
	Thereafter	100.0%
12.125%	September 30, 2007 - January 14, 2008	106.063%
	January 15, 2008 - January 14, 2009	104.042%
	January 15, 2009 - January 14, 2010	102.021%
	Thereafter	100.0%

In the event that a specified change of control event happens, CIH and CCH I Holdings Capital Corp. must offer to repurchase any outstanding notes at a price equal to the sum of the accreted value of the notes plus accrued and unpaid interest plus a premium that varies over time.

The indenture governing the CIH notes contains restrictive covenants similar to those contained in the indenture governing the Charter Holdings notes with the following exceptions:

- The debt incurrence covenant permits up to \$9.75 billion (rather than \$3.5 billion) of debt under credit facilities (less the amount of net proceeds of asset sales applied to repay such debt as required by the asset sale covenant).
- CIH and its restricted subsidiaries are generally permitted to pay dividends on equity interests, repurchase interests, or make other specified restricted payments only if, after giving pro forma effect to the transaction, the CIH leverage ratio would be below 8.75 to 1.0 and if no default exists or would exist as a consequence of such transaction. If those conditions are met, restricted payments are permitted in a total amount of up to the sum of (1) the greater of (a) \$500 million or (b) 100% of CIH's consolidated EBITDA, as defined, minus 1.2 times its consolidated interest expense each for the period from September 28, 2005 to the end of CIH's most recently ended full fiscal quarter for which internal financial statements are available, plus (2) 100% of new cash and non-cash equity proceeds received by CIH and not allocated to the debt incurrence covenant or to permitted investments, all cumulatively from September 28, 2005.
- Instead of the \$150 million and \$50 million permitted investment baskets described above, there is a \$750 million permitted investment basket.

### **CCH I, LLC Notes**

In September 2005, CCH I and CCH I Capital Corp. jointly issued \$3.5 billion total principal amount of 11% senior secured notes due October 2015 in exchange for an aggregate amount of \$4.2 billion of certain Charter Holdings notes. The notes are guaranteed by Charter Holdings and are secured by a pledge of 100% of the equity interest of CCH I's wholly owned direct subsidiary, CCH II, LLC. Such pledge is subject to



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significant limitations as described in the related pledge agreement. Interest on the CCH I notes accrues at 11% per annum and is payable semi-annually in arrears on each April 1 and October 1, commencing on April 1, 2006.

The CCH I notes are senior debt obligations of CCH I and CCH I Capital Corp. To the extent of the value of the collateral, they rank senior to all of CCH I's future unsecured senior indebtedness. The CCH I notes are structurally subordinated to all obligations of subsidiaries of CCH I, including the CCH II Notes, CCO Holdings notes, the Charter Operating notes and the Charter Operating credit facilities.

CCH I and CCH I Capital Corp. may, prior to October 1, 2008 in the event of a qualified equity offering providing sufficient proceeds, redeem up to 35% of the aggregate principal amount of the CCH I notes at a redemption price of 111% of the principal amount plus accrued and unpaid interest. Aside from this provision, CCH I and CCH I Capital Corp. may not redeem at their option any of the notes prior to October 1, 2010. On or after October 1, 2010, CCH I and CCH I Capital Corp. may redeem, in whole or in part, CCH I notes at the applicable prices (expressed as percentages of principal amount) listed below, plus accrued and unpaid interest if redeemed during the twelve month period beginning on October 1 of the years listed below.

<u>Year</u>	<u>Percentage</u>
2010	105.5%
2011	102.75%
2012	101.375%
2013 and thereafter	100.0%

If a change of control occurs, each holder of the CCH I notes will have the right to require the repurchase of all or any part of that holder's CCH I notes at 101% of the principal amount plus accrued and unpaid interest.

The indenture governing the CCH I notes contains restrictive covenants that limit certain transactions or activities by CCH I and its restricted subsidiaries, including the covenants summarized below. Substantially all of CCH I's direct and indirect subsidiaries are currently restricted subsidiaries.

The covenant in the indenture governing the CCH I notes that restricts incurrence of debt and issuance of preferred stock permits CCH I and its subsidiaries to incur or issue specified amounts of debt or preferred stock, if, after giving pro forma effect to the incurrence or issuance, CCH I could meet a leverage ratio (ratio of consolidated debt to four times EBITDA, as defined, from the most recent fiscal quarter for which internal financial reports are available) of 7.5 to 1.0.

In addition, regardless of whether the leverage ratio could be met, so long as no default exists or would result from the incurrence or issuance, CCH I and its restricted subsidiaries are permitted to incur or issue:

- up to \$9.75 billion of debt under credit facilities (less the amount of net proceeds of asset sales applied to repay such debt as required by the asset sale covenant);
- up to \$75 million of debt incurred to finance the purchase or capital lease of new assets;
- up to \$300 million of additional debt for any purpose; and
- other items of indebtedness for specific purposes such as intercompany debt, refinancing of existing debt, and interest rate swaps to provide protection against fluctuation in interest rates.

The restricted subsidiaries of CCH I are generally not permitted to issue debt securities contractually subordinated to other debt of the issuing subsidiary or preferred stock, in either case in any public offering or private placement.

The CCH I indenture generally permits CCH I and its restricted subsidiaries to incur debt under one category, and later reclassify that debt into another category. The Charter Operating credit facilities generally impose more restrictive limitations on incurring new debt than those in the CCH I indenture, so our

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subsidiaries that are subject to credit facilities are not permitted to utilize the full debt incurrence that would otherwise be available under the CCH I indenture covenants.

Generally, under the CCH I indenture, CCH I and its restricted subsidiaries are permitted to pay dividends on equity interests, repurchase interests, or make other specified restricted payments only if CCH I can incur \$1.00 of new debt under the leverage ratio test, which requires that CCH I meet a 7.5 to 1.0 leverage ratio after giving effect to the transaction, and if no default exists or would exist as a consequence of such incurrence. If those conditions are met, restricted payments are permitted in a total amount of up to 100% of CCH I's consolidated EBITDA, as defined, for the period from September 28, 2005 to the end of CCH I's most recently ended full fiscal quarter for which financial statements are available minus 1.3 times its consolidated interest expense for such period, plus 100% of new cash and appraised non-cash equity proceeds received by CCH I and not allocated to certain investments, from and after September 28, 2005, plus \$100 million.

In addition, CCH I and its restricted subsidiaries may make distributions or restricted payments, so long as no default exists or would be caused by the transaction:

- to repurchase management equity interests in amounts not to exceed \$10 million per fiscal year;
- to pay, regardless of the existence of any default, pass-through tax liabilities in respect of ownership of equity interests in CCH I or its restricted subsidiaries;
- to enable certain of its parents to pay interest on certain of their indebtedness;
- to enable certain of its parents to purchase, redeem or refinance certain indebtedness, so long as CCH I could incur \$1.00 of indebtedness under the 7.5 to 1.0 leverage ratio test referred to above; or
- to make other specified restricted payments including merger fees up to 1.25% of the transaction value, repurchases using concurrent new issuances, and certain dividends on existing subsidiary preferred equity interests.

The indenture governing the CCH I notes restricts CCH I and its restricted subsidiaries from making investments, except specified permitted investments, or creating new unrestricted subsidiaries, if there is a default under the indenture or if CCH I could not incur \$1.00 of new debt under the 7.5 to 1.0 leverage ratio test described above after giving effect to the transaction.

Permitted investments include:

- investments by CCH I and its restricted subsidiaries in CCH I and in other restricted subsidiaries, or entities that become restricted subsidiaries as a result of the investment,
- investments aggregating up to 100% of new cash equity proceeds received by CCH I since September 28, 2005 to the extent the proceeds have not been allocated to the restricted payments covenant described above,
- other investments up to \$750 million outstanding at any time, and
- certain specified additional investments, such as investments in customers and suppliers in the ordinary course of business and investments received in connection with permitted asset sales.

CCH I is not permitted to grant liens on its assets other than specified permitted liens. Permitted liens include liens securing the purchase price of new assets, liens securing obligations up to \$50 million and other specified liens. The lien covenant does not restrict liens on assets of subsidiaries of CCH I.

CCH I and CCH I Capital Corp., its co-issuer, are generally not permitted to sell all or substantially all of their assets or merge with or into other companies unless their leverage ratio after any such transaction would be no greater than their leverage ratio immediately prior to the transaction, or unless CCH I and its subsidiaries could incur \$1.00 of new debt under the 7.5 to 1.0 leverage ratio test described above after giving effect to the transaction, no default exists, and the surviving entity is a U.S. entity that assumes the CCH I notes.

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CCH I and its restricted subsidiaries may generally not otherwise sell assets or, in the case of restricted subsidiaries, issue equity interests, unless they receive consideration at least equal to the fair market value of the assets or equity interests, consisting of at least 75% in cash, assumption of liabilities, securities converted into cash within 60 days or productive assets. CCH I and its restricted subsidiaries are then required within 365 days after any asset sale either to commit to use the net cash proceeds over a specified threshold to acquire assets, including current assets, used or useful in their businesses or use the net cash proceeds to repay certain debt, or to offer to repurchase the CCH I notes with any remaining proceeds.

CCH I and its restricted subsidiaries may generally not engage in sale and leaseback transactions unless, at the time of the transaction, CCH I could have incurred secured indebtedness in an amount equal to the present value of the net rental payments to be made under the lease, and the sale of the assets and application of proceeds is permitted by the covenant restricting asset sales.

With certain exceptions, CCH I's restricted subsidiaries may generally not enter into restrictions on their ability to make dividends or distributions or transfer assets to CCH I.

The restricted subsidiaries of CCH I are generally not permitted to guarantee or pledge assets to secure other debt of CCH I, except in respect of credit facilities unless the guarantying subsidiary issues a guarantee of the CCH I notes and waives any rights of reimbursement, indemnity or subrogation arising from the guarantee transaction for at least one year.

The indenture also restricts the ability of CCH I and its restricted subsidiaries to enter into certain transactions with affiliates involving consideration in excess of \$15 million without a determination by the board of directors that the transaction is on terms no less favorable than arms-length, or transactions with affiliates involving over \$50 million without receiving an independent opinion as to the fairness of the transaction to the holders of the CCH I notes.

### Parent Company Indebtedness

As of June 30, 2006 and December 31, 2005, our indirect parent companies' total debt was approximately \$863 million and 883 million, respectively as summarized below (dollars in millions):

	<u>June 30, 2006</u>		<u>December 31, 2005</u>		<u>Semi-Annual Interest Payment Dates</u>	<u>Start Date for Interest Payment on Discount Notes</u>	<u>Maturity Date(b)</u>
	<u>Principal Amount</u>	<u>Accreted Value(a)</u>	<u>Principal Amount</u>	<u>Accreted Value(a)</u>			
<b>Charter Communications, Inc.:</b>							
4.750% convertible senior notes due 2006	\$ —	\$ —	\$ 20	\$ 20	12/1 & 6/1		6/1/06
5.875% convertible senior notes due 2009(c)	863	848	863	843	5/16 & 11/16		11/16/09
<b>Charter Communications, Inc.</b>	<u>\$ 863</u>	<u>\$ 848</u>	<u>\$ 883</u>	<u>\$ 863</u>			

- (a) The accreted value presented above represents the principal amount of the notes less the original issue discount at the time of sale plus the accretion to the balance sheet date.
- (b) The 5.875% convertible senior notes are redeemable if the closing price of Charter's Class A common stock exceeds the conversion price by certain percentages as directed below.
- (c) The 5.875% convertible senior notes are convertible at the option of the holder into shares of Charter Class A common stock at an initial conversion rate of 413.2231 shares per \$1,000 principal amount of notes, which is equivalent to a price of \$2.42 per share. Certain anti-dilutive provisions cause adjustments to occur automatically upon the occurrence of specified events. Additionally, the conversion ratio may be adjusted by Charter under certain circumstances.

**Charter 5.875% Convertible Senior Notes due 2009**

In November 2004, Charter issued 5.875% convertible senior notes due 2009 with a total original principal amount of \$862.5 million. The 5.875% convertible senior notes are unsecured (except with respect to the collateral as described below) and rank equally with Charter's existing and future unsubordinated and unsecured indebtedness (except with respect to the collateral described below), but are structurally subordinated to all existing and future indebtedness and other liabilities of Charter's subsidiaries. Interest is payable semi-annually in arrears.

The 5.875% convertible senior notes are convertible at any time at the option of the holder into shares of Charter's Class A common stock at an initial conversion rate of 413.2231 shares per \$1,000 principal amount of notes, which is equivalent to a conversion price of approximately \$2.42 per share, subject to certain adjustments. Specifically, the adjustments include anti-dilutive provisions, which cause adjustments to occur automatically based on the occurrence of specified events to provide protection rights to holders of the notes. The conversion rate may also be increased (but not to exceed 462 shares per \$1,000 principal amount of notes) upon a specified change of control transaction. Additionally, Charter may elect to increase the conversion rate under certain circumstances when deemed appropriate and subject to applicable limitations of the NASDAQ stock market. Holders who convert their notes prior to November 16, 2007 will receive an early conversion make whole amount in respect of their notes based on a proportional share of the portfolio of pledged securities described below, with specified adjustments.

No holder of notes will be entitled to receive shares of Charter's Class A common stock on conversion to the extent that receipt of the shares would cause the converting holder to become, directly or indirectly, a "beneficial holder" (within the meaning of Section 13(d) of the Exchange Act and the rules and regulations promulgated thereunder) of more than 4.9% of the outstanding shares of Charter's Class A common stock if such conversion would take place prior to November 16, 2008, or more than 9.9% thereafter.

If a holder tenders a note for conversion, Charter may direct that holder (unless Charter has called those notes for redemption) to a financial institution designated by Charter to conduct a transaction with that institution, on substantially the same terms that the holder would have received on conversion. But if any such financial institution does not accept such notes or does not deliver the required conversion consideration, Charter remains obligated to convert the notes.

Charter Holdco used a portion of the proceeds from the sale of the notes to purchase a portfolio of U.S. government securities in an amount which it believes will be sufficient to make the first six interest payments on the notes. These government securities were pledged to us as security for a mirror note issued by Charter Holdco to Charter and pledged to the trustee under the indenture governing the notes as security for Charter's obligations thereunder. Charter expects to use such securities to fund the first six interest payments under the notes, two of which were funded in 2005. The fair value of the pledged securities was \$73 million at June 30, 2006.

Upon a change of control and certain other fundamental changes, subject to certain conditions and restrictions, Charter may be required to repurchase the notes, in whole or in part, at 100% of their principal amount plus accrued interest at the repurchase date.

Charter may redeem the notes in whole or in part for cash at any time at a redemption price equal to 100% of the aggregate principal amount plus accrued and unpaid interest, deferred interest and liquidated damages, if any, but only if for any 20 trading days in any 30 consecutive trading day period the closing price has exceeded 180% of the conversion price, if such 30 trading day period begins prior to November 16, 2007 or 150% of the conversion price, if such 30 trading period begins thereafter. Holders who convert notes that Charter has called for redemption shall receive, in addition to the early conversion make whole amount, if applicable, the present value of the interest on the notes converted that would have been payable for the period from the later of November 17, 2007 and the redemption date through the scheduled maturity date for the notes, plus any accrued deferred interest.

### **CCHC, LLC Note**

In October 2005, Charter, acting through a Special Committee of Charter's Board of Directors, and Mr. Allen, settled a dispute that had arisen between the parties with regard to the ownership of CC VIII. As part of that settlement, CCHC issued the CCHC note to CII. The CCHC note has a 15-year maturity. The CCHC note has an initial accreted value of \$48 million accreting at the rate of 14% per annum compounded quarterly, except that from and after February 28, 2009, CCHC may pay any increase in the accreted value of the CCHC note in cash and the accreted value of the CCHC note will not increase to the extent such amount is paid in cash. The CCHC note is exchangeable at CII's option, at any time, for Charter Holdco Class A common units at a rate equal to the then accreted value, divided by \$2.00 (the "Exchange Rate"). Customary anti-dilution protections have been provided that could cause future changes to the Exchange Rate. Additionally, the Charter Holdco Class A common units received will be exchangeable by the holder into Charter Class A common stock in accordance with existing agreements between CII, Charter and certain other parties signatory thereto. Beginning February 28, 2009, if the closing price of Charter Class A common stock is at or above the Exchange Rate for a certain period of time as specified in the Exchange Agreement, Charter Holdco may require the exchange of the CCHC note for Charter Holdco Class A common units at the Exchange Rate. Additionally, CCHC has the right to redeem the CCHC note under certain circumstances for cash in an amount equal to the then accreted value, such amount, if redeemed prior to February 28, 2009, would also include a make whole up to the accreted value through February 28, 2009. CCHC must redeem the CCHC note at its maturity for cash in an amount equal to the initial stated value plus the accreted return through maturity. The accreted value of the CCHC note is \$53 million as of June 30, 2006.

### **Cross-Defaults**

Our indentures and those of certain of our parent companies and our subsidiaries include various events of default, including cross-default provisions. Under these provisions, a failure by any of the issuers or any of their restricted subsidiaries to pay at the final maturity thereof the principal amount of other indebtedness having a principal amount of \$100 million or more (or any other default under any such indebtedness resulting in its acceleration) would result in an event of default under the indenture governing the applicable notes. The Renaissance indenture contains a similar cross-default provision with a \$10 million threshold that applies to the issuers of the Renaissance notes and their restricted subsidiaries. As a result, an event of default related to the failure to repay principal at maturity or the acceleration of the indebtedness under the Charter Holdings notes, CIH notes, CCH I notes, CCH II Notes, CCO Holdings notes, Charter Operating notes or the Charter Operating credit facilities could cause cross-defaults under CCH II's and our and our subsidiaries' indentures.

## DESCRIPTION OF THE CCH I NOTES

This description of notes relates to the 11.00% senior secured notes due 2015 (the “CCH I Notes”) of CCH I, LLC and CCH I Capital Corp. For the purposes of this Description of the CCH I Notes, references to the CCH I Notes mean the New CCH I Notes. We refer, in this Description of the CCH I Notes, to CCH I, LLC and CCH I Capital Corp., which are the co-obligors with respect to the CCH I Notes, as the “CCH I Issuers,” and we sometimes refer to them each as a “CCH I Issuer.” We may also refer to CCH I, LLC as “CCH I.” You can find the definitions of certain terms used in this description under the subheading “— Certain Definitions.”

The CCH I Notes will be issued on terms substantially identical to those of the CCH I Issuers’ outstanding \$4.0 billion principal amount of 11.00% senior secured notes due 2015, including the \$462.0 million principal amount of 11.00% senior secured notes due 2015 that were issued on September 14, 2006 (the “2006 original CCH I Notes”) (collectively the “original CCH I notes”) and vote together as a single class on any matter submitted to noteholders, except that (i) the CCH I Notes offered hereby have been registered under the Securities Act of 1933 and, therefore, will not bear legends restricting their transfer and, (ii) the CCH I Notes offered hereby will have a separate CUSIP number from the original CCH I notes and thus will not be fungible with the original CCH I notes. For purposes of this description, except where the context otherwise requires, the term “CCH I Notes” shall refer collectively to the original CCH I notes and the CCH I Notes offered hereby.

The CCH I Notes will be issued under the indenture, dated as of September 28, 2005 (as supplemented, the “CCH I Indenture”), among the Issuers, the Parent Guarantor and The Bank of New York Trust Company, NA, as trustee, under which the Issuers previously issued the original CCH I notes. The terms of the CCH I Notes will include those stated in the CCH I Indenture and those made part of the CCH I Indenture by reference to the Trust Indenture Act of 1939.

The CCH I Notes will have the benefit of a first priority lien on the Collateral as provided in the Pledge Agreement.

The following description is a summary of the provisions we consider material of the CCH I Indenture and the Pledge Agreement. It does not restate those agreements in their entirety. We urge you to read the CCH I Indenture and the Pledge Agreement because they, and not this description, define your rights as holders of the respective CCH I Notes. Copies of the proposed forms of the CCH I Indenture and the Pledge Agreement are available as set forth under “— Additional Information.”

### Brief Description of the CCH I Notes and Note Guarantee

The CCH I Notes will be:

- senior secured obligations of the CCH I Issuers, secured by the Collateral equally and ratably with all future indebtedness of CCH I that may be secured by the Collateral as permitted by the CCH I Indenture, including all Additional CCH I Notes;
- effectively senior in right of payment to any future unsecured Indebtedness of the CCH I Issuers, to the extent of the value of the Collateral;
- structured to be effectively senior to the notes of CIH and Charter Holdings and the outstanding convertible senior notes of Charter Communications, Inc.;
- senior in right of payment to any future subordinated Indebtedness of the CCH I Issuers;
- structurally subordinated to all indebtedness and other liabilities (including trade payables) of the CCH I Issuers’ subsidiaries, including indebtedness under our subsidiaries’ credit facilities, the original CCH II notes and the additional CCH II notes being offered in the CCI exchange offer, and the senior notes of CCO Holdings and CCO; and
- unconditionally guaranteed on a senior basis by the Parent Guarantor.

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At June 30, 2006, on a pro forma basis to reflect the transactions set forth in “Unaudited Pro Forma Consolidated Financial Statements of Charter Holdings”, as if those transactions had occurred on that date, the total outstanding Indebtedness and other obligations of CCH I and its subsidiaries, reflected on its consolidated balance sheet, would have been approximately \$16.6 billion, of which approximately \$12.8 billion would have been Indebtedness and other liabilities of the CCH I Issuers’ Subsidiaries and, therefore, structurally senior to the CCH I Notes. However, because the CC VIII interests will be held by CCH I, holders of the CCH I Notes will have a direct claim against those preferred equity interests.

Substantially all of the Subsidiaries of CCH I (except certain non-material Subsidiaries) are “Restricted Subsidiaries.” Under the circumstances described below under “— Certain Covenants — Investments,” CCH I will be permitted to designate additional Subsidiaries as “Unrestricted Subsidiaries.” Unrestricted Subsidiaries will generally not be subject to the restrictive covenants in the CCH I Indenture.

### **The Note Guarantee**

The CCH I Notes will be unconditionally guaranteed by the Parent Guarantor.

The Note Guarantee:

- is a general unsecured obligation of the Parent Guarantor;
- is *pari passu* in right of payment with all existing and future unsubordinated indebtedness of the Parent Guarantor, including the old CCH notes that remain outstanding following consummation of the Exchange Offers; and
- is senior in right of payment to any existing and future subordinated indebtedness of the Parent Guarantor.

The restrictive covenants contained in the CCH I Indenture will apply to the CCH I Issuers and their Restricted Subsidiaries and not the Parent Guarantor.

### **Principal, Maturity and Interest**

The CCH I Notes will be issued in denominations of \$1,000 and integral multiples thereof. The CCH I Notes will mature on October 1, 2015.

Interest on the CCH I Notes will accrue at the rate of 11.00% per annum. Interest on the CCH I Notes will accrue from the settlement date. Interest on the CCH I Notes will be payable semi-annually in arrears on April 1 and October 1 of each year beginning October 1, 2006. The CCH I Issuers will make each interest payment to the holders of record of the CCH I Notes on the immediately preceding September 15 and March 15. Interest will be computed on the basis of a 360-day year comprised of twelve 30-day months. The 2006 original CCH I notes were issued in an aggregate principal amount of \$462 million. The other original CCH I notes were issued initially in the aggregate principal amount of \$3.525 billion. Subject to the limitations set forth under “— Certain Covenants — Incurrence of Indebtedness and Issuance of Preferred Stock,” the CCH I Issuers may issue an unlimited principal amount of Additional CCH I Notes under the CCH I Indenture, which will be secured by the Collateral equally and ratably with all outstanding CCH I Notes. The CCH I Notes and any Additional CCH I Notes subsequently issued under the CCH I Indenture would be treated as a single class of securities for all purposes of the CCH I Indenture. For purposes of this description, unless otherwise indicated, references to the CCH I Notes include any Additional CCH I Notes subsequently issued under the CCH I Indenture.

### **Security**

#### ***Assets Pledged as Collateral***

CCH I has granted to the trustee, as collateral agent for the holders of the CCH I Notes and any holders of *Pari Passu* Secured Indebtedness, as defined below (in such capacity, the “Collateral Agent”) a first priority Lien (subject to Permitted Liens) on all Equity Interests in CCH II from time to time owned by

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CCH I and the proceeds thereof and has granted to the Collateral Agent for the benefit of all outstanding CCH I Notes a first priority Lien (subject to Permitted Liens) on all Equity Interests in CC VIII from time to time owned by CCH I and the proceeds thereof (collectively, the “Collateral”). The Lien secures all Obligations relating to the CCH I Notes and, as described below, all Obligations relating to any Pari Passu Secured Indebtedness from time to time incurred by CCH I as permitted by the CCH I Indenture.

CCH I has acquired the CC VIII interests. The CC VIII interests are entitled to a 2% accreting priority return on the priority capital. The CC VIII interests represented approximately 13% of the total equity interests in CC VIII at June 30, 2006. CC VIII and certain other subsidiaries have guaranteed, on a secured basis, the credit facility and senior second lien notes of our subsidiary, Charter Operating.

### ***Certain Limitations on Remedies, Etc.***

Pursuant to the terms of the Pledge Agreement, the Collateral Agent and the holders of the Obligations secured by the Collateral (including the holders of the CCH I Notes) (the “Secured Parties”) will, in their capacities as Secured Parties (whether before or after, or during the continuance of, a Default or Event of Default):

(i) have no authority to exercise any voting rights with respect to the Collateral or receive any dividends or other distributions with respect thereto, except for distributions in any bankruptcy or insolvency case or proceeding (an “insolvency proceeding”);

(ii) be prohibited from commencing judicial or non-judicial foreclosure or collection proceedings with respect to, seeking to have a trustee, receiver, liquidator or similar official appointed for or over, attempting any action to take possession of any Collateral, exercising any right, remedy or power with respect to, or otherwise taking any action to realize upon the Collateral, including without limitation (a) any right to dispose of the Collateral after default under Article 9 of the Uniform Commercial Code or (b) any other default remedy under applicable law; and

(iii) be prohibited from seeking relief from the automatic stay or from any other stay in any insolvency proceeding, in each case, with respect to any Collateral.

Upon any sale or disposition of Collateral permitted pursuant to the terms of the CCH I Indenture, the Lien in favor of the Collateral Agent and the other Secured Parties, with respect to such Collateral, shall be automatically and unconditionally released with no further consent or action of any Person (subject to any continuing lien on the proceeds of such sale or disposition). Thus, the Holders’ remedy under the Pledge Agreement is to receive the value of the Collateral before unsecured creditors.

The trustee and each present or future holder of CCH I Notes shall be deemed to have irrevocably consented to the foregoing.

### ***Pari Passu Secured Indebtedness***

The Pledge Agreement provides that any and all future Indebtedness of CCH I (including any Additional CCH I Notes) issued after the settlement date that ranks pari passu in right of payment with the CCH I Notes and which CCH I is permitted to incur under the CCH I Indenture may be secured by an equal and ratable Lien on the Collateral if CCH I so elects (any such Indebtedness including related obligations being “Pari Passu Secured Indebtedness”). See “— Certain Covenants — Incurrence of Indebtedness and Issuance of Preferred Stock” for a description of future Indebtedness that the CCH I Indenture permits CCH I to incur. Accordingly, any proceeds received with respect to the Collateral in any insolvency proceeding or otherwise would have to be shared, equally and ratably, with the holders of any Pari Passu Secured Indebtedness. This would dilute the value of the pledge for the holders of CCH I Notes. The Pledge Agreement may be amended to facilitate such Pari Passu Secured Indebtedness. Under the terms of the Pledge Agreement, subject to certain exceptions, decisions by the Secured Parties (including the holders of the CCH I Notes and the holders of any such Pari Passu Secured Indebtedness) regarding amendments of the Pledge Agreement, collateral releases and other matters will require a majority in principal amount of all



Secured Parties, voting as one class, except as otherwise provided below regarding collateral releases. See “— Release.”

### ***Certain Bankruptcy Limitations***

Bankruptcy Law permits the payment and/or accrual of post-petition interest, costs and attorneys’ fees to a secured creditor during a debtor’s bankruptcy case only to the extent the value of the collateral is determined by the bankruptcy court to exceed the aggregate outstanding principal amount of the obligations secured by the collateral. There can be no assurance that the value of the Collateral will exceed the aggregate principal amount of the CCH I Notes and any Pari Passu Secured Indebtedness secured by the Collateral.

Furthermore, in the event a bankruptcy court determines that the value of the Collateral is not sufficient to repay all amounts due on the CCH I Notes and any Pari Passu Secured Indebtedness the holders of the CCH I notes would hold secured claims to the extent of the value of the Collateral to which the holders of the CCH I Notes are entitled, and unsecured claims with respect to such shortfall. See “— Pari Passu Secured Indebtedness” above.

### ***Sufficiency of Collateral***

No appraisals of any Collateral have been prepared by us or on our behalf in connection with this offering. The fair market value of the Collateral is subject to fluctuations based on factors that include, among others, the value of the operating subsidiaries of CCH I, the amount of the debt and other obligations of the subsidiaries of CCH I, the condition of their industry, the ability to sell the Collateral in an orderly sale, general economic conditions, the availability of buyers and similar factors.

Accordingly, there can be no assurance that the Collateral will be sufficient to cover all Obligations secured thereby, including the CCH I Notes.

### ***Release***

The Liens on the Collateral will be released with respect to the CCH I Notes:

- (1) in whole, upon payment in full of the principal of, and accrued and unpaid interest and premium, if any, on the CCH I Notes;
- (2) in whole, upon satisfaction and discharge of the CCH I Indenture;
- (3) in whole, upon a legal or covenant defeasance as set forth under “— Legal Defeasance and Covenant Defeasance,” below;
- (4) upon the sale or other disposition of the Collateral in accordance with, and as expressly provided for under, the CCH I Indenture (subject to any continuing Lien on the proceeds of such sale or disposition); and
- (5) with the consent of the holders of a majority in aggregate principal amount of the then outstanding CCH I Notes, including, without limitation, consents obtained in connection with a tender offer or exchange offer for, or purchase of, CCH I Notes.

To the extent required by the CCH I Indenture, the CCH I Issuers will furnish to the trustee, prior to each proposed release of Collateral pursuant to (1) through (5) above:

- (a) an officers’ certificate and such other documentation as required under the CCH I Indenture and the Pledge Agreement; and
- (b) an opinion of counsel to the effect that such accompanying documents constitute all documents required by the CCH I Indenture and the Pledge Agreement.

Upon compliance by the CCH I Issuers with the conditions precedent set forth above (if any), and if required by the CCH I Indenture, upon delivery by the CCH I Issuers to the trustee of an Opinion of

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Counsel to the effect that such conditions precedent have been complied with, the trustee or the Collateral Agent shall promptly cause to be released and reconveyed to CCH I the released Collateral.

### **Optional Redemption**

At any time prior to October 1, 2008, the CCH I Issuers may, on any one or more occasions, redeem up to 35% of the aggregate principal amount of the CCH I Notes on a pro rata basis (or nearly as pro rata as practicable), at a redemption price of 111% of the principal amount thereof, plus accrued and unpaid interest to the redemption date, with the net cash proceeds of one or more Equity Offerings; *provided that*

(1) at least 65% of the aggregate principal amount of the CCH I Notes must remain outstanding immediately after the occurrence of such redemption (excluding CCH I Notes held by the CCH I Issuers and their Subsidiaries), and

(2) the redemption must occur within 60 days of the date of the closing of such Equity Offering.

Except pursuant to the preceding paragraph, the CCH I Notes will not be redeemable at the option of the CCH I Issuers prior to October 1, 2010.

On or after October 1, 2010, the CCH I Issuers may redeem all or a part of the CCH I Notes upon not less than 30 nor more than 60 days notice, at the applicable redemption prices (expressed as percentages of the principal amount of the CCH I Notes) set forth below plus accrued and unpaid interest thereon, if any, to the applicable redemption date, if redeemed during the twelve month period beginning on October 1 of the years indicated below:

<u>Year</u>	<u>Percentage</u>
2010	105.500%
2011	102.750%
2012	101.375%
2013 and thereafter	100.000%

### **Repurchase at the Option of Holders**

#### ***Change of Control***

If a Change of Control occurs, each holder of CCH I Notes will have the right to require the CCH I Issuers to repurchase all or any part (equal to \$1,000 in principal amount, or in either case, an integral multiple thereof) of that holder's CCH I Notes pursuant to a "Change of Control Offer." In the Change of Control Offer, the CCH I Issuers will offer a "Change of Control Payment" in cash equal to 101% of the aggregate principal amount of the CCH I Notes repurchased plus accrued and unpaid interest thereon, if any, to the date of purchase.

Within ten days following any Change of Control, the CCH I Issuers will mail a notice to each holder (with a copy to the trustee) describing the transaction or transactions that constitute the Change of Control and offering to repurchase CCH I Notes on a certain date (the "Change of Control Payment Date") specified in such notice, pursuant to the procedures required by the CCH I Indenture and described in such notice. The CCH I Issuers will comply with the requirements of Rule 14e-1 under the Securities Exchange Act of 1934 or any successor rules, and any other securities laws and regulations thereunder to the extent such laws and regulations are applicable in connection with the repurchase of the CCH I Notes as a result of a Change of Control. To the extent that the provisions of any securities laws or regulations conflict with the provisions of this covenant, the CCH I Issuers' compliance with such laws and regulations shall not in and of itself cause a breach of their obligations under such covenant.

On the Change of Control Payment Date, the CCH I Issuers will, to the extent lawful:

(1) accept for payment all CCH I Notes or portions thereof properly tendered pursuant to the Change of Control Offer;

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(2) deposit with the paying agent an amount equal to the Change of Control Payment in respect of all CCH I Notes or portions thereof so tendered; and

(3) deliver or cause to be delivered to the trustee the CCH I Notes so accepted together with an officers' certificate stating the aggregate principal amount of CCH I Notes or portions thereof being purchased by the CCH I Issuers.

The paying agent will promptly mail to each holder of CCH I Notes so tendered the Change of Control Payment for such CCH I Notes, and the trustee will promptly authenticate and mail, or cause to be transferred by book entry, to each holder a new CCH I Note equal in principal amount to any unpurchased portion of the CCH I Notes surrendered, if any; *provided* that each such new CCH I Note will be in a principal amount of \$1,000 or an integral multiple thereof.

The provisions described above that require the CCH I Issuers to make a Change of Control Offer following a Change of Control will be applicable regardless of whether or not any other provisions of the CCH I Indenture are applicable. Except as described above with respect to a Change of Control, the CCH I Indenture will not contain provisions that permit the holders of the CCH I Notes to require that the CCH I Issuers repurchase or redeem the CCH I Notes in the event of a takeover, recapitalization or similar transaction.

The CCH I Issuers will not be required to make a Change of Control Offer upon a Change of Control if a third party makes the Change of Control Offer in the manner, at the times and otherwise in compliance with the requirements set forth in the CCH I Indenture applicable to a Change of Control Offer made by the CCH I Issuers and purchases all CCH I Notes validly tendered and not withdrawn under such Change of Control Offer.

The definition of Change of Control includes a phrase relating to the sale, lease, transfer, conveyance or other disposition of "all or substantially all" of the assets of CCH I and its Subsidiaries, taken as a whole, or of a Parent and its Subsidiaries, taken as a whole. Although there is a limited body of case law interpreting the phrase "substantially all," there is no precise established definition of the phrase under applicable law. Accordingly, the ability of a holder of CCH I Notes to require the CCH I Issuers to repurchase CCH I Notes as a result of a sale, lease, transfer, conveyance or other disposition of less than all of the assets of CCH I and its Subsidiaries, taken as a whole, or of a Parent and its Subsidiaries, taken as a whole, to another Person or group may be uncertain.

### ***Asset Sales***

CCH I will not, and will not permit any of its Restricted Subsidiaries to, consummate an Asset Sale unless:

(1) CCH I or such Restricted Subsidiary receives consideration at the time of such Asset Sale at least equal to the fair market value of the assets or Equity Interests issued or sold or otherwise disposed of;

(2) such fair market value is determined by the Board of Directors of CCH I and evidenced by a resolution of such Board of Directors set forth in an officers' certificate delivered to the trustee; and

(3) at least 75% of the consideration therefor received by CCH I or such Restricted Subsidiary is in the form of cash, Cash Equivalents or readily marketable securities.

For purposes of this provision, each of the following shall be deemed to be cash:

(a) any liabilities (as shown on CCH I's or such Restricted Subsidiary's most recent balance sheet) of CCH I or any Restricted Subsidiary (other than contingent liabilities and liabilities that are by their terms subordinated to the CCH I Notes) that are assumed by the transferee of any such assets pursuant to a customary novation agreement that releases CCH I or such Restricted Subsidiary from further liability;

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(b) any securities, notes or other obligations received by CCH I or any such Restricted Subsidiary from such transferee that are converted by the recipient thereof into cash, Cash Equivalents or readily marketable securities within 60 days after receipt thereof (to the extent of the cash, Cash Equivalents or readily marketable securities received in that conversion); and

(c) Productive Assets.

Within 365 days after the receipt of any Net Proceeds from an Asset Sale, CCH I or a Restricted Subsidiary of CCH I may apply such Net Proceeds at its option:

(1) to repay debt under the Credit Facilities or any other Indebtedness of the Restricted Subsidiaries of CCH I (other than Indebtedness represented by a guarantee of a Restricted Subsidiary of CCH I); or

(2) to invest in Productive Assets; provided that any such amount of Net Proceeds which CCH I or a Restricted Subsidiary has committed to invest in Productive Assets within 365 days of the applicable Asset Sale may be invested in Productive Assets within two years of such Asset Sale.

The amount of any Net Proceeds received from Asset Sales that are not applied or invested as provided in the preceding paragraph will constitute Excess Proceeds. When the aggregate amount of Excess Proceeds exceeds \$25 million, CCH I will make an offer to purchase CCH I Notes (an "Asset Sale Offer") to all holders of CCH I Notes and will repay, redeem or offer to purchase all Pari Passu Secured Indebtedness of CCH I that contains provisions requiring repayment, redemption or offers to purchase with the proceeds of sales of assets, to purchase, repay or redeem, on a pro rata basis, the maximum principal amount of CCH I Notes and such Pari Passu Secured Indebtedness that may be purchased, repaid or redeemed out of the Excess Proceeds, which amount includes the entire amount of the Net Proceeds. The offer price in any Asset Sale Offer will be payable in cash and equal to 100% of the principal amount of the subject CCH I Notes plus accrued and unpaid interest, if any, to the date of purchase. If the aggregate principal amount of CCH I Notes tendered into such Asset Sale Offer and such Pari Passu Secured Indebtedness to be purchased, repaid or redeemed out of the Excess Proceeds exceeds the amount of Excess Proceeds, the trustee shall select the CCH I Notes tendered into such Asset Sale Offer and such Pari Passu Secured Indebtedness to be purchased, repaid or redeemed on a pro rata basis.

If any Excess Proceeds remain after consummation of an Asset Sale Offer, then CCH I or any Restricted Subsidiary thereof may use such remaining Excess Proceeds for any purpose not otherwise prohibited by the CCH I Indenture. Upon completion of any Asset Sale Offer, the amount of Excess Proceeds shall be reset at zero.

### **Selection and Notice**

If less than all of the CCH I Notes are redeemed at any time, the trustee will select CCH I Notes for redemption as follows:

(1) if any CCH I Notes are listed, in compliance with the requirements of the principal national securities exchange on which the CCH I Notes are listed; or

(2) if the CCH I Notes are not so listed, on a pro rata basis, by lot or by such method as the trustee shall deem fair and appropriate.

No CCH I Notes of \$1,000 principal amount or less shall be redeemed in part. Notices of redemption shall be mailed by first class mail at least 30 but not more than 60 days before the redemption date to each holder of CCH I Notes to be redeemed at its registered address. Notices of redemption may be conditional.

If any CCH I Note is to be redeemed in part only, the notice of redemption that relates to that CCH I Note shall state the portion of the principal amount thereof to be redeemed. A new CCH I Note in principal amount equal to the unredeemed portion of the original CCH I Note will be issued in the name of the holder thereof upon cancellation of the original CCH I Note. CCH I Notes called for redemption become

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irrevocably due and payable on the date fixed for redemption at the redemption price. On and after the redemption date, interest ceases to accrue on CCH I Notes or portions of them called for redemption.

### **Certain Covenants**

Set forth in this section are summaries of certain covenants contained in the CCH I Indenture.

During any period of time that (a) any CCH I Notes have Investment Grade Ratings from both Rating Agencies and (b) no Default or Event of Default has occurred and is continuing under the CCH I Indenture, (i) the trustee will be required to release all its right, title and interest in the Collateral, and (ii) CCH I and the Restricted Subsidiaries of CCH I will not be subject to the provisions of the CCH I Indenture described under:

- “— Repurchase at the Option of Holders — Asset Sales,”
- “— Restricted Payments,”
- “— Investments,”
- “— Incurrence of Indebtedness and Issuance of Preferred Stock,”
- “— Dividend and Other Payment Restrictions Affecting Subsidiaries,”
- clause (D) of the first paragraph of “— Merger, Consolidation or Sale of Assets,”
- “— Transactions with Affiliates” and
- “— Sale and Leaseback Transactions.”

If CCH I and its Restricted Subsidiaries are not subject to these covenants for any period of time as a result of the previous sentence and, subsequently, one, or both, of the Rating Agencies withdraws its ratings or downgrades the ratings assigned to the applicable CCH I Notes below the required Investment Grade Ratings or a Default or Event of Default occurs and is continuing, then (a) CCH I will again grant a first priority lien in the Collateral (subject to Permitted Liens) to the trustee for the benefit of the holders of the CCH I notes, and (b) CCH I and its Restricted Subsidiaries will thereafter again be subject to these covenants. The ability of CCH I and its Restricted Subsidiaries to make Restricted Payments after the time of such withdrawal, downgrade, Default or Event of Default will be calculated as if the covenant governing Restricted Payments had been in effect during the entire period of time from the Issue Date.

#### ***Restricted Payments***

CCH I will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly:

- (1) declare or pay any dividend or make any other payment or distribution on account of its or any of its Restricted Subsidiaries' Equity Interests (including, without limitation, any payment in connection with any merger or consolidation involving CCH I or any of its Restricted Subsidiaries) or to the direct or indirect holders of CCH I's or any of its Restricted Subsidiaries' Equity Interests in their capacity as such (other than dividends or distributions payable (x) solely in Equity Interests (other than Disqualified Stock) of CCH I or (y) in the case of CCH I and its Restricted Subsidiaries, to CCH I or a Restricted Subsidiary thereof);
- (2) purchase, redeem or otherwise acquire or retire for value (including, without limitation, in connection with any merger or consolidation involving CCH I or any of its Restricted Subsidiaries) any Equity Interests of CCH I or any direct or indirect Parent of CCH I or any Restricted Subsidiary of CCH I (other than, in the case of CCH I and its Restricted Subsidiaries, any such Equity Interests owned by CCH I or any of its Restricted Subsidiaries); or
- (3) make any payment on or with respect to, or purchase, redeem, defease or otherwise acquire or retire for value, any Indebtedness of CCH I that is subordinated to the CCH I Notes, except a payment of interest or principal at the Stated Maturity thereof,

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(all such payments and other actions set forth in clauses (1) through (3) above are collectively referred to as “Restricted Payments”), unless, at the time of and after giving effect to such Restricted Payment:

- (1) no Default or Event of Default under the CCH I Indenture shall have occurred and be continuing or would occur as a consequence thereof; and
- (2) CCH I would, at the time of such Restricted Payment and after giving pro forma effect thereto as if such Restricted Payment had been made at the beginning of the applicable quarter period, have been permitted to incur at least \$1.00 of additional Indebtedness pursuant to the Leverage Ratio test set forth in the first paragraph of the covenant described below under the caption “— Incurrence of Indebtedness and Issuance of Preferred Stock”; and
- (3) such Restricted Payment, together with the aggregate amount of all other Restricted Payments made by CCH I and its Restricted Subsidiaries from and after the Issue Date (excluding Restricted Payments permitted by clauses (2), (3), (4), (5), (6), (7), (8), (9) and (10) of the next succeeding paragraph), shall not exceed, at the date of determination, the sum of the following:
  - (a) an amount equal to 100% of the Consolidated EBITDA of CCH I for the period beginning on the Issue Date to the end of CCH I’s most recently ended full fiscal quarter for which internal financial statements are available, taken as a single accounting period, less the product of 1.3 times the Consolidated Interest Expense of CCH I for such period, plus
  - (b) an amount equal to 100% of Capital Stock Sale Proceeds less any amount of such Capital Stock Sale Proceeds used in connection with an Investment made on or after the Issue Date pursuant to clause (5) of the definition of “Permitted Investments,” plus
  - (c) \$100 million.

So long as no Default under the CCH I Indenture has occurred and is continuing or would be caused thereby, the preceding provisions will not prohibit:

- (1) the payment of any dividend within 60 days after the date of declaration thereof, if at said date of declaration such payment would have complied with the provisions of the CCH I Indenture;
- (2) the redemption, repurchase, retirement, defeasance or other acquisition of any subordinated Indebtedness of CCH I in exchange for, or out of the net proceeds of, the substantially concurrent sale (other than to a Subsidiary of CCH I) of Equity Interests of CCH I (other than Disqualified Stock); *provided* that the amount of any such net cash proceeds that are utilized for any such redemption, repurchase, retirement, defeasance or other acquisition shall be excluded from clause (3)(b) of the preceding paragraph;
- (3) the defeasance, redemption, repurchase or other acquisition of subordinated Indebtedness of CCH I or any of its Restricted Subsidiaries with the net cash proceeds from an incurrence of Permitted Refinancing Indebtedness;
- (4) regardless of whether a Default then exists, the payment of any dividend or distribution made in respect of any calendar year or portion thereof during which CCH I or any of its Subsidiaries is a Person that is not treated as a separate tax paying entity for United States federal income tax purposes by CCH I and its Subsidiaries (directly or indirectly) to the direct or indirect holders of the Equity Interests of CCH I or its Subsidiaries that are Persons that are treated as a separate tax paying entity for United States federal income tax purposes, in an amount sufficient to permit each such holder to pay the actual income taxes (including required estimated tax installments) that are required to be paid by it with respect to the taxable income of any Parent (through its direct or indirect ownership of CCH I and/or its Subsidiaries), CCH I, its Subsidiaries or any Unrestricted Subsidiary, as applicable, in any calendar year, as estimated in good faith by CCH I or its Subsidiaries, as the case may be;
- (5) regardless of whether a Default then exists, the payment of any dividend by a Restricted Subsidiary of CCH I to the holders of its common Equity Interests on a pro rata basis;

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(6) the payment of any dividend on the Helicon Preferred Stock or the redemption, repurchase, retirement or other acquisition of the Helicon Preferred Stock in an amount not in excess of its aggregate liquidation value;

(7) the repurchase, redemption or other acquisition or retirement for value, or the payment of any dividend or distribution to the extent necessary to permit the repurchase, redemption or other acquisition or retirement for value, of any Equity Interests of CCH I or a Parent of CCH I held by any member of CCH I's, such Parent's or any Restricted Subsidiary's management pursuant to any management equity subscription agreement or stock option agreement entered into in accordance with the policies of CCH I, any Parent or any Restricted Subsidiary; provided that the aggregate price paid for all such repurchased, redeemed, acquired or retired Equity Interests shall not exceed \$10 million in any fiscal year of the Issuers;

(8) payment of fees in connection with any acquisition, merger or similar transaction in an amount that does not exceed an amount equal to 1.25% of the transaction value of such acquisition, merger or similar transaction;

(9) additional Restricted Payments directly or indirectly to CIH or any other Parent (i) regardless of whether a Default exists (other than a Default described in paragraphs (1), (2), (7) or (8) under the caption "Events of Default and Remedies"), for the purpose of enabling Charter Holdings, CIH or any Charter Refinancing Subsidiary to pay interest when due on Indebtedness under the Charter Holdings Indentures, the CIH Indenture, and/or any Charter Refinancing Indebtedness, (ii) for the purpose of enabling CCI and/or any Charter Refinancing Subsidiary to pay interest when due on Indebtedness under the CCI Indentures and/or any Charter Refinancing Indebtedness and (iii) so long as CCH I would have been permitted, at the time of such Restricted Payment and after giving pro forma effect thereto as if such Restricted Payment had been made at the beginning of the applicable quarter period, to incur at least \$1.00 of additional Indebtedness pursuant to the Leverage Ratio test set forth in the first paragraph of the covenant described below under the caption "— Incurrence of Indebtedness and Issuance of Preferred Stock," (A) to the extent required to enable Charter Holdings, CIH, CCI or any Charter Refinancing Subsidiary to defease, redeem, repurchase, prepay, repay, discharge or otherwise acquire or retire Indebtedness under the Charter Holdings Indentures, the CIH Indenture, the CCI Indentures or any Charter Refinancing Indebtedness (including any expenses incurred by any Parent in connection therewith) or (B) consisting of purchases, redemptions or other acquisitions by CCH I or its Restricted Subsidiaries of Indebtedness under the Charter Holdings Indentures, the CIH Indenture, the CCI Indentures, or any Charter Refinancing Indebtedness (including any expenses incurred by CCH I and its Restricted Subsidiaries in connection therewith) and the distribution, loan to or investment in any Parent of Indebtedness so purchased, redeemed or acquired; and

(10) Restricted Payments that are part of the Exchange Offers.

The amount of all Restricted Payments (other than cash) shall be the fair market value on the date of the Restricted Payment of the asset(s) or securities proposed to be transferred or issued by CCH I or any of its Restricted Subsidiaries pursuant to the Restricted Payment. The fair market value of any assets or securities that are required to be valued by this covenant shall be determined by the Board of Directors of CCH I, whose resolution with respect thereto shall be delivered to the trustee. Such Board of Directors' determination must be based upon an opinion or appraisal issued by an accounting, appraisal or investment banking firm of national standing if the fair market value exceeds \$100 million.

Not later than the date of making any Restricted Payment involving an amount or fair market value in excess of \$10 million, the Issuers shall deliver to the trustee an officers' certificate stating that such Restricted Payment is permitted and setting forth the basis upon which the calculations required by this "Restricted Payments" covenant were computed, together with a copy of any fairness opinion or appraisal required by the CCH I Indenture.

**Investments**

CCH I will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly:

- (1) make any Restricted Investment; or
- (2) allow any of its Restricted Subsidiaries to become an Unrestricted Subsidiary, unless, in each case:
  - (a) no Default or Event of Default under the CCH I Indenture shall have occurred and be continuing or would occur as a consequence thereof; and
  - (b) CCH I would, at the time of, and after giving effect to, such Restricted Investment or such designation of a Restricted Subsidiary as an Unrestricted Subsidiary, have been permitted to incur at least \$1.00 of additional Indebtedness pursuant to the applicable Leverage Ratio test set forth in the first paragraph of the covenant described below under the caption “— Incurrence of Indebtedness and Issuance of Preferred Stock.”

An Unrestricted Subsidiary may be redesignated as a Restricted Subsidiary if such redesignation would not cause a Default.

**Incurrence of Indebtedness and Issuance of Preferred Stock**

CCH I will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly, create, incur, issue, assume, guarantee or otherwise become directly or indirectly liable, contingently or otherwise, with respect to (collectively, “incur”) any Indebtedness (including Acquired Debt) and CCH I will not issue any Disqualified Stock and will not permit any of its Restricted Subsidiaries to issue any shares of Disqualified Stock or Preferred Stock, *provided* that CCH I or any of its Restricted Subsidiaries may incur Indebtedness, CCH I may issue Disqualified Stock and, subject to the final paragraph of this covenant below, Restricted Subsidiaries of CCH I may incur Preferred Stock, if the Leverage Ratio of CCH I and its Restricted Subsidiaries would have been not greater than 7.5 to 1.0 determined on a pro forma basis (including a pro forma application of the net proceeds therefrom) as if the additional Indebtedness had been incurred, or the Disqualified Stock or Preferred Stock had been issued, as the case may be, at the beginning of the most recently ended fiscal quarter.

So long as no Default under the CCH I Indenture shall have occurred and be continuing or would be caused thereby, the first paragraph of this covenant will not prohibit the incurrence of any of the following items of Indebtedness (collectively, “Permitted Debt”):

- (1) the incurrence by CCH I and its Restricted Subsidiaries of Indebtedness under the Credit Facilities; *provided* that the aggregate principal amount of all Indebtedness of CCH I and its Restricted Subsidiaries outstanding under this clause (1) for all Credit Facilities of CCH I and its Restricted Subsidiaries after giving effect to such incurrence does not exceed an amount equal to \$9.75 billion less the aggregate amount of all Net Proceeds from Asset Sales applied by CCH I or any of its Restricted Subsidiaries to repay any such Indebtedness under a Credit Facility pursuant to the covenant described under “— Repurchase at the Option of Holders — Asset Sales;”
- (2) the incurrence by CCH I and its Restricted Subsidiaries of Existing Indebtedness (other than under Credit Facilities);
- (3) the incurrence on the Issue Date by CCH I of Indebtedness represented by the CCH I Notes (but not including any Additional CCH I Notes);
- (4) the incurrence by CCH I or any of its Restricted Subsidiaries of Indebtedness represented by Capital Lease Obligations, mortgage financings or purchase money obligations, in each case, incurred for the purpose of financing all or any part of the purchase price or cost of construction or improvement (including, without limitation, the cost of design, development, construction, acquisition, transportation, installation, improvement, and migration) of Productive Assets of CCH I or any of its Restricted



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Subsidiaries in an aggregate principal amount not to exceed, together with any related Permitted Refinancing Indebtedness permitted by clause (5) below, \$75 million at any time outstanding;

(5) the incurrence by CCH I or any of its Restricted Subsidiaries of Permitted Refinancing Indebtedness in exchange for, or the net proceeds of which are used to refund, refinance or replace, in whole or in part, Indebtedness (other than intercompany Indebtedness) that was permitted by the CCH I Indenture to be incurred under this clause (5), the first paragraph of this covenant or clauses (2), (3) or (4) of this paragraph;

(6) the incurrence by CCH I or any of its Restricted Subsidiaries of intercompany Indebtedness between or among CCH I and any of its Restricted Subsidiaries; *provided* that:

(a) if CCH I is the obligor on such Indebtedness, such Indebtedness must be expressly subordinated to the prior payment in full in cash of all obligations with respect to the CCH I Notes; and

(b) (i) any subsequent issuance or transfer of Equity Interests that results in any such Indebtedness being held by a Person other than CCH I or a Restricted Subsidiary of CCH I and (ii) any sale or other transfer of any such Indebtedness to a Person that is not either CCH I or a Restricted Subsidiary of CCH I, shall be deemed, in each case, to constitute an incurrence of such Indebtedness that was not permitted by this clause (6);

(7) the incurrence by CCH I or any of its Restricted Subsidiaries of Hedging Obligations that are incurred for the purpose of fixing or hedging interest rate risk with respect to any floating rate Indebtedness that is permitted by the terms of the CCH I Indenture to be outstanding;

(8) the guarantee by CCH I or any of its Restricted Subsidiaries of Indebtedness of a Restricted Subsidiary that was permitted to be incurred by another provision of this covenant;

(9) the incurrence by CCH I or any of its Restricted Subsidiaries of additional Indebtedness in an aggregate principal amount at any time outstanding under this clause (9), not to exceed \$300 million; and

(10) the accretion or amortization of original issue discount and the write up of Indebtedness in accordance with purchase accounting.

For purposes of determining compliance with this “Incurrence of Indebtedness and Issuance of Preferred Stock” covenant, any Indebtedness under Credit Facilities outstanding on the Issue Date shall be deemed to have been incurred pursuant to clause (1) above and, in the event that an item of proposed Indebtedness (other than any Indebtedness initially deemed on the Issue Date to be incurred under clause (1) above) (a) meets the criteria of more than one of the categories of Permitted Debt described in clauses (1) through (10) above or (b) is entitled to be incurred pursuant to the first paragraph of this covenant, CCH I will be permitted to classify and from time to time to reclassify such item of Indebtedness in any manner that complies with this covenant. Once any item of Indebtedness is so reclassified, it will no longer be deemed outstanding under the category of Permitted Debt where initially incurred or previously reclassified. For avoidance of doubt, Indebtedness incurred pursuant to a single agreement, instrument, program, facility or line of credit may be classified as Indebtedness arising in part under one of the clauses listed above or under the first paragraph of this covenant, and in part under any one or more of the other clauses listed above, to the extent that such Indebtedness satisfies the criteria for such classification.

Notwithstanding the foregoing, in no event shall any Restricted Subsidiary of CCH I consummate a Subordinated Debt Financing or a Preferred Stock Financing. A “Subordinated Debt Financing” or a “Preferred Stock Financing,” as the case may be, with respect to any Restricted Subsidiary of CCH I shall mean a public offering or private placement (whether pursuant to Rule 144A under the Securities Act or otherwise) of Subordinated Notes or Preferred Stock (whether or not such Preferred Stock constitutes Disqualified Stock), as the case may be, of such Restricted Subsidiary to one or more purchasers (other than to one or more Affiliates of CCH I). “Subordinated Notes” with respect to any Restricted Subsidiary of CCH I shall mean Indebtedness of such Restricted Subsidiary that is contractually subordinated in right of

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payment to any other Indebtedness of such Restricted Subsidiary (including, without limitation, Indebtedness under Credit Facilities), provided that the foregoing shall not apply to priority of Liens, including by way of intercreditor arrangements. The foregoing limitation shall not apply to:

(a) any Indebtedness or Preferred Stock of any Person existing at the time such Person is merged with or into or becomes a Subsidiary of CCH I; *provided* that such Indebtedness or Preferred Stock was not incurred or issued in connection with, or in contemplation of, such Person merging with or into, or becoming a Subsidiary of, CCH I, and

(b) any Indebtedness or Preferred Stock of a Restricted Subsidiary issued in connection with, and as part of the consideration for, an acquisition, whether by stock purchase, asset sale, merger or otherwise, in each case involving such Restricted Subsidiary, which Indebtedness or Preferred Stock is issued to the seller or sellers of such stock or assets; *provided* that such Restricted Subsidiary is not obligated to register such Indebtedness or Preferred Stock under the Securities Act or obligated to provide information pursuant to Rule 144A under the Securities Act.

### ***Liens***

The CCH I Indenture will provide that CCH I will not, directly or indirectly, create, incur, assume or suffer to exist any Lien of any kind securing Indebtedness, Attributable Debt or trade payables on any asset of CCH I, whether owned on the Issue Date or thereafter acquired, except Permitted Liens.

### ***Dividend and Other Payment Restrictions Affecting Subsidiaries***

CCH I will not, directly or indirectly, create or permit to exist or become effective any encumbrance or restriction on the ability of any of its Restricted Subsidiaries to:

(1) pay dividends or make any other distributions on its Capital Stock to CCH I or any of its Restricted Subsidiaries, or with respect to any other interest or participation in, or measured by, its profits, or pay any Indebtedness owed to CCH I or any of its Restricted Subsidiaries;

(2) make loans or advances to CCH I or any of its Restricted Subsidiaries; or

(3) transfer any of its properties or assets to CCH I or any of its Restricted Subsidiaries.

However, the preceding restrictions will not apply to encumbrances or restrictions existing under or by reason of:

(1) Existing Indebtedness, contracts and other instruments as in effect on the Issue Date and any amendments, modifications, restatements, renewals, increases, supplements, refundings, replacements or refinancings thereof; *provided* that such amendments, modifications, restatements, renewals, increases, supplements, refundings, replacements or refinancings are not materially more restrictive, taken as a whole, with respect to such dividend and other payment restrictions than those contained in the most restrictive Existing Indebtedness, contracts or other instruments, as in effect on the Issue Date;

(2) applicable law;

(3) any instrument governing Indebtedness or Capital Stock of a Person acquired by CCH I or any of its Restricted Subsidiaries as in effect at the time of such acquisition (except to the extent such Indebtedness was incurred in connection with or in contemplation of such acquisition), which encumbrance or restriction is not applicable to any Person, or the properties or assets of any Person, other than the Person, or the property or assets of the Person, so acquired; *provided* that, in the case of Indebtedness, such Indebtedness was permitted by the terms of the CCH I Indenture to be incurred;

(4) customary non-assignment provisions in leases, franchise agreements and other commercial agreements entered into in the ordinary course of business;

(5) purchase money obligations for property acquired in the ordinary course of business that impose restrictions on the property so acquired of the nature described in clause (3) of the preceding paragraph;

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(6) any agreement for the sale or other disposition of Capital Stock or assets of a Restricted Subsidiary that restricts distributions by such Restricted Subsidiary pending such sale or other disposition;

(7) Permitted Refinancing Indebtedness; provided that the restrictions contained in the agreements governing such Permitted Refinancing Indebtedness are not materially more restrictive at the time such restrictions become effective, taken as a whole, than those contained in the agreements governing the Indebtedness being refinanced;

(8) Liens securing Indebtedness or other obligations otherwise permitted to be incurred pursuant to the provisions of the covenant described above under the caption “— Liens” that limit the right of CCH I or any of its Restricted Subsidiaries to dispose of the assets subject to such Lien;

(9) provisions with respect to the disposition or distribution of assets or property in joint venture agreements and other similar agreements entered into in the ordinary course of business;

(10) restrictions on cash or other deposits or net worth imposed by customers under contracts entered into in the ordinary course of business;

(11) restrictions contained in the terms of Indebtedness or Preferred Stock permitted to be incurred under the covenant described under the caption “— Incurrence of Indebtedness and Issuance of Preferred Stock”; provided that such restrictions are not materially more restrictive, taken as a whole, than the terms contained in the most restrictive, together or individually, of the Credit Facilities and other Existing Indebtedness as in effect on the Issue Date; and

(12) restrictions that are not materially more restrictive, taken as a whole, than customary provisions in comparable financings and that the management of CCH I determines, at the time of such financing, will not materially impair the CCH I Issuers’ ability to make payments as required under the CCH I Notes.

### ***Merger, Consolidation or Sale of Assets***

Neither CCH I Issuer may, directly or indirectly, (1) consolidate or merge with or into another Person (whether or not such CCH I Issuer is the surviving Person) or (2) sell, assign, transfer, convey or otherwise dispose of all or substantially all of its properties or assets, in one or more related transactions, to another Person; unless:

(A) either:

(i) such CCH I Issuer is the surviving Person; or

(ii) the Person formed by or surviving any such consolidation or merger (if other than such CCH I Issuer) or to which such sale, assignment, transfer, conveyance or other disposition shall have been made is a Person organized or existing under the laws of the United States, any state thereof or the District of Columbia, provided that if the Person formed by or surviving any such consolidation or merger with such CCH I Issuer is a Person other than a corporation, a corporate co-issuer shall also be an obligor with respect to the CCH I Notes;

(B) the Person formed by or surviving any such consolidation or merger (if other than such CCH I Issuer) or the Person to which such sale, assignment, transfer, conveyance or other disposition shall have been made assumes all the obligations of such CCH I Issuer under the CCH I Notes and the CCH I Indenture pursuant to agreements reasonably satisfactory to the trustee;

(C) immediately after such transaction no Default or Event of Default exists; and

(D) such CCH I Issuer or the Person formed by or surviving any such consolidation or merger (if other than such CCH I Issuer) will, on the date of such transaction after giving pro forma effect thereto and any related financing transactions as if the same had occurred at the beginning of the applicable four-quarter period,

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(x) be permitted to incur at least \$1.00 of additional Indebtedness pursuant to the Leverage Ratio test set forth in the first paragraph of the covenant described above under the caption “— Incurrence of Indebtedness and Issuance of Preferred Stock;” or

(y) have a Leverage Ratio immediately after giving effect to such consolidation or merger no greater than the Leverage Ratio immediately prior to such consolidation or merger.

In addition, neither of the CCH I Issuers may, directly or indirectly, lease all or substantially all of their properties or assets, in one or more related transactions, to any other Person. The foregoing clause (D) of this “Merger, Consolidation or Sale of Assets” covenant will not apply to a sale, assignment, transfer, conveyance or other disposition of assets between or among a CCH I Issuer and any of its Wholly Owned Restricted Subsidiaries or to the consummation of the Exchange Offers.

### ***Transactions with Affiliates***

CCH I will not, and will not permit any of its Restricted Subsidiaries to, make any payment to, or sell, lease, transfer or otherwise dispose of any of its properties or assets to, or purchase any property or assets from, or enter into or make or amend any transaction, contract, agreement, understanding, loan, advance or guarantee with, or for the benefit of, any Affiliate (each, an “Affiliate Transaction”), unless:

(1) such Affiliate Transaction is on terms that are not less favorable to CCH I or the relevant Restricted Subsidiary than those that would have been obtained in a comparable transaction by CCH I or such Restricted Subsidiary with an unrelated Person; and

(2) CCH I delivers to the trustee:

(a) with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration given or received by CCH I or any such Restricted Subsidiary in excess of \$15 million, a resolution of the Board of Directors of CCH I or CCI set forth in an officers’ certificate certifying that such Affiliate Transaction complies with this covenant and that such Affiliate Transaction has been approved by a majority of the members of such Board of Directors; and

(b) with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration given or received by CCH I or any such Restricted Subsidiary in excess of \$50 million, an opinion as to the fairness to the holders of such Affiliate Transaction from a financial point of view issued by an accounting, appraisal or investment banking firm of national standing.

The following items shall not be deemed to be Affiliate Transactions and, therefore, will not be subject to the provisions of the prior paragraph:

(1) any existing employment agreement and employee benefit arrangement (including stock purchase or option agreements, deferred compensation plans, and retirement, savings or similar plans) entered into by CCH I or any of its Subsidiaries and any employment agreement and employee benefit arrangements entered into by CCH I or any of its Restricted Subsidiaries in the ordinary course of business;

(2) transactions between or among CCH I and/or its Restricted Subsidiaries;

(3) payment of reasonable directors fees to Persons who are not otherwise Affiliates of CCH I, and customary indemnification and insurance arrangements in favor of directors, regardless of affiliation with CCH I or any of its Restricted Subsidiaries;

(4) payment of Management Fees;

(5) Restricted Payments that are permitted by the provisions of the covenant described above under the caption “— Restricted Payments” and Restricted Investments that are permitted by the provisions of the covenant described above under the caption “— Investments”;

(6) Permitted Investments;

(7) transactions pursuant to agreements existing on the Issue Date, as in effect on the Issue Date, or as subsequently modified, supplemented, or amended, to the extent that any such modifications, supplements, or amendments comply with the applicable provisions of paragraph (1) of this covenant; and

(8) contributions to the common equity capital of CCH I or the issue or sale of Equity Interests of CCH I.

***Sale and Leaseback Transactions***

CCH I will not, and will not permit any of its Restricted Subsidiaries to, enter into any sale and leaseback transaction; *provided* that CCH I and its Restricted Subsidiaries may enter into a sale and leaseback transaction if:

(1) CCH I or such Restricted Subsidiary could have

(a) incurred Indebtedness in an amount equal to the Attributable Debt relating to such sale and leaseback transaction under the Leverage Ratio test in the first paragraph of the covenant described above under the caption “— Incurrence of Additional Indebtedness and Issuance of Preferred Stock”; and

(b) incurred a Lien to secure such Indebtedness pursuant to the covenant described above under the caption “— Liens” or the definition of “Permitted Liens”; and

(2) the transfer of assets in that sale and leaseback transaction is permitted by, and CCH I or such Restricted Subsidiary applies the proceeds of such transaction in compliance with, the covenant described above under the caption “— Repurchase at the Option of Holders — Asset Sales.”

The foregoing restrictions do not apply to a sale and leaseback transaction if the lease is for a period, including renewal rights, of not in excess of three years.

***Limitations on Issuances of Guarantees of Indebtedness***

CCH I will not permit any of its Restricted Subsidiaries, directly or indirectly, to Guarantee or pledge any assets to secure the payment of any other Indebtedness of CCH I, except in respect of Credit Facilities (the “Guaranteed Indebtedness”), unless

(1) such Restricted Subsidiary simultaneously executes and delivers a supplemental indenture providing for the Guarantee (a “Subsidiary Guarantee”) of the payment of the CCH I Notes by such Restricted Subsidiary, and

(2) until one year after all the CCH I Notes have been paid in full in cash, such Restricted Subsidiary waives and will not in any manner whatsoever claim or take the benefit or advantage of, any rights of reimbursement, indemnity or subrogation or any other rights against CCH I or any other Restricted Subsidiary of CCH I as a result of any payment by such Restricted Subsidiary under its Subsidiary Guarantee; *provided* that this paragraph shall not be applicable to any Guarantee or any Restricted Subsidiary that existed at the time such Person became a Restricted Subsidiary and was not incurred in connection with, or in contemplation of, such Person becoming a Restricted Subsidiary.

If the Guaranteed Indebtedness is subordinated to the CCH I Notes, then the Guarantee of such Guaranteed Indebtedness shall be subordinated to the Subsidiary Guarantee at least to the extent that the Guaranteed Indebtedness is subordinated to the CCH I Notes.

Any Subsidiary Guarantee shall terminate upon the release of such guarantor from its guarantee of the Guaranteed Indebtedness.

### **Payments for Consent**

CCH I will not, and will not permit any of its Subsidiaries to, directly or indirectly, pay or cause to be paid any consideration to or for the benefit of any holder of CCH I Notes for or as an inducement to any consent, waiver or amendment of any of the terms or provisions of the CCH I Indenture or the CCH I Notes unless such consideration is offered to be paid and is paid to all holders of the CCH I Notes that consent, waive or agree to amend in the time frame set forth in the solicitation documents relating to such consent, waiver or amendment.

### **Reports**

Whether or not required by the SEC, so long as any CCH I Notes will be outstanding, the Issuers will furnish to the holders of the CCH I Notes, within the time periods specified in the SEC's rules and regulations:

(1) all quarterly and annual financial information that would be required to be contained in a filing with the SEC on Forms 10-Q and 10-K if the CCH I Issuers were required to file such forms, including a "Management's Discussion and Analysis of Financial Condition and Results of Operations" section and, with respect to the annual information only, a report on the annual consolidated financial statements of CCH I of its independent public accountants; and

(2) all current reports that would be required to be filed with the SEC on Form 8-K if the CCH I Issuers were required to file such reports.

While (a) any Parent of CCH I that guarantees the CCH I Notes is subject to the reporting obligations of Section 13 or 15(d) of the Exchange Act (including pursuant to the terms of its Indebtedness), (b) the rules and regulations of the SEC permit CCH I and any such Parent to report at the level of such Parent on a consolidated basis and (c) such Parent is not engaged in any business in any material respect other than incidental to its direct or indirect ownership of the Capital Stock of CCH I, such consolidated reporting at such Parent level in a manner consistent with that described in this covenant for CCH I shall satisfy this covenant; *provided* that such Parent includes in its reports information about CCH I that is required to be provided by a parent guaranteeing debt of an operating company subsidiary pursuant to Rule 3-10 of Regulation S-X or any successor rule then in effect.

For any fiscal quarter or fiscal year at the end of which Subsidiaries of CCH I are Unrestricted Subsidiaries, the quarterly and annual financial information required by the preceding paragraph shall include a reasonably detailed presentation, either on the face of the financial statements or in the footnotes thereto, and in Management's Discussion and Analysis of Financial Condition and Results of Operations, of the financial condition and results of operations of CCH I and its Restricted Subsidiaries separate from the financial condition and results of operations of the Unrestricted Subsidiaries of CCH I.

In addition, whether or not required by the SEC, the Issuers will file a copy of all of the information and reports referred to in clauses (1) and (2) above with the SEC for public availability within the time periods specified in the SEC's rules and regulations, unless the SEC will not accept such a filing, and make such information available to securities analysts and prospective investors upon request.

### **Events of Default and Remedies**

Each of the following is an Event of Default with respect to the CCH I Notes:

(1) default for 30 consecutive days in the payment when due of interest on the CCH I Notes;

(2) default in payment when due of the principal of or premium, if any, on the CCH I Notes;

(3) failure by CCH I or any of its Restricted Subsidiaries to comply with the provisions of the CCH I Indenture described under the captions "— Repurchase at the Option of Holders — Change of Control" or "— Certain Covenants — Merger, Consolidation or Sale of Assets";

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(4) failure by CCH I or any of its Restricted Subsidiaries for 30 consecutive days after written notice thereof has been given to the Issuers by the trustee or to the Issuers and the trustee by holders of at least 25% of the aggregate principal amount of the CCH I Notes outstanding to comply with any of their other covenants or agreements in the CCH I Indenture;

(5) default under any mortgage, indenture or instrument under which there may be issued or by which there may be secured or evidenced any Indebtedness for money borrowed by CCH I or any of its Restricted Subsidiaries (or the payment of which is guaranteed by CCH I or any of its Restricted Subsidiaries) whether such Indebtedness or guarantee now exists, or is created after the Issue Date, if that default:

(a) is caused by a failure to pay at final stated maturity the principal amount on such Indebtedness prior to the expiration of the grace period provided in such Indebtedness on the date of such default (a "Payment Default"); or

(b) results in the acceleration of such Indebtedness prior to its express maturity,

and, in each case, the principal amount of any such Indebtedness, together with the principal amount of any other such Indebtedness under which there has been a Payment Default or the maturity of which has been so accelerated, aggregates \$100 million or more;

(6) failure by CCH I or any of its Restricted Subsidiaries to pay final judgments which are nonappealable aggregating in excess of \$100 million, net of applicable insurance which has not been denied in writing by the insurer, which judgments are not paid, discharged or stayed for a period of 60 days;

(7) CCH I or any of its Significant Subsidiaries pursuant to or within the meaning of any Bankruptcy Law:

(a) commences a voluntary case,

(b) consents to the entry of an order for relief against it in an involuntary case,

(c) consents to the appointment of a custodian of it or for all or substantially all of its property, or

(d) makes a general assignment for the benefit of its creditors;

(8) a court of competent jurisdiction enters an order or decree under any Bankruptcy Law that:

(a) is for relief against CCH I or any of its Significant Subsidiaries in an involuntary case;

(b) appoints a custodian of CCH I or any of its Significant Subsidiaries or for all or substantially all of the property of CCH I or any of its Significant Subsidiaries; or

(c) orders the liquidation of CCH I or any of its Significant Subsidiaries;

and the order or decree remains unstayed and in effect for 60 consecutive days; or

(9) so long as the Pledge Agreement has not otherwise been terminated in accordance with its terms, (a) failure by CCH I for 30 consecutive days after written notice thereof has been given to CCH I by the trustee or to CCH I and the trustee by holders of at least 25% of the aggregate principal amount of the CCH I Notes outstanding to comply with any of CCH I's covenants or agreements in the Pledge Agreement which failure adversely affects the enforceability, validity, perfection or priority of the trustee's Lien on the Collateral or (b) repudiation or disaffirmation by CCH I of the Pledge Agreement.

In the case of an Event of Default described in the foregoing clauses (7) and (8) with respect to CCH I, all outstanding CCH I Notes will become due and payable immediately without further action or notice. If any other Event of Default occurs and is continuing, the trustee or the holders of at least 25% in principal amount of the then outstanding CCH I Notes may declare the CCH I Notes to be due and payable immediately.

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Holders of the CCH I Notes may not enforce the CCH I Indenture or the CCH I Notes except as provided in the CCH I Indenture. Subject to certain limitations, the holders of a majority in principal amount of the then outstanding CCH I Notes may direct the trustee in its exercise of any trust or power. The trustee may withhold from holders of the CCH I Notes notice of any continuing Default or Event of Default under the CCH I Indenture (except a Default or Event of Default relating to the payment of principal or interest) if it determines that withholding notice is in their interest.

The holders of a majority in aggregate principal amount of the CCH I Notes then outstanding by notice to the trustee may on behalf of the holders of all of the CCH I Notes waive any existing Default or Event of Default and its consequences under the CCH I Indenture except a continuing Default or Event of Default in the payment of interest on, or the principal of, or premium, if any, on, the CCH I Notes.

The CCH I Issuers will be required to deliver to the trustee annually a statement regarding compliance with the CCH I Indenture. Upon becoming aware of any Default or Event of Default, the CCH I Issuers will be required to deliver to the trustee a statement specifying such Default or Event of Default and what action the CCH I Issuers are taking or propose to take with respect thereto.

### **No Personal Liability of Directors, Officers, Employees, Members and Stockholders**

No director, officer, employee or incorporator of the CCH I Issuers or the Parent Guarantor, as such, and no member or stockholder of the CCH I Issuers or the Parent Guarantor, as such, shall have any liability for any obligations of the CCH I Issuers or the Parent Guarantor under the CCH I Notes, the CCH I Indenture, the Note Guarantee, the pledge agreement or the registration rights agreement, or for any claim based on, in respect of, or by reason of, such obligations or their creation. Each holder of CCH I Notes by accepting a CCH I Note and a Note Guarantee waives and releases all such liability. The waiver and release will be part of the consideration for issuance of the CCH I Notes and the Note Guarantee. The waiver may not be effective to waive liabilities under the federal securities laws.

### **Legal Defeasance and Covenant Defeasance**

The CCH I Issuers and the Parent Guarantor may, at their option and at any time, elect to have all of their obligations discharged with respect to any outstanding CCH I Notes, the Note Guarantee and the Pledge Agreement (“Legal Defeasance”) except for:

- (1) the rights of holders of outstanding CCH I Notes to receive payments in respect of the principal of, premium, if any, and interest on the CCH I Notes when such payments are due from the trust referred to below;
- (2) the CCH I Issuers’ obligations with respect to the CCH I Notes concerning issuing temporary CCH I Notes, registration of CCH I Notes, mutilated, destroyed, lost or stolen CCH I Notes and the maintenance of an office or agency for payment and money for security payments held in trust;
- (3) the rights, powers, trusts, duties and immunities of the trustee, and the CCH I Issuers’ obligations in connection therewith; and
- (4) the Legal Defeasance provisions of the CCH I Indenture.

In addition, the CCH I Issuers may, at their option and at any time, elect to have the obligations of the Issuers and the Parent Guarantor released with respect to certain covenants that are described in the CCH I Indenture, the Note Guarantee and the Pledge Agreement (“Covenant Defeasance”) and thereafter any omission to comply with those covenants shall not constitute a Default or Event of Default with respect to the CCH I Notes or the Note Guarantee. In the event Covenant Defeasance occurs, certain events (not including nonpayment, bankruptcy, receivership, rehabilitation and insolvency events) described under “Events of Default and Remedies” will no longer constitute Events of Default with respect to the CCH I Notes, the Note Guarantee or the Pledge Agreement. In addition, upon covenant defeasance, the Note Guarantee will be released and all Collateral will be released from the Lien of the Pledge Agreement.



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In order to exercise either Legal Defeasance or Covenant Defeasance:

(1) the CCH I Issuers or the Parent Guarantor must irrevocably deposit with the trustee, in trust, for the benefit of the holders of the CCH I Notes, cash in U.S. dollars, non-callable Government Securities, or a combination thereof, in such amounts as will be sufficient, in the opinion of a nationally recognized firm of independent public accountants, to pay the principal of, premium, if any, and interest on the outstanding CCH I Notes on the stated maturity or on the applicable redemption date, as the case may be, and the CCH I Issuers and the Parent Guarantor must specify whether the CCH I Notes will be defeased to maturity or to a particular redemption date;

(2) in the case of Legal Defeasance, the CCH I Issuers shall have delivered to the trustee an opinion of counsel reasonably acceptable to the trustee confirming that

(a) the CCH I Issuers and the Parent Guarantor have received from, or there has been published by, the Internal Revenue Service a ruling or

(b) since the Issue Date, there has been a change in the applicable federal income tax law,

in either case to the effect that, and based thereon such opinion of counsel shall confirm that, the holders of the outstanding CCH I Notes will not recognize income, gain or loss for federal income tax purposes as a result of such Legal Defeasance and will be subject to federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Legal Defeasance had not occurred;

(3) in the case of Covenant Defeasance, the CCH I Issuers or the Parent Guarantor shall have delivered to the trustee an opinion of counsel confirming that the holders of the outstanding CCH I Notes will not recognize income, gain or loss for federal income tax purposes as a result of such Covenant Defeasance and will be subject to federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Covenant Defeasance had not occurred;

(4) no Default or Event of Default under the CCH I Indenture shall have occurred and be continuing either (a) on the date of such deposit (other than a Default or Event of Default resulting from the borrowing of funds to be applied to such deposit and the grant of any Lien securing such borrowing); or (b) insofar as Events of Default from bankruptcy or insolvency events are concerned, at any time in the period ending on the 91st day after the date of deposit;

(5) such Legal Defeasance or Covenant Defeasance will not result in a breach or violation of, or constitute a default under any material agreement or instrument (other than the CCH I Indenture) to which the CCH I Issuers or any of their Restricted Subsidiaries is a party or by which the CCH I Issuers or any of their Restricted Subsidiaries is bound;

(6) the CCH I Issuers must have delivered to the trustee an opinion of counsel to the effect that after the 91st day, assuming no intervening bankruptcy, that no holder is an insider of either of the CCH I Issuers following the deposit and that such deposit would not be deemed by a court of competent jurisdiction a transfer for the benefit of the CCH I Issuers in their capacities as such, the trust funds will not be subject to the effect of any applicable bankruptcy, insolvency, reorganization or similar laws affecting creditors' rights generally;

(7) the CCH I Issuers or the Parent Guarantor must deliver to the trustee an officers' certificate stating that the deposit was not made by the CCH I Issuers with the intent of preferring the holders of the CCH I Notes over the other creditors of the CCH I Issuers or the Parent Guarantor with the intent of defeating, hindering, delaying or defrauding creditors of the CCH I Issuers, the Parent Guarantor or others; and

(8) the CCH I Issuers or the Parent Guarantor must deliver to the trustee an officers' certificate and an opinion of counsel, each stating that all conditions precedent relating to the Legal Defeasance or the Covenant Defeasance have been complied with.

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Notwithstanding the foregoing, the opinion of counsel required by clause (2) above with respect to a Legal Defeasance need not be delivered and the condition set forth in clauses 4(b) and (6) shall not apply if all applicable CCH I Notes not theretofore delivered to the trustee for cancellation

(a) have become due and payable or

(b) will become due and payable on the maturity date or a redemption date within one year under arrangements satisfactory to the trustee for the giving of notice of redemption by the trustee in the name, and at the expense, of the CCH I Issuers.

### **Amendment, Supplement and Waiver**

Except as provided below, the CCH I Indenture, the CCH I Notes, the Pledge Agreement or the Note Guarantee may be amended or supplemented with the consent of the holders of at least a majority in aggregate principal amount of the then outstanding CCH I Notes. This includes consents obtained in connection with a purchase of CCH I Notes, a tender offer for CCH I Notes or an exchange offer for CCH I Notes. Any existing Default or compliance with any provision of the CCH I Indenture, the CCH I Notes, the Pledge Agreement or the Note Guarantee (other than any provision relating to the right of any holder of a CCH I Note to bring suit for the enforcement of any payment of principal, premium, if any, and interest on the CCH I Note, on or after the scheduled due dates expressed in the CCH I Notes) may be waived with the consent of the holders of a majority in aggregate principal amount of the then outstanding CCH I Notes. This includes consents obtained in connection with a purchase of CCH I Notes, a tender offer for CCH I Notes or an exchange offer for CCH I Notes.

Without the consent of each holder affected thereby, an amendment or waiver may not (with respect to any CCH I Notes held by such holder):

(1) reduce the principal amount of such CCH I Notes;

(2) change the fixed maturity of such CCH I Notes or reduce the premium payable upon redemption of such CCH I Notes;

(3) reduce the rate of or extend the time for payment of interest on such CCH I Notes;

(4) waive a Default or an Event of Default in the payment of principal of or premium, if any, or interest on the CCH I Notes (except a rescission of acceleration of the CCH I Notes by the holders of at least a majority in aggregate principal amount of the CCH I Notes and a waiver of the payment default that resulted from such acceleration);

(5) make such CCH I Notes payable in money other than that stated in such CCH I Notes;

(6) make any change in the provisions of the CCH I Indenture relating to waivers of past Defaults applicable to any CCH I Notes or the rights of holders thereof to receive payments of principal of, or premium, if any, or interest on such CCH I Notes;

(7) waive a redemption payment with respect to such CCH I Notes (other than a payment required by one of the covenants described above under the caption “— Repurchase at the Option of Holders”); or

(8) make any change in the preceding amendment and waiver provisions.

Notwithstanding the preceding, without the consent of any holder of CCH I Notes, the CCH I Issuers, the Parent Guarantor and the trustee may amend or supplement the CCH I Indenture, the CCH I Notes, the Pledge Agreement or the Note Guarantee:

(1) to cure any ambiguity, defect or inconsistency;

(2) to provide for uncertificated CCH I Notes in addition to or in place of certificated CCH I Notes;

(3) to provide for or confirm the issuance of Additional CCH I Notes;

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(4) to provide for the assumption of the CCH I Issuers' or the Parent Guarantor's obligations to holders of CCH I Notes in the case of a merger or consolidation or sale of all or substantially all of the CCH I Issuers' assets;

(5) to release any Subsidiary Guarantee in accordance with the provisions of the CCH I Indenture;

(6) to make any change that would provide any additional rights or benefits to the holders of CCH I Notes or that does not adversely affect the legal rights under the CCH I Indenture of any such holder;

(7) to comply with requirements of the SEC in order to effect or maintain the qualification of the CCH I Indenture under the Trust Indenture Act or otherwise as necessary to comply with applicable law; or

(8) to provide for the issuance or incurrence of Pari Passu Secured Indebtedness in compliance with the provisions set forth in the CCH I Indenture and the Pledge Agreement as in effect on the Issue Date.

### **Governing Law**

The CCH I Indenture and the CCH I Notes will be governed by the laws of the State of New York.

### **Concerning the Trustee**

If the trustee becomes a creditor of the CCH I Issuers, the CCH I Indenture will limit its right to obtain payment of claims in certain cases, or to realize on certain property received in respect of any such claim as security or otherwise. The trustee will be permitted to engage in other transactions; however, if it acquires any conflicting interest it must eliminate such conflict within 90 days, apply to the SEC for permission to continue or resign.

The holders of a majority in principal amount of the then outstanding CCH I Notes will have the right to direct the time, method and place of conducting any proceeding for exercising any remedy available to the trustee, subject to certain exceptions. The CCH I Indenture will provide that in case an Event of Default shall occur and be continuing, the trustee will be required, in the exercise of its power, to use the degree of care of a prudent man in the conduct of his own affairs. Subject to such provisions, the trustee will be under no obligation to exercise any of its rights or powers under the CCH I Indenture at the request of any holder of CCH I Notes, unless such holder shall have offered to the trustee indemnity satisfactory to it against any loss, liability or expense.

### **Additional Information**

Anyone who receives this Prospectus may obtain a copy of the CCH I Indenture and the Pledge Agreement without charge by writing to the CCH I Issuers at Charter Plaza, 12405 Powerscourt Drive, St. Louis, Missouri 63131, Attention: Corporate Secretary.

### **Certain Definitions**

This section sets forth certain defined terms used in the CCH I Indenture. Reference is made to the CCH I Indenture for a full disclosure of all such terms, as well as any other capitalized terms used herein for which no definition is provided.

**“Acquired Debt”** means, with respect to any specified Person:

(1) Indebtedness of any other Person existing at the time such other Person is merged with or into or became a Subsidiary of such specified Person, whether or not such Indebtedness is incurred in connection with, or in contemplation of, such other Person merging with or into, or becoming a Subsidiary of, such specified Person; and

(2) Indebtedness secured by a Lien encumbering any asset acquired by such specified Person.

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**“Additional CCH I Notes”** means any CCH I Notes issued under the CCH I Indenture in addition to the original CCH I notes issued on the Issue Date (other than CCH I Notes issued in exchange or replacement for such original CCH I Notes). The CCH I Notes offered hereby constitute Additional Notes.

**“Affiliate”** of any specified Person means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For purposes of this definition, “control,” as used with respect to any Person, shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of such Person, whether through the ownership of voting securities, by agreement or otherwise; provided that beneficial ownership of 10% or more of the Voting Stock of a Person shall be deemed to be control. For purposes of this definition, the terms “controlling,” “controlled by” and “under common control with” shall have correlative meanings.

**“Asset Acquisition”** means:

- (1) an Investment by CCH I or any of its Restricted Subsidiaries in any other Person pursuant to which such Person shall become a Restricted Subsidiary of CCH I or any of its Restricted Subsidiaries or shall be merged with or into CCH I or any of its Restricted Subsidiaries, or
- (2) the acquisition by CCH I or any of its Restricted Subsidiaries of the assets of any Person which constitute all or substantially all of the assets of such Person, any division or line of business of such Person or any other properties or assets of such Person other than in the ordinary course of business.

**“Asset Sale”** means:

- (1) the sale, lease, conveyance or other disposition of any assets or rights, other than sales of inventory in the ordinary course of the Cable Related Business; provided that the sale, conveyance or other disposition of all or substantially all of the assets of CCH I and its Subsidiaries, taken as a whole, will be governed by the provisions of the CCH I Indenture described above under the caption “— Repurchase at the Option of Holders — Change of Control” and/or the provisions described above under the caption “— Certain Covenants — Merger, Consolidation, or Sale of Assets” and not by the provisions of the covenant described above under the caption “Repurchase at the Option of Holders — Asset Sales”; and
- (2) the issuance of Equity Interests by any Restricted Subsidiary of CCH I or the sale by CCH I or any Restricted Subsidiary of CCH I of Equity Interests of any Restricted Subsidiary of CCH I.

Notwithstanding the preceding, the following items shall not be deemed to be Asset Sales:

- (1) any single transaction or series of related transactions that:
  - (a) involves assets having a fair market value of less than \$100 million; or
  - (b) results in net proceeds to CCH I and its Restricted Subsidiaries of less than \$100 million;
- (2) a transfer of assets between or among CCH I and/or its Restricted Subsidiaries;
- (3) an issuance of Equity Interests by a Restricted Subsidiary of CCH I to CCH I or to another Wholly Owned Restricted Subsidiary of CCH I;
- (4) a Restricted Payment that is permitted by the covenant described above under the caption “— Certain Covenants — Restricted Payments,” a Restricted Investment that is permitted by the covenant described above under the caption “— Certain Covenants — Investments” or a Permitted Investment;
- (5) the incurrence of Liens not prohibited by the CCH I Indenture and the disposition of assets related to such Liens by the secured party pursuant to a foreclosure; and
- (6) any disposition of cash or Cash Equivalents.

**“Attributable Debt”** in respect of a sale and leaseback transaction means, at the time of determination, the present value of the obligation of the lessee for net rental payments during the remaining term of the lease included in such sale and leaseback transaction, including any period for which such lease has been extended

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or may, at the option of the lessee, be extended. Such present value shall be calculated using a discount rate equal to the rate of interest implicit in such transaction, determined in accordance with GAAP.

**“Bankruptcy Law”** means Title 11, U.S. Code or any federal or state law of any jurisdiction relating to bankruptcy, insolvency, winding up, liquidation, reorganization or relief of debtors.

**“Beneficial Owner”** has the meaning assigned to such term in Rule 13d-3 and Rule 13d-5 under the Exchange Act, except that in calculating the beneficial ownership of any particular “person” (as such term is used in Section 13(d)(3) of the Exchange Act) such “person” shall be deemed to have beneficial ownership of all securities that such “person” has the right to acquire, whether such right is currently exercisable or is exercisable only upon the occurrence of a subsequent condition.

**“Board of Directors”** means the board of directors or comparable governing body of CCI or, if so specified, CCH I, in either case, as constituted as of the date of any determination required to be made, or action required to be taken, pursuant to the CCH I Indenture.

**“Cable Related Business”** means the business of owning cable television systems and businesses ancillary, complementary or related thereto.

**“Capital Lease Obligation”** means, at the time any determination thereof is to be made, the amount of the liability in respect of a capital lease that would at that time be required to be capitalized on a balance sheet in accordance with GAAP.

**“Capital Stock”** means:

- (1) in the case of a corporation, corporate stock;
- (2) in the case of an association or business entity, any and all shares, interests, participations, rights or other equivalents (however designated) of corporate stock;
- (3) in the case of a partnership or limited liability company, partnership or membership interests (whether general or limited); and
- (4) any other interest (other than any debt obligation) or participation that confers on a Person the right to receive a share of the profits and losses of, or distributions of assets of, the issuing Person.

**“Capital Stock Sale Proceeds”** means the aggregate net proceeds (including the fair market value of the non-cash proceeds, as determined by an independent appraisal firm) received by CCH I from and after the Issue Date, in each case

(x) as a contribution to the common equity capital or from the issue or sale of Equity Interests (other than Disqualified Stock and other than issuances or sales to a Subsidiary of CCH I) of CCH I after the Issue Date, or

(y) from the issue or sale of convertible or exchangeable Disqualified Stock or convertible or exchangeable debt securities of CCH I that have been converted into or exchanged for such Equity Interests (other than Equity Interests (or Disqualified Stock or debt securities) sold to a Subsidiary of CCH I).

**“Cash Equivalents”** means:

- (1) United States dollars;
- (2) securities issued or directly and fully guaranteed or insured by the United States government or any agency or instrumentality thereof (provided that the full faith and credit of the United States is pledged in support thereof) having maturities of not more than twelve months from the date of acquisition;
- (3) certificates of deposit and eurodollar time deposits with maturities of twelve months or less from the date of acquisition, bankers’ acceptances with maturities not exceeding six months and overnight

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bank deposits, in each case, with any domestic commercial bank having combined capital and surplus in excess of \$500 million and a Thompson Bank Watch Rating at the time of acquisition of “B” or better;

(4) repurchase obligations with a term of not more than seven days for underlying securities of the types described in clauses (2) and (3) above entered into with any financial institution meeting the qualifications specified in clause (3) above;

(5) commercial paper having a rating at the time of acquisition of at least “P-1” from Moody’s or at least “A-1” from S&P and in each case maturing within twelve months after the date of acquisition;

(6) corporate debt obligations maturing within twelve months after the date of acquisition thereof, rated at the time of acquisition at least “Aaa” or “P-1” by Moody’s or “AAA” or “A-1” by S&P;

(7) auction-rate Preferred Stocks of any corporation maturing not later than 45 days after the date of acquisition thereof, rated at the time of acquisition at least “Aaa” by Moody’s or “AAA” by S&P;

(8) securities issued by any state, commonwealth or territory of the United States, or by any political subdivision or taxing authority thereof, maturing not later than six months after the date of acquisition thereof, rated at the time of acquisition at least “A” by Moody’s or S&P; and

(9) money market or mutual funds at least 90% of the assets of which constitute Cash Equivalents of the kinds described in clauses (1) through (8) of this definition.

“**CCH I**” means CCH I, LLC, a Delaware limited liability company, and any successor Person thereto.

“**CCH II**” means CCH II, LLC, a Delaware limited liability company, and any successor Person thereto.

“**CCI**” means Charter Communications, Inc., a Delaware corporation, and any successor Person thereto.

“**CCI Indentures**” means, collectively, the indentures entered into by CCI with respect to its 4.75% Convertible Senior Notes due 2006, its 5.875% Convertible Senior Notes due 2009, and any indentures, note purchase agreements or similar documents entered into by CCI for the purpose of incurring Indebtedness in exchange for, or the proceeds of which are used to refinance, any of the Indebtedness described above, in each case, together with all instruments and other agreements entered into by CCI in connection therewith, as any of the foregoing may be refinanced, replaced, amended, supplemented or otherwise modified from time to time.

“**CCO**” means Charter Communications Operating, LLC, a Delaware limited liability company, and any successor Person thereto.

“**CCO Holdings**” means CCO Holdings, LLC, a Delaware limited liability company, and any successor Person thereto.

“**Change of Control**” means the occurrence of any of the following:

(1) the sale, transfer, conveyance or other disposition (other than by way of merger or consolidation), in one or a series of related transactions, of all or substantially all of the assets of CCH I and its Subsidiaries, taken as a whole, or of a Parent and its Subsidiaries, taken as a whole, to any “person” (as such term is used in Section 13(d)(3) of the Exchange Act) other than Paul G. Allen and the Related Parties;

(2) the adoption of a plan relating to the liquidation or dissolution of CCH I or a Parent (except the liquidation of any Parent into any other Parent);

(3) the consummation of any transaction, including, without limitation, any merger or consolidation, the result of which is that any “person” (as defined above) other than Paul G. Allen and Related Parties becomes the Beneficial Owner, directly or indirectly, of more than 35% of the Voting Stock of CCH I or a Parent, measured by voting power rather than the number of shares, unless Paul G. Allen or a Related Party Beneficially Owns, directly or indirectly, a greater percentage of Voting Stock of CCH I or such Parent, as the case may be, measured by voting power rather than the number of shares, than such person;

(4) after the Issue Date, the first day on which a majority of the members of the Board of Directors of CCI are not Continuing Directors;

(5) CCH I or a Parent consolidates with, or merges with or into, any Person, or any Person consolidates with, or merges with or into, CCH I or a Parent, in any such event pursuant to a transaction in which any of the outstanding Voting Stock of CCH I or such Parent is converted into or exchanged for cash, securities or other property, other than any such transaction where the Voting Stock of CCH I or such Parent outstanding immediately prior to such transaction is converted into or exchanged for Voting Stock (other than Disqualified Stock) of the surviving or transferee Person constituting a majority of the outstanding shares of such Voting Stock of such surviving or transferee Person immediately after giving effect to such issuance; or

(6) (i) Charter Communications Holdings Company, LLC shall cease to own beneficially, directly or indirectly, 100% of the Capital Stock of Charter Holdings or (ii) Charter Holdings shall cease to own beneficially, directly or indirectly, 100% of the Capital Stock of CCH I.

**“Charter Holdings”** means Charter Communications Holdings, LLC, a Delaware limited liability company, and any successor Person thereto.

**“Charter Holdings Indentures”** means, collectively (a) the indentures entered into by Charter Holdings and Charter Communications Holdings Capital Corp. in connection with the issuance of the 8.250% Senior Notes Due 2007 dated March 1999, 8.625% Senior Notes Due 2009 dated March 1999, 9.920% Senior Discount Notes Due 2011 dated March 1999, 10.00% Senior Notes Due 2009 dated January 2000, 10.250% Senior Notes Due 2010 dated January 2000, 11.750% Senior Discount Notes Due 2010 dated January 2000, 10.75% Senior Notes Due 2009 dated January 2001, 11.125% Senior Notes Due 2011 dated January 2001, 13.50% Senior Discount Notes Due 2011 dated January 2001, 9.625% Senior Notes Due 2009 dated May 2001, 10.00% Senior Notes Due 2011 dated May 2001, 11.750% Senior Discount Notes Due 2011 dated May 2001, 9.625% Senior Notes Due 2009 dated January 2002, 10.00% Senior Notes Due 2011 dated January 2002 and 12.125% Senior Discount Notes due 2012 dated January 2002, and (b) any indentures, note purchase agreements or similar documents entered into by Charter Holdings and/or Charter Communications Holdings Capital Corp. on or after the Issue Date for the purpose of incurring Indebtedness in exchange for, or the proceeds of which are used to refinance, any of the Indebtedness described in the foregoing clause (a), in each case, together with all instruments and other agreements entered into by Charter Holdings or Charter Communications Holdings Capital Corp. in connection therewith, as the same may be refinanced, replaced, amended, supplemented or otherwise modified from time to time.

**“Charter Refinancing Indebtedness”** means any Indebtedness of a Charter Refinancing Subsidiary issued in exchange for, or the net proceeds of which are used within 90 days after the date of issuance thereof to extend, refinance, renew, replace, defease, purchase, acquire or refund (including successive extensions, refinancings, renewals, replacements, defeasances, purchases, acquisitions or refunds), Indebtedness initially incurred under any one or more of the CCI Indentures, the Charter Holdings Indentures, the CIH Indenture or the CCH I Indenture; *provided that*:

(1) the principal amount (or accreted value, if applicable) of such Charter Refinancing Indebtedness does not exceed the principal amount (or accreted value, if applicable) of, plus accrued interest and premium, if any, on the Indebtedness so extended, refinanced, renewed, replaced, defeased, purchased, acquired or refunded (plus the amount of reasonable fees, commissions and expenses incurred in connection therewith); and

(2) such Charter Refinancing Indebtedness has a final maturity date later than the final maturity date of, and has a Weighted Average Life to Maturity equal to or greater than the Weighted Average Life to Maturity of, the Indebtedness being extended, refinanced, renewed, replaced, defeased, purchased, acquired or refunded.

**“Charter Refinancing Subsidiary”** means any direct or indirect, wholly owned Subsidiary (and any related corporate co-obligor if such Subsidiary is a limited liability company or other association not taxed as a corporation) of CCI or Charter Communications Holding Company, LLC, which is or becomes a Parent.

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“**CIH**” means CCH I Holdings, LLC, a Delaware limited liability company, and any successor Person thereto.

“**CIH Indenture**” means, collectively (a) the indenture pursuant to which the CIH Notes are issued and (b) any indentures, note purchase agreements or similar documents entered into by CIH and/or CCH I Holdings Capital Corp. on or after the Issue Date for the purpose of incurring Indebtedness in exchange for, or the proceeds of which are used to refinance, any of the Indebtedness outstanding under the CIH Indenture described in the foregoing clause (a), in each case, together with all instruments and other agreements entered into by CIH or CCH I Holdings Capital Corp. in connection therewith, as the same may be refinanced, replaced, amended, supplemented or otherwise modified from time to time.

“**CIH Notes**” means each of the following series of notes issued by CIH and CCH I Holdings Capital Corp.: The 11.125% Senior Notes Due 2014, the 9.920% Senior Notes Due 2014, the 10.00% Senior Notes Due 2014, the 11.75% Senior Accreting Notes Due 2014, the 13.50% Senior Accreting Notes Due 2014, and the 12.125% Senior Accreting Notes Due 2015.

“**Collateral**” has the meaning given it in the section above entitled “Security — Assets Pledged as Collateral.”

“**Consolidated EBITDA**” means with respect to any Person, for any period, the consolidated net income (or net loss) of such Person and its Restricted Subsidiaries for such period calculated in accordance with GAAP plus, to the extent such amount was deducted in calculating such net income:

(1) Consolidated Interest Expense;

(2) income taxes;

(3) depreciation expense;

(4) amortization expense;

(5) all other non-cash items, extraordinary items and nonrecurring and unusual items (including without limitation any restructuring charges and charges related to litigation settlements or judgments) and the cumulative effects of changes in accounting principles reducing such net income, less all noncash items, extraordinary items, nonrecurring and unusual items and cumulative effects of changes in accounting principles increasing such net income;

(6) amounts actually paid during such period pursuant to a deferred compensation plan; and

(7) for purposes of the covenant described above under the caption “— Incurrence of Indebtedness and Issuance of Preferred Stock,” Management Fees;

all as determined on a consolidated basis for such Person and its Restricted Subsidiaries in conformity with GAAP, *provided* that Consolidated EBITDA shall not include:

(x) the net income (or net loss) of any Person that is not a Restricted Subsidiary (“Other Person”), except

(i) with respect to net income, to the extent of the amount of dividends or other distributions actually paid to such Person or any of its Restricted Subsidiaries by such Other Person during such period; and

(ii) with respect to net losses, to the extent of the amount of investments made by such Person or any Restricted Subsidiary of such Person in such Other Person during such period;

(y) solely for the purposes of calculating the amount of Restricted Payments that may be made pursuant to the second clause (3) in the first paragraph of the covenant described under the caption “— Certain Covenants — Restricted Payments” (and in such case, except to the extent includable pursuant to clause (x) above), the net income (or net loss) of any Other Person accrued prior to the date it becomes a Restricted Subsidiary or is merged into or consolidated with such Person or any Restricted



Subsidiaries or all or substantially all of the property and assets of such Other Person are acquired by such Person or any of its Restricted Subsidiaries; and

(z) the net income of any Restricted Subsidiary of CCH I to the extent that the declaration or payment of dividends or similar distributions by such Restricted Subsidiary of such net income is not at the time of determination of such Consolidated EBITDA permitted by the operation of the terms of such Restricted Subsidiary's charter or any agreement, instrument, judgment, decree, order, statute, rule or governmental regulation applicable to such Restricted Subsidiary (other than any agreement or instrument evidencing Indebtedness or Preferred Stock (i) outstanding on the Issue Date or (ii) incurred or issued thereafter in compliance with the covenant described under the caption “— Certain Covenants — Incurrence of Indebtedness and Issuance of Preferred Stock”; *provided* that (a) the terms of any such agreement or instrument (other than Existing Indebtedness and any modifications, increases or refinancings that are not materially more restrictive taken as a whole) restricting the declaration and payment of dividends or similar distributions apply only in the event of a default with respect to a financial covenant or a covenant relating to payment, beyond any applicable period of grace, contained in such agreement or instrument; (b) such terms are determined by such Person to be customary in comparable financings; and (c) such restrictions are determined by CCH I not to materially affect the CCH I Issuers' ability to make principal or interest payments on the applicable CCH I Notes when due).

**“Consolidated Indebtedness”** means, with respect to any Person as of any date of determination, the sum, without duplication, of:

(1) the total amount of outstanding Indebtedness of such Person and its Restricted Subsidiaries, plus

(2) the total amount of Indebtedness of any other Person that has been Guaranteed by the referent Person or one or more of its Restricted Subsidiaries, plus

(3) the aggregate liquidation value of all Disqualified Stock of such Person and all Preferred Stock of Restricted Subsidiaries of such Person, in each case, determined on a consolidated basis in accordance with GAAP.

**“Consolidated Interest Expense”** means, with respect to any Person for any period, without duplication, the sum of:

(1) the consolidated interest expense of such Person and its Restricted Subsidiaries for such period, whether paid or accrued (including, without limitation, amortization or original issue discount, non-cash interest payments, the interest component of any deferred payment obligations, the interest component of all payments associated with Capital Lease Obligations, commissions, discounts and other fees and charges incurred in respect of letter of credit or bankers' acceptance financings, and net payments (if any) pursuant to Hedging Obligations); and

(2) the consolidated interest expense of such Person and its Restricted Subsidiaries that was capitalized during such period; and

(3) any interest expense on Indebtedness of another Person that is guaranteed by such Person or one of its Restricted Subsidiaries or secured by a Lien on assets of such Person or one of its Restricted Subsidiaries (whether or not such Guarantee or Lien is called upon);

in each case, on a consolidated basis and in accordance with GAAP, excluding, however, any amount of such interest of any Restricted Subsidiary of the referent Person if the net income of such Restricted Subsidiary is excluded in the calculation of Consolidated EBITDA pursuant to clause (z) of the definition thereof (but only in the same proportion as the net income of such Restricted Subsidiary is excluded from the calculation of Consolidated EBITDA pursuant to clause (z) of the definition thereof).

**“Continuing Directors”** means, as of any date of determination, any member of the Board of Directors of CCI who:

(1) was a member of the Board of Directors of CCI on the Issue Date; or

(2) was nominated for election or elected to the Board of Directors of CCI with the approval of a majority of the Continuing Directors who were members of such Board of Directors of CCI at the time of such nomination or election or whose election or appointment was previously so approved.

**“Credit Facilities”** means, with respect to CCH I and/or its Restricted Subsidiaries, one or more debt facilities or commercial paper facilities, in each case with banks or other lenders (other than a Parent of the Issuers) providing for revolving credit loans, term loans, receivables financing (including through the sale of receivables to such lenders or to special purpose entities formed to borrow from such lenders against such receivables) or letters of credit, in each case, as amended, restated, modified, renewed, refunded, replaced or refinanced in whole or in part from time to time.

**“Default”** means any event that is, or with the passage of time or the giving of notice or both would be, an Event of Default.

**“Disposition”** means, with respect to any Person, any merger, consolidation or other business combination involving such Person (whether or not such Person is the Surviving Person) or the sale, assignment, transfer, lease or conveyance, or other disposition of all or substantially all of such Person’s assets or Capital Stock.

**“Disqualified Stock”** means any Capital Stock that, by its terms (or by the terms of any security into which it is convertible, or for which it is exchangeable, in each case at the option of the holder thereof) or upon the happening of any event, matures or is mandatorily redeemable, pursuant to a sinking fund obligation or otherwise, or redeemable at the option of the holder thereof, in whole or in part, on or prior to the date that is 91 days after the date on which the CCH I Notes mature. Notwithstanding the preceding sentence, any Capital Stock that would constitute Disqualified Stock solely because the holders thereof have the right to require CCH I to repurchase such Capital Stock upon the occurrence of a change of control or an asset sale shall not constitute Disqualified Stock if the terms of such Capital Stock provide that CCH I may not repurchase or redeem any such Capital Stock pursuant to such provisions unless such repurchase or redemption complies with the covenant described above under the caption “— Certain Covenants — Restricted Payments.”

**“Equity Interests”** means Capital Stock and all warrants, options or other rights to acquire Capital Stock (but excluding any debt security that is convertible into, or exchangeable for, Capital Stock).

**“Equity Offering”** means any private or underwritten public offering of Qualified Capital Stock of CCH I or a Parent of which the gross proceeds to CCH I or received by CCH I as a capital contribution from such Parent (directly or indirectly), as the case may be, are at least \$25 million.

**“Exchange Offers”** means:

(1) the acquisition by CIH and CCH I of Indebtedness outstanding under the Charter Holdings Indentures, in exchange for CIH Notes and CCH I Notes, pursuant to the Offering Memorandum dated August 23, 2005 and related documents, as such documents may be supplemented, modified, extended or amended from time to time; and

(2) the distribution, loan or investment of (a) Indebtedness accepted in exchange for CIH Notes or CCH I Notes as contemplated by clause (1) of this definition, and (b) amounts sufficient to satisfy the expenses incurred by any Parent in connection therewith (including any required payment of accrued interest thereon), in each case, directly or indirectly to or in any Parent;

provided, that any such Indebtedness referred to in clauses (1) and (2) of this definition has been cancelled as part of the Exchange Offers.

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**“Existing Indebtedness”** means Indebtedness of CCH I and its Restricted Subsidiaries in existence on the Issue Date, until such amounts are repaid.

**“GAAP”** means generally accepted accounting principles set forth in the opinions and pronouncements of the Accounting Principles Board of the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board or in such other statements by such other entity as have been approved by a significant segment of the accounting profession, which are in effect on the Issue Date.

**“Guarantee”** or “guarantee” means a guarantee other than by endorsement of negotiable instruments for collection in the ordinary course of business, direct or indirect, in any manner including, without limitation, by way of a pledge of assets or through letters of credit or reimbursement agreements in respect thereof, of all or any part of any Indebtedness, measured as the lesser of the aggregate outstanding amount of the Indebtedness so guaranteed and the face amount of the guarantee.

**“Hedging Obligations”** means, with respect to any Person, the obligations of such Person under:

- (1) interest rate swap agreements, interest rate cap agreements and interest rate collar agreements;
- (2) interest rate option agreements, foreign currency exchange agreements, foreign currency swap agreements; and
- (3) other agreements or arrangements designed to protect such Person against fluctuations in interest and currency exchange rates.

**“Helicon Preferred Stock”** means the preferred limited liability company interest of Charter-Helicon LLC with an aggregate liquidation value of \$25 million.

**“Indebtedness”** means, with respect to any specified Person, any indebtedness of such Person, whether or not contingent:

- (1) in respect of borrowed money;
- (2) evidenced by bonds, notes, debentures or similar instruments or letters of credit (or reimbursement agreements in respect thereof);
- (3) in respect of banker’s acceptances;
- (4) representing Capital Lease Obligations;
- (5) in respect of the balance deferred and unpaid of the purchase price of any property, except any such balance that constitutes an accrued expense or trade payable; or
- (6) representing the notional amount of any Hedging Obligations,

if and to the extent any of the preceding items (other than letters of credit and Hedging Obligations) would appear as a liability upon a balance sheet of the specified Person prepared in accordance with GAAP. In addition, the term “Indebtedness” includes all Indebtedness of others secured by a Lien on any asset of the specified Person (whether or not such Indebtedness is assumed by the specified Person) and, to the extent not otherwise included, the guarantee by such Person of any indebtedness of any other Person.

The amount of any Indebtedness outstanding as of any date shall be:

- (1) the accreted value thereof, in the case of any Indebtedness issued with original issue discount; and
- (2) the principal amount thereof, together with any interest thereon that is more than 30 days past due, in the case of any other Indebtedness.

**“Investment Grade Rating”** means a rating equal to or higher than Baa3 (or the equivalent) by Moody’s and BBB- (or the equivalent) by S&P.

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**“Investments”** means, with respect to any Person, all investments by such Person in other Persons, including Affiliates, in the forms of direct or indirect loans (including guarantees of Indebtedness or other obligations), advances or capital contributions (excluding commission, travel and similar advances to officers and employees made in the ordinary course of business) and purchases or other acquisitions for consideration of Indebtedness, Equity Interests or other securities, together with all items that are or would be classified as investments on a balance sheet prepared in accordance with GAAP.

**“Issue Date”** means September 28, 2005.

**“Leverage Ratio”** means, as to CCH I, as of any date, the ratio of:

(1) the Consolidated Indebtedness of CCH I on such date to

(2) the aggregate amount of Consolidated EBITDA for CCH I for the most recently ended fiscal quarter for which internal financial statements are available (the “Reference Period”), multiplied by four.

In addition to the foregoing, for purposes of this definition, “Consolidated EBITDA” shall be calculated on a pro forma basis after giving effect to

(1) the issuance of the CCH I Notes;

(2) the incurrence of the Indebtedness or the issuance of the Disqualified Stock by CCH I or a Restricted Subsidiary or Preferred Stock of a Restricted Subsidiary (and the application of the proceeds therefrom) giving rise to the need to make such calculation and any incurrence or issuance (and the application of the proceeds therefrom) or repayment of other Indebtedness, Disqualified Stock or Preferred Stock of a Restricted Subsidiary, other than the incurrence or repayment of Indebtedness for ordinary working capital purposes, at any time subsequent to the beginning of the Reference Period and on or prior to the date of determination, as if such incurrence (and the application of the proceeds thereof), or the repayment, as the case may be, occurred on the first day of the Reference Period; and

(3) any Dispositions or Asset Acquisitions (including, without limitation, any Asset Acquisition giving rise to the need to make such calculation as a result of such Person or one of its Restricted Subsidiaries (including any person that becomes a Restricted Subsidiary as a result of such Asset Acquisition) incurring, assuming or otherwise becoming liable for or issuing Indebtedness, Disqualified Stock or Preferred Stock) made on or subsequent to the first day of the Reference Period and on or prior to the date of determination, as if such Disposition or Asset Acquisition (including the incurrence, assumption or liability for any such Indebtedness, Disqualified Stock or Preferred Stock and also including any Consolidated EBITDA associated with such Asset Acquisition, including any cost savings adjustments in compliance with Regulation S-X promulgated by the SEC) had occurred on the first day of the Reference Period.

**“Lien”** means, with respect to any asset, any mortgage, lien, pledge, charge, security interest or encumbrance of any kind in respect of such asset, whether or not filed, recorded or otherwise perfected under applicable law, including any conditional sale or other title retention agreement, any lease in the nature thereof, any option or other agreement to sell or give a security interest in and any filing of or agreement to give any financing statement under the Uniform Commercial Code (or equivalent statutes) of any jurisdiction.

**“Management Fees”** means the fees (including expense reimbursements) payable to any Parent pursuant to the management and mutual services agreements between any Parent of CCH I and CCO or between any Parent of CCH I and other Restricted Subsidiaries of CCH I or pursuant to the limited liability company agreements of certain Restricted Subsidiaries as such management, mutual services or limited liability company agreements exist on the Issue Date (or, if later, on the date any new Restricted Subsidiary is acquired or created), including any amendment or replacement thereof, *provided*, that any such new agreements or amendments or replacements of existing agreements, taken as a whole, are not more disadvantageous to the holders of the CCH I Notes in any material respect than such agreements existing on the Issue Date and *further provided*, that such new, amended or replacement management agreements do not

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provide for percentage fees, taken together with fees under existing agreements, any higher than 3.5% of CCI's consolidated total revenues for the applicable payment period.

**“Moody’s”** means Moody’s Investors Service, Inc. or any successor to the rating agency business thereof.

**“Net Proceeds”** means the aggregate cash proceeds received by CCH I or any of its Restricted Subsidiaries in respect of any Asset Sale (including, without limitation, any cash received upon the sale or other disposition of any non-cash consideration received in any Asset Sale), net of the direct costs relating to such Asset Sale, including, without limitation, legal, accounting and investment banking fees, and sales commissions, and any relocation expenses incurred as a result thereof or taxes paid or payable as a result thereof (including amounts distributable in respect of owners’, partners’ or members’ tax liabilities resulting from such sale), in each case after taking into account any available tax credits or deductions and any tax sharing arrangements and amounts required to be applied to the repayment of Indebtedness.

**“Non-Recourse Debt”** means Indebtedness:

(1) as to which neither CCH I nor any of its Restricted Subsidiaries

(a) provides credit support of any kind (including any undertaking, agreement or instrument that would constitute Indebtedness);

(b) is directly or indirectly liable as a guarantor or otherwise; or

(c) constitutes the lender;

(2) no default with respect to which (including any rights that the holders thereof may have to take enforcement action against an Unrestricted Subsidiary) would permit upon notice, lapse of time or both any holder of any other Indebtedness (other than the CCH I Notes) of CCH I or any of its Restricted Subsidiaries to declare a default on such other Indebtedness or cause the payment thereof to be accelerated or payable prior to its stated maturity; and

(3) as to which the lenders have been notified in writing that they will not have any recourse to the Capital Stock or assets of CCH I or any of its Restricted Subsidiaries.

**“Note Guarantee”** means the unconditional Guarantee by the Parent Guarantor of the CCH I Issuers’ payment Obligations under the CCH I Notes.

**“Obligations”** means any principal, interest, penalties, fees, indemnifications, reimbursements, damages, Guarantees and other liabilities payable under the documentation governing any Indebtedness, in each case, whether now or hereafter existing, renewed or restructured, whether or not from time to time decreased or extinguished and later increased, created or incurred, whether or not arising on or after the commencement of a case under Title 11, U.S. Code or any similar federal or state law for the relief of debtors (including post-petition interest) and whether or not allowed or allowable as a claim in any such case.

**“Parent”** means CIH, Charter Holdings, Charter Communications Holding Company, LLC, CCI and/or any direct or indirect Subsidiary of the foregoing 100% of the Capital Stock of which is owned directly or indirectly by one or more of the foregoing Persons, as applicable, and that directly or indirectly beneficially owns 100% of the Capital Stock of CCH I, and any successor Person to any of the foregoing.

**“Parent Guarantor”** means Charter Holdings.

**“Pari Passu Secured Indebtedness”** is defined in the section above entitled “Security — Pari Passu Secured Indebtedness.”

**“Permitted Investments”** means:

(1) any Investment by CCH I in a Restricted Subsidiary thereof, or any Investment by a Restricted Subsidiary of CCH I in CCH I or in another Restricted Subsidiary of CCH I;

(2) any Investment in Cash Equivalents;

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(3) any Investment by CCH I or any of its Restricted Subsidiaries in a Person, if as a result of such Investment:

(a) such Person becomes a Restricted Subsidiary of CCH I; or

(b) such Person is merged, consolidated or amalgamated with or into, or transfers or conveys substantially all of its assets to, or is liquidated into, CCH I or a Restricted Subsidiary of CCH I;

(4) any Investment made as a result of the receipt of non-cash consideration from an Asset Sale that was made pursuant to and in compliance with the covenant described above under the caption “— Repurchase at the Option of Holders — Asset Sales”;

(5) any Investment made out of the net cash proceeds of the issue and sale (other than to a Subsidiary of CCH I) of Equity Interests (other than Disqualified Stock) or cash contributions to the common equity of CCH I, in each case after the Issue Date, to the extent that such net cash proceeds have not been applied to make a Restricted Payment or to effect other transactions pursuant to the covenant described under “Certain Covenants — Restricted Payments” (with the amount of usage of the basket in this clause (5) being determined net of the aggregate amount of principal, interest, dividends, distributions, repayments, proceeds or other value otherwise returned or recovered in respect of any such Investment, but not to exceed the initial amount of such Investment);

(6) other Investments in any Person (other than any Parent) having an aggregate fair market value when taken together with all other Investments in any Person made by CCH I and its Restricted Subsidiaries (without duplication) pursuant to this clause (6) from and after the Issue Date, not to exceed \$750 million (initially measured on the date each such Investment was made and without giving effect to subsequent changes in value, but reducing the amount outstanding by the aggregate amount of principal, interest, dividends, distributions, repayments, proceeds or other value otherwise returned or recovered in respect of any such Investment, but not to exceed the initial amount of such Investment) at any one time outstanding;

(7) Investments in customers and suppliers in the ordinary course of business which either

(A) generate accounts receivable, or

(B) are accepted in settlement of bona fide disputes;

(8) Investments consisting of payments by CCH I or any of its subsidiaries of amounts that are neither dividends nor distributions but are payments of the kind described in clause (4) of the second paragraph of the covenant described above under the caption “— Certain Covenants — Restricted Payments” to the extent such payments constitute Investments;

(9) regardless of whether a Default then exists, Investments in any Unrestricted Subsidiary made by CCH I and/or any of its Restricted Subsidiaries with the proceeds of distributions from any Unrestricted Subsidiary; and

(10) Investments that are part of the Exchange Offers.

“**Permitted Liens**” means:

(1) Liens on the assets of CCH I securing Pari Passu Secured Indebtedness, *provided* any such Liens rank equally and ratably with the Lien securing the Obligations under the CCH I Notes;

(2) Liens on property of a Person existing at the time such Person is merged with or into or consolidated with CCH I; *provided* that such Liens were in existence prior to the contemplation of such merger or consolidation and do not extend to any assets other than those of the Person merged into or consolidated with CCH I and related assets, such as the proceeds thereof;

(3) Liens on property existing at the time of acquisition thereof by CCH I; *provided* that such Liens were in existence prior to the contemplation of such acquisition;

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- (4) Liens to secure the performance of statutory obligations, surety or appeal bonds, performance bonds or other obligations of a like nature incurred in the ordinary course of business;
- (5) purchase money mortgages or other purchase money Liens (including, without limitation, any Capitalized Lease Obligations) incurred by CCH I upon any fixed or capital assets acquired after the Issue Date or purchase money mortgages (including, without limitation, Capital Lease Obligations) on any such assets, whether or not assumed, existing at the time of acquisition of such assets, whether or not assumed, so long as
- (a) such mortgage or lien does not extend to or cover any of the assets of CCH I, except the asset so developed, constructed, or acquired, and directly related assets such as enhancements and modifications thereto, substitutions, replacements, proceeds (including insurance proceeds), products, rents and profits thereof, and
  - (b) such mortgage or lien secures the obligation to pay all or a portion of the purchase price of such asset, interest thereon and other charges, costs and expenses (including, without limitation, the cost of design, development, construction, acquisition, transportation, installation, improvement, and migration) and is incurred in connection therewith (or the obligation under such Capitalized Lease Obligation) only;
- (6) Liens existing on the Issue Date (other than on the Collateral) and replacement Liens therefore that do not encumber additional property;
- (7) Liens for taxes, assessments or governmental charges or claims that are not yet delinquent or that are being contested in good faith by appropriate proceedings promptly instituted and diligently concluded; *provided* that any reserve or other appropriate provision as shall be required in conformity with GAAP shall have been made therefore;
- (8) statutory and common law Liens of landlords and carriers, warehousemen, mechanics, suppliers, materialmen, repairmen or other similar Liens arising in the ordinary course of business and with respect to amounts not yet delinquent or being contested in good faith by appropriate legal proceedings promptly instituted and diligently conducted and for which a reserve or other appropriate provision, if any, as shall be required in conformity with GAAP shall have been made;
- (9) Liens incurred or deposits made in the ordinary course of business in connection with workers' compensation, unemployment insurance and other types of social security;
- (10) Liens incurred or deposits made to secure the performance of tenders, bids, leases, statutory or regulatory obligation, bankers' acceptance, surety and appeal bonds, government contracts, performance and return-of-money bonds and other obligations of a similar nature incurred in the ordinary course of business (exclusive of obligations for the payment of borrowed money);
- (11) easements, rights-of-way, municipal and zoning ordinances and similar charges, encumbrances, title defects or other irregularities that do not materially interfere with the ordinary course of business of CCH I or any of its Restricted Subsidiaries;
- (12) Liens of franchisors or other regulatory bodies arising in the ordinary course of business;
- (13) Liens arising from filing Uniform Commercial Code financing statements regarding leases or other Uniform Commercial Code financing statements for precautionary purposes relating to arrangements not constituting Indebtedness;
- (14) Liens arising from the rendering of a final judgment or order against CCH I or any of its Restricted Subsidiaries that does not give rise to an Event of Default;
- (15) Liens securing reimbursement obligations with respect to letters of credit that encumber documents and other property relating to such letters of credit and the products and proceeds thereof;
- (16) Liens encumbering customary initial deposits and margin deposits, and other Liens that are within the general parameters customary in the industry and incurred in the ordinary course of business,

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in each case, securing Indebtedness under Hedging Obligations and forward contracts, options, future contracts, future options or similar agreements or arrangements designed solely to protect CCH I or any of its Restricted Subsidiaries from fluctuations in interest rates, currencies or the price of commodities;

(17) Liens consisting of any interest or title of licensor in the property subject to a license;

(18) Liens on the Capital Stock of Unrestricted Subsidiaries;

(19) Liens arising from sales or other transfers of accounts receivable which are past due or otherwise doubtful of collection in the ordinary course of business;

(20) Liens incurred in the ordinary course of business of CCH I and its Restricted Subsidiaries with respect to obligations which in the aggregate do not exceed \$50 million at any one time outstanding;

(21) Liens in favor of the trustee arising under the CCH I Indenture and similar provisions in favor of trustees or other agents or representatives under indentures or other agreements governing debt instruments entered into after the date hereof;

(22) Liens in favor of the trustee for its benefit and the benefit of holders of the CCH I Notes, as their respective interests appear; and

(23) Liens securing Permitted Refinancing Indebtedness, to the extent that the Indebtedness being refinanced was secured or was permitted to be secured by such Liens.

**“Permitted Refinancing Indebtedness”** means any Indebtedness of CCH I or any of its Restricted Subsidiaries issued in exchange for, or the net proceeds of which are used within 60 days after the date of issuance thereof to extend, refinance, renew, replace, defease or refund, other Indebtedness of CCH I or any of its Restricted Subsidiaries (other than intercompany Indebtedness); *provided* that unless permitted otherwise by the CCH I Indenture, no Indebtedness of any Restricted Subsidiary may be issued in exchange for, nor may the net proceeds of Indebtedness be used to extend, refinance, renew, replace, defease or refund, Indebtedness of CCH I; *provided further* that:

(1) the principal amount (or accreted value, if applicable) of such Permitted Refinancing Indebtedness does not exceed the principal amount of (or accreted value, if applicable) plus accrued interest and premium, if any, on the Indebtedness so extended, refinanced, renewed, replaced, defeased or refunded (plus the amount of reasonable expenses incurred in connection therewith), except to the extent that any such excess principal amount (or accreted value, as applicable) would be then permitted to be incurred by other provisions of the covenant described above under the caption “— Certain Covenants — Incurrence of Indebtedness and Issuance of Preferred Stock”;

(2) such Permitted Refinancing Indebtedness has a final maturity date later than the final maturity date of, and has a Weighted Average Life to Maturity equal to or greater than the Weighted Average Life to Maturity of, the Indebtedness being extended, refinanced, renewed, replaced, defeased or refunded; and

(3) if the Indebtedness being extended, refinanced, renewed, replaced, defeased or refunded is subordinated in right of payment to the CCH I Notes, such Permitted Refinancing Indebtedness has a final maturity date later than the final maturity date of, and is subordinated in right of payment to, the CCH I Notes on terms at least as favorable to the holders of CCH I Notes as those contained in the documentation governing the Indebtedness being extended, refinanced, renewed, replaced, defeased or refunded.

**“Person”** means any individual, corporation, partnership, joint venture, association, limited liability company, joint stock company, trust, unincorporated organization, government or agency or political subdivision thereof or any other entity.

**“Pledge Agreement”** means the pledge agreement creating the security interest in favor of the trustee for the benefit of the holders of the Notes and any Pari Passu Secured Indebtedness in the Collateral, as amended from time to time in accordance with the terms thereof.



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**“Preferred Stock,”** as applied to the Capital Stock of any Person, means Capital Stock of any class or classes (however designated) which, by its terms, is preferred as to the payment of dividends, or as to the distribution of assets upon any voluntary or involuntary liquidation or dissolution of such Person, over shares of Capital Stock of any other class of such Person.

**“Productive Assets”** means assets (including assets of a Person owned directly or indirectly through ownership of Capital Stock) of a kind used or useful in the Cable Related Business.

**“Qualified Capital Stock”** means any Capital Stock that is not Disqualified Stock.

**“Rating Agencies”** means Moody’s and S&P.

**“Related Party”** means: (1) the spouse or an immediate family member, estate or heir of Paul G. Allen; or (2) any trust, corporation, partnership or other entity, the beneficiaries, stockholders, partners, owners or Persons beneficially holding an 80% or more controlling interest of which consist of Paul G. Allen and/or such other Persons referred to in the immediately preceding clause (1).

**“Restricted Investment”** means an Investment other than a Permitted Investment.

**“Restricted Subsidiary”** of a Person means any Subsidiary of the referent Person that is not an Unrestricted Subsidiary.

**“S&P”** means Standard & Poor’s Ratings Service, a division of the McGraw-Hill Companies, Inc. or any successor to the rating agency business thereof.

**“SEC”** means the Securities and Exchange Commission.

**“Secured Parties”** has the meaning given to it in the section above entitled “Security — Certain Limitations on Remedies, etc.”

**“Significant Subsidiary”** means (a) with respect to any Person, any Restricted Subsidiary of such Person which would be considered a “Significant Subsidiary” as defined in Rule 1-02(w) of Regulation S-X under the Securities Act and (b) in addition, with respect to CCH I, CCH I Capital Corp.

**“Stated Maturity”** means, with respect to any installment of interest or principal on any series of Indebtedness, the date on which such payment of interest or principal was scheduled to be paid in the documentation governing such Indebtedness on the Issue Date, or, if none, the original documentation governing such Indebtedness, and shall not include any contingent obligations to repay, redeem or repurchase any such interest or principal prior to the date originally scheduled for the payment thereof.

**“Subsidiary”** means, with respect to any Person:

(1) any corporation, association or other business entity of which at least 50% of the total voting power of shares of Capital Stock entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof is at the time owned or controlled, directly or indirectly, by such Person or one or more of the other Subsidiaries of that Person (or a combination thereof) and, in the case of any such entity of which 50% of the total voting power of shares of Capital Stock is so owned or controlled by such Person or one or more of the other Subsidiaries of such Person, such Person and its Subsidiaries also have the right to control the management of such entity pursuant to contract or otherwise; and

(2) any partnership

(a) the sole general partner or the managing general partner of which is such Person or a Subsidiary of such Person, or

(b) the only general partners of which are such Person or one or more Subsidiaries of such Person (or any combination thereof).

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**“Unrestricted Subsidiary”** means any Subsidiary of CCH I that is designated by the Board of Directors of CCH I as an Unrestricted Subsidiary pursuant to a board resolution, but only to the extent that such Subsidiary:

(1) has no Indebtedness other than Non-Recourse Debt;

(2) is not party to any agreement, contract, arrangement or understanding with CCH I or any Restricted Subsidiary of CCH I unless the terms of any such agreement, contract, arrangement or understanding are no less favorable to CCH I or such Restricted Subsidiary of CCH I than those that might be obtained at the time from Persons who are not Affiliates of CCH I unless such terms constitute Investments permitted by the covenant described above under the caption “— Certain Covenants — Investments,” Permitted Investments, Asset Sales permitted under the covenant described above under the caption “— Repurchase at the Option of the Holders — Asset Sales” or sale-leaseback transactions permitted by the covenant described above under the caption “— Certain Covenants — Sale and Leaseback Transactions”;

(3) is a Person with respect to which neither CCH I nor any of its Restricted Subsidiaries has any direct or indirect obligation

(a) to subscribe for additional Equity Interests or

(b) to maintain or preserve such Person’s financial condition or to cause such Person to achieve any specified levels of operating results;

(4) has not guaranteed or otherwise directly or indirectly provided credit support for any Indebtedness of CCH I or any of its Restricted Subsidiaries; and

(5) does not own any Capital Stock of any Restricted Subsidiary of CCH I.

Any designation of a Subsidiary of CCH I as an Unrestricted Subsidiary shall be evidenced to the trustee by filing with the trustee a certified copy of the board resolution giving effect to such designation and an officers’ certificate certifying that such designation complied with the preceding conditions and was permitted by the covenant described above under the caption “— Certain Covenants — Investments.” If, at any time, any Unrestricted Subsidiary would fail to meet the preceding requirements as an Unrestricted Subsidiary, it shall thereafter cease to be an Unrestricted Subsidiary for purposes of the CCH I Indenture and any Indebtedness of such Subsidiary shall be deemed to be incurred by a Restricted Subsidiary of CCH I as of such date and, if such Indebtedness is not permitted to be incurred as of such date under the covenant described under the caption “— Certain Covenants — Incurrence of Indebtedness and Issuance of Preferred Stock,” CCH I shall be in default of such covenant. The Board of Directors of CCH I may at any time designate any Unrestricted Subsidiary to be a Restricted Subsidiary; *provided* that such designation shall be deemed to be an incurrence of Indebtedness by a Restricted Subsidiary of any outstanding Indebtedness of such Unrestricted Subsidiary and such designation shall only be permitted if:

(1) such Indebtedness is permitted under the covenant described under the caption “— Certain Covenants — Incurrence of Indebtedness and Issuance of Preferred Stock,” calculated on a pro forma basis as if such designation had occurred at the beginning of the four-quarter reference period; and

(2) no Default or Event of Default would be in existence immediately following such designation.

**“Voting Stock”** of any Person as of any date means the Capital Stock of such Person that is at the time entitled to vote in the election of the board of directors or comparable governing body of such Person.

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**“Weighted Average Life to Maturity”** means, when applied to any Indebtedness at any date, the number of years obtained by dividing:

(1) the sum of the products obtained by multiplying

(a) the amount of each then remaining installment, sinking fund, serial maturity or other required payments of principal, including payment at final maturity, in respect thereof, by

(b) the number of years (calculated to the nearest one-twelfth) that will elapse between such date and the making of such payment; by

(2) the then outstanding principal amount of such Indebtedness.

**“Wholly Owned Restricted Subsidiary”** of any Person means a Restricted Subsidiary of such Person all of the outstanding common equity interests or other ownership interests of which (other than directors’ qualifying shares) shall at the time be owned by such Person and/or by one or more Wholly Owned Restricted Subsidiaries of such Person.

## DESCRIPTION OF THE CCH II NOTES

This description of Notes relates to the 10.25% senior notes due 2013 (the “CCH II Notes”) of CCH II, LLC and CCH II Capital Corp. For the purposes of this Description of the CCH II Notes, references to the CCH II Notes refer to the New CCH II Notes. We refer, in this Description of the CCH II Notes, to CCH II, LLC and CCH II Capital Corp., which are the co-obligors with respect to the CCH II Notes, as the “CCH II Issuers”, and we sometimes refer to them each as a “CCH II Issuer.” We may also refer to CCH II, LLC as “CCH II.” You can find the definitions of certain terms used in this description under the subheading “— Certain definitions.”

The CCH II Notes will be issued under the indenture, dated September 14, 2006 (the “CCH II Indenture”), among the CCH II Issuers, the Parent Guarantor and the Bank of New York Trust Company, NA, as trustee. The CCH II Notes will be issued on terms substantially identical to those of the notes originally issued under the CCH II Indenture (the “original notes”) and vote together as a single class on any matter submitted to Noteholders, except that the CCH II Notes will have a separate CUSIP number from the original notes and thus will not trade fungibly with the original notes. The new CCH II Notes offered hereby have been registered under the Securities Act of 1933 and, therefore, will not bear legends restricting their transfer. You will not be entitled to any exchange or registration rights with respect to the new CCH II Notes and the new CCH II Notes will not provide for additional interest in connection with registration defaults. For purposes of this description, except where the context otherwise requires, the term “CCH II Notes” shall refer collectively to the original notes and the CCH II Notes offered hereby. The terms of the CCH II Notes will include those stated in the CCH II Indenture and those made part of the CCH II Indenture by reference to the Trust Indenture Act of 1939.

The following description is a summary of the provisions we consider material of the CCH II Indenture. It does not restate that agreement in its entirety. We urge you to read the CCH II Indenture because it, and not this description, defines your rights as holders of the respective CCH II Notes. Copies of the CCH II Indenture are available as set forth under “— Additional Information.”

### Brief Description of the CCH II Notes and Note Guarantee

The CCH II Notes will be:

- senior unsecured obligations of the CCH II Issuers;
- effectively subordinated in right of payment to any future secured Indebtedness of the CCH II Issuers, to the extent of the value of the assets securing such Indebtedness;
- equal in right of payment to the CCH II Issuers’ 10.25% Senior Notes due 2010 and any other future unsubordinated, unsecured Indebtedness of the CCH II Issuers;
- structured to be effectively senior to the outstanding senior notes and senior discount notes of CCH I, CIH and Charter Holdings and the outstanding convertible senior notes of Charter Communications, Inc.;
- senior in right of payment to any future subordinated Indebtedness of the CCH II Issuers;
- structurally subordinated to all indebtedness and other liabilities (including trade payables) of the CCH II Issuers’ subsidiaries, including indebtedness under our subsidiaries’ credit facilities and the senior notes of CCO Holdings and CCO; and
- unconditionally guaranteed on a senior basis by the Parent Guarantor.

At June 30, 2006, on a pro forma basis to reflect the transactions set forth in “Unaudited Pro Forma Consolidated Financial Statements of Charter Holdings”, as if those transactions had occurred on that date, the total outstanding Indebtedness and other obligations of CCH II and its subsidiaries, reflected on its consolidated balance sheet, would have been approximately \$12.8 billion, of which approximately \$10.3 billion would have been Indebtedness and other liabilities of the CCH II Issuers’ Subsidiaries and, therefore, structurally senior to the CCH II Notes. Substantially all of the Subsidiaries of CCH II (except

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certain non-material Subsidiaries) are “Restricted Subsidiaries.” Under the circumstances described below under “— Certain Covenants — Investments,” CCH II will be permitted to designate additional Subsidiaries as “Unrestricted Subsidiaries.” Unrestricted Subsidiaries will generally not be subject to the restrictive covenants in the CCH II Indenture.

### **The Note Guarantee**

The CCH II Notes will be unconditionally guaranteed by the Parent Guarantor.

The Note Guarantee:

- is a general unsecured obligation of the Parent Guarantor;
- is *pari passu* in right of payment with all existing and future unsubordinated indebtedness of the Parent Guarantor, including the Charter Holdings notes that remained outstanding following consummation of the Exchange Offers; and
- is senior in right of payment to any existing and future subordinated indebtedness of the Parent Guarantor.

The restrictive covenants contained in the CCH II Indenture will apply to the CCH II Issuers and their Restricted Subsidiaries and not the Parent Guarantor.

### **Principal, Maturity and Interest**

The CCH II Notes will be issued in denominations of \$1,000 and integral multiples thereof. The CCH II Notes will mature on October 1, 2013.

Interest on the CCH II Notes will accrue at the rate of 10.25% per annum. Interest on the CCH II Notes will accrue at the rate of will accrue from and including September 14, 2006. Interest will be payable semi-annually in arrears on April 1 and October 1, commencing on April 1, 2007. The CCH II Issuers will make each interest payment to the holders of record of the CCH II Notes on the immediately preceding March 15 and September 15. Interest will be computed on the basis of a 360-day year comprised of twelve 30-day months.

The CCH II Notes were issued in an initial aggregate principal amount of \$250 million. Subject to the limitations set forth under “— Certain Covenants — Incurrence of Indebtedness and Issuance of Preferred Stock,” the Issuers may issue an unlimited principal amount of Additional CCH II Notes under the CCH II Indenture. The CCH II Notes and any Additional CCH II Notes subsequently issued under the CCH II Indenture would be treated as a single class of securities for all purposes of the CCH II Indenture. For purposes of this description, unless otherwise indicated, references to the CCH II Notes include any Additional CCH II Notes subsequently issued under the CCH II Indenture.

### **Optional Redemption**

At any time prior to October 1, 2009, the CCH II Issuers may, on any one or more occasions, redeem up to 35% of the aggregate principal amount of the CCH II Notes on a pro rata basis (or nearly as pro rata as practicable), at a redemption price of 110.25% of the principal amount thereof, plus accrued and unpaid interest to the redemption date, with the net cash proceeds of one or more Equity Offerings; provided that:

- (1) at least 65% of the aggregate principal amount of the CCH II Notes remain outstanding immediately after the occurrence of such redemption (excluding CCH II Notes held by the CCH II Issuers and their Subsidiaries), and
- (2) the redemption must occur within 60 days of the date of the closing of such Equity Offering.

Except pursuant to the preceding paragraph, the CCH II Notes will not be redeemable at the option of the CCH II Issuers prior to October 1, 2010.

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On or after October 1, 2010, the CCH II Issuers may redeem all or a part of the CCH II Notes upon not less than 30 nor more than 60 days notice, at the applicable redemption prices (expressed as percentages of the principal amount of the CCH II Notes) set forth below plus accrued and unpaid interest thereon, if any, to the applicable redemption date, if redeemed during the twelve-month period beginning on October 1 of the years indicated below:

<u>Year</u>	<u>Percentage</u>
2010	105.125%
2011	102.563%
2012 and thereafter	100.000%

## **Repurchase at the Option of Holders**

### *Change of Control*

If a Change of Control occurs, each holder of CCH II Notes will have the right to require the CCH II Issuers to repurchase all or any part (equal to \$1,000 in principal amount, or in either case an integral multiple thereof) of that holder's CCH II Notes pursuant to a "Change of Control Offer." In the Change of Control Offer, the CCH II Issuers will offer a "Change of Control Payment" in cash equal to 101% of the aggregate principal amount of the CCH II Notes repurchased plus accrued and unpaid interest thereon, if any, to the date of purchase.

Within ten days following any Change of Control, the Issuers will mail a notice to each holder (with a copy to the trustee) describing the transaction or transactions that constitute the Change of Control and offering to repurchase CCH II Notes on a certain date (the "Change of Control Payment Date") specified in such notice, pursuant to the procedures required by the CCH II Indenture and described in such notice. The CCH II Issuers will comply with the requirements of Rule 14e-1 under the Securities Exchange Act of 1934 or any successor rules, and any other securities laws and regulations thereunder to the extent such laws and regulations are applicable in connection with the repurchase of the CCH II Notes as a result of a Change of Control. To the extent that the provisions of any securities laws or regulations conflict with the provisions of this covenant, the CCH II Issuers' compliance with such laws and regulations shall not in and of itself cause a breach of their obligations under such covenant.

On the Change of Control Payment Date, the CCH II Issuers will, to the extent lawful:

- (1) accept for payment all CCH II Notes or portions thereof properly tendered pursuant to the Change of Control Offer;
- (2) deposit with the paying agent an amount equal to the Change of Control Payment in respect of all CCH II Notes or portions thereof so tendered; and
- (3) deliver or cause to be delivered to the trustee the CCH II Notes so accepted together with an officers' certificate stating the aggregate principal amount of CCH II Notes or portions thereof being purchased by the CCH II Issuers.

The paying agent will promptly mail to each holder of CCH II Notes so tendered the Change of Control Payment for such CCH II Notes, and the trustee will promptly authenticate and mail, or cause to be transferred by book entry, to each holder a new CCH II Note equal in principal amount to any unpurchased portion of the CCH II Notes surrendered, if any; provided that each such new CCH II Note will be in a principal amount of \$1,000 or an integral multiple thereof.

The provisions described above that require the CCH II Issuers to make a Change of Control Offer following a Change of Control will be applicable regardless of whether or not any other provisions of the CCH II Indenture are applicable. Except as described above with respect to a Change of Control, the CCH II Indenture will not contain provisions that permit the holders of the CCH II Notes to require that the CCH II Issuers repurchase or redeem the CCH II Notes in the event of a takeover, recapitalization or similar transaction.

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The CCH II Issuers will not be required to make a Change of Control Offer upon a Change of Control if a third party makes the Change of Control Offer in the manner, at the times and otherwise in compliance with the requirements set forth in the CCH II Indenture applicable to a Change of Control Offer made by the CCH II Issuers and purchases all CCH II Notes validly tendered and not withdrawn under such Change of Control Offer.

The definition of Change of Control includes a phrase relating to the sale, lease, transfer, conveyance or other disposition of “all or substantially all” of the assets of CCH II and its Subsidiaries, taken as a whole, or of a Parent and its Subsidiaries, taken as a whole. Although there is a limited body of case law interpreting the phrase “substantially all,” there is no precise established definition of the phrase under applicable law. Accordingly, the ability of a holder of CCH II Notes to require the CCH II Issuers to repurchase CCH II Notes as a result of a sale, lease, transfer, conveyance or other disposition of less than all of the assets of CCH II and its Subsidiaries, taken as a whole, or of a Parent and its Subsidiaries, taken as a whole, to another Person or group may be uncertain.

### ***Asset Sales***

CCH II will not, and will not permit any of its Restricted Subsidiaries to, consummate an Asset Sale unless:

(1) CCH II or such Restricted Subsidiary receives consideration at the time of such Asset Sale at least equal to the fair market value of the assets or Equity Interests issued or sold or otherwise disposed of;

(2) such fair market value is determined by the Board of Directors of CCH II and evidenced by a resolution of such Board of Directors set forth in an officers’ certificate delivered to the trustee; and

(3) at least 75% of the consideration therefor received by CCH II or such Restricted Subsidiary is in the form of cash, Cash Equivalents or readily marketable securities.

For purposes of this provision, each of the following shall be deemed to be cash:

(a) any liabilities (as shown on CCH II’s or such Restricted Subsidiary’s most recent balance sheet) of CCH II or any Restricted Subsidiary (other than contingent liabilities and liabilities that are by their terms subordinated to the CCH II Notes) that are assumed by the transferee of any such assets pursuant to a customary novation agreement that releases CCH II or such Restricted Subsidiary from further liability;

(b) any securities, notes or other obligations received by CCH II or any such Restricted Subsidiary from such transferee that are converted by the recipient thereof into cash, Cash Equivalents or readily marketable securities within 60 days after receipt thereof (to the extent of the cash, Cash Equivalents or readily marketable securities received in that conversion); and

(c) Productive Assets.

Within 365 days after the receipt of any Net Proceeds from an Asset Sale, CCH II or a Restricted Subsidiary of CCH II may apply such Net Proceeds at its option:

(1) to repay debt under the Credit Facilities or any other Indebtedness of the Restricted Subsidiaries of CCH II (other than Indebtedness represented by a guarantee of a Restricted Subsidiary of CCH II); or

(2) to invest in Productive Assets; provided that any such amount of Net Proceeds which CCH II or a Restricted Subsidiary has committed to invest in Productive Assets within 365 days of the applicable Asset Sale may be invested in Productive Assets within two years of such Asset Sale.

The amount of any Net Proceeds received from Asset Sales that are not applied or invested as provided in the preceding paragraph will constitute Excess Proceeds. When the aggregate amount of Excess Proceeds exceeds \$25 million, CCH II will make an offer to purchase CCH II Notes (an “Asset Sale Offer”) to all

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holders of CCH II Notes and will repay, redeem or offer to purchase all Indebtedness that is of equal priority with the CCH II Notes containing provisions requiring repayment, redemption or offers to purchase with the proceeds of sales of assets, to purchase, repay or redeem, on a pro rata basis, the maximum principal amount of CCH II Notes and such other Indebtedness of equal priority that may be purchased, repaid or redeemed out of the Excess Proceeds, which amount includes the entire amount of the Net Proceeds. The offer price in any Asset Sale Offer will be payable in cash and equal to 100% of the principal amount of the subject CCH II Notes plus accrued and unpaid interest, if any, to the date of purchase. If the aggregate principal amount of CCH II Notes tendered into such Asset Sale Offer and such other Indebtedness of equal priority to be purchased, repaid or redeemed out of the Excess Proceeds exceeds the amount of Excess Proceeds, the trustee shall select the CCH II Notes tendered into such Asset Sale Offer and such other Indebtedness of equal priority to be purchased, repaid or redeemed on a pro rata basis.

If any Excess Proceeds remain after consummation of an Asset Sale Offer, then CCH II or any Restricted Subsidiary thereof may use such remaining Excess Proceeds for any purpose not otherwise prohibited by the CCH II Indenture. Upon completion of any Asset Sale Offer, the amount of Excess Proceeds shall be reset at zero.

### **Selection and Notice**

If less than all of the CCH II Notes are redeemed at any time, the trustee will select CCH II Notes for redemption as follows:

- (1) if any CCH II Notes are listed, in compliance with the requirements of the principal national securities exchange on which the CCH II Notes are listed; or
- (2) if the CCH II Notes are not so listed, on a pro rata basis, by lot or by such method as the trustee shall deem fair and appropriate.

No CCH II Notes of \$1,000 principal amount or less shall be redeemed in part. Notices of redemption shall be mailed by first class mail at least 30 but not more than 60 days before the redemption date to each holder of CCH II Notes to be redeemed at its registered address. Notices of redemption may be conditional.

If any CCH II Note is to be redeemed in part only, the notice of redemption that relates to that CCH II Note shall state the portion of the principal amount thereof to be redeemed. A new CCH II Note in principal amount equal to the unredeemed portion of the original CCH II Note will be issued in the name of the holder thereof upon cancellation of the original CCH II Note. CCH II Notes called for redemption become irrevocably due and payable on the date fixed for redemption at the redemption price. On and after the redemption date, interest ceases to accrue on the CCH II Notes or portions of them called for redemption.

### **Certain Covenants**

Set forth in this section are summaries of certain covenants contained in the CCH II Indenture.

During any period of time that (a) any CCH II Notes have Investment Grade Ratings from both Rating Agencies and (b) no Default or Event of Default has occurred and is continuing under the CCH II Indenture, CCH II and the Restricted Subsidiaries of CCH II will not be subject to the provisions of the CCH II Indenture described under:

- “— Repurchase at the Option of Holders — Asset Sales,”
- “— Restricted Payments,”
- “— Investments,”
- “— Incurrence of Indebtedness and Issuance of Preferred Stock,”
- “— Dividend and Other Payment Restrictions Affecting Subsidiaries,”
- clause (D) of the first paragraph of “— Merger, Consolidation, or Sale of Assets,”



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- “— Transactions with Affiliates” and
- “— Sale and Leaseback Transactions.”

If CCH II and its Restricted Subsidiaries are not subject to these covenants for any period of time as a result of the previous sentence and, subsequently, one, or both, of the Rating Agencies withdraws its ratings or downgrades the ratings assigned to the CCH II Notes below the required Investment Grade Ratings or a Default or Event of Default occurs and is continuing, then CCH II and its Restricted Subsidiaries will thereafter again be subject to these covenants. The ability of CCH II and its Restricted Subsidiaries to make Restricted Payments after the time of such withdrawal, downgrade, Default or Event of Default will be calculated as if the covenant governing Restricted Payments had been in effect during the entire period of time from the Issue Date.

### ***Restricted Payments***

CCH II will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly:

(1) declare or pay any dividend or make any other payment or distribution on account of its or any of its Restricted Subsidiaries' Equity Interests (including, without limitation, any payment in connection with any merger or consolidation involving CCH II or any of its Restricted Subsidiaries) or to the direct or indirect holders of CCH II's or any of its Restricted Subsidiaries' Equity Interests in their capacity as such (other than dividends or distributions payable (x) solely in Equity Interests (other than Disqualified Stock) of CCH II or (y) in the case of CCH II and its Restricted Subsidiaries, to CCH II or a Restricted Subsidiary thereof);

(2) purchase, redeem or otherwise acquire or retire for value (including, without limitation, in connection with any merger or consolidation involving CCH II or any of its Restricted Subsidiaries) any Equity Interests of CCH II or any direct or indirect Parent of CCH II or any Restricted Subsidiary of CCH II (other than, in the case of CCH II and its Restricted Subsidiaries, any such Equity Interests owned by CCH II or any of its Restricted Subsidiaries); or

(3) make any payment on or with respect to, or purchase, redeem, defease or otherwise acquire or retire for value, any Indebtedness of CCH II that is subordinated to the CCH II Notes, except a payment of interest or principal at the Stated Maturity thereof (all such payments and other actions set forth in clauses (1) through (3) above are collectively referred to as “Restricted Payments”), unless, at the time of and after giving effect to such Restricted Payment:

(a) no Default or Event of Default under the CCH II Indenture shall have occurred and be continuing or would occur as a consequence thereof; and

(b) CCH II would, at the time of such Restricted Payment and after giving pro forma effect thereto as if such Restricted Payment had been made at the beginning of the applicable quarter period, have been permitted to incur at least \$1.00 of additional Indebtedness pursuant to the Leverage Ratio test set forth in the first paragraph of the covenant described below under the caption “— Incurrence of Indebtedness and Issuance of Preferred Stock”; and

(c) such Restricted Payment, together with the aggregate amount of all other Restricted Payments made by CCH II and its Restricted Subsidiaries from and after the Existing Notes Issue Date (excluding Restricted Payments permitted by clauses (2), (3), (4), (5), (6), (7), (8) and (9) of the next succeeding paragraph), shall not exceed, at the date of determination, the sum of:

(1) an amount equal to 100% of the Consolidated EBITDA of CCH II for the period beginning on the first day of the fiscal quarter immediately preceding the Existing Notes Issue Date to the end of CCH II's most recently ended full fiscal quarter for which internal financial statements are available, taken as a single accounting period, less the product of 1.3 times the Consolidated Interest Expense of CCH II for such period, plus

(2) an amount equal to 100% of Capital Stock Sale Proceeds less any amount of such Capital Stock Sale Proceeds used in connection with an Investment made on or after the Existing Notes Issue Date pursuant to clause (5) of the definition of “Permitted Investments,” plus

(3) \$100 million.

So long as no Default under the CCH II Indenture has occurred and is continuing or would be caused thereby, the preceding provisions will not prohibit:

(1) the payment of any dividend within 60 days after the date of declaration thereof, if at said date of declaration such payment would have complied with the provisions of the CCH II Indenture;

(2) the redemption, repurchase, retirement, defeasance or other acquisition of any subordinated Indebtedness of CCH II in exchange for, or out of the net proceeds of, the substantially concurrent sale (other than to a Subsidiary of CCH II) of Equity Interests of CCH II (other than Disqualified Stock); provided that the amount of any such net cash proceeds that are utilized for any such redemption, repurchase, retirement, defeasance or other acquisition shall be excluded from clause (3)(b) of the preceding paragraph;

(3) the defeasance, redemption, repurchase or other acquisition of subordinated Indebtedness of CCH II or any of its Restricted Subsidiaries with the net cash proceeds from an incurrence of Permitted Refinancing Indebtedness;

(4) regardless of whether a Default then exists, the payment of any dividend or distribution made in respect of any calendar year or portion thereof during which CCH II or any of its Subsidiaries is a Person that is not treated as a separate tax paying entity for United States federal income tax purposes by CCH II and its Subsidiaries (directly or indirectly) to the direct or indirect holders of the Equity Interests of CCH II or its Subsidiaries that are Persons that are treated as a separate tax paying entity for United States federal income tax purposes, in an amount sufficient to permit each such holder to pay the actual income taxes (including required estimated tax installments) that are required to be paid by it with respect to the taxable income of any Parent (through its direct or indirect ownership of CCH II and/or its Subsidiaries), CCH II, its Subsidiaries or any Unrestricted Subsidiary, as applicable, in any calendar year, as estimated in good faith by CCH II or its Subsidiaries, as the case may be;

(5) regardless of whether a Default then exists, the payment of any dividend by a Restricted Subsidiary of CCH II to the holders of its common Equity Interests on a pro rata basis;

(6) the repurchase, redemption or other acquisition or retirement for value, or the payment of any dividend or distribution to the extent necessary to permit the repurchase, redemption or other acquisition or retirement for value, of any Equity Interests of CCH II or a Parent of CCH II held by any member of CCH II's, such Parent's or any Restricted Subsidiary's management pursuant to any management equity subscription agreement or stock option agreement entered into in accordance with the policies of CCH II, any Parent or any Restricted Subsidiary; provided that the aggregate price paid for all such repurchased, redeemed, acquired or retired Equity Interests shall not exceed \$10 million in any fiscal year of the Issuers;

(7) payment of fees in connection with any acquisition, merger or similar transaction in an amount that does not exceed an amount equal to 1.25% of the transaction value of such acquisition, merger or similar transaction;

(8) additional Restricted Payments directly or indirectly to CCH I or any other Parent (i) regardless of whether a Default exists (other than a Default described in paragraphs (1), (2), (7) or (8) under the caption “— Events of Default and Remedies”), for the purpose of enabling Charter Holdings, CIH, CCH I or any Charter Refinancing Subsidiary to pay interest when due on Indebtedness under the Charter Holdings Indentures, the CIH Indenture, the CCH I Indenture and/or any Charter Refinancing Indebtedness, (ii) for the purpose of enabling CCI and/or any Charter Refinancing Subsidiary to pay interest when due on Indebtedness under the CCI Indentures and/or any Charter

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Refinancing Indebtedness and (iii) so long as CCH II would have been permitted, at the time of such Restricted Payment and after giving pro forma effect thereto as if such Restricted Payment had been made at the beginning of the applicable quarter period, to incur at least \$1.00 of additional Indebtedness pursuant to the Leverage Ratio test set forth in the first paragraph of the covenant described below under the caption “— Incurrence of Indebtedness and Issuance of Preferred Stock,” (A) to the extent required to enable Charter Holdings, CIH, CCH I, CCI or any Charter Refinancing Subsidiary to defease, redeem, repurchase, prepay, repay, discharge or otherwise acquire or retire Indebtedness under the Charter Holdings Indentures, the CIH Indenture, the CCH I Indenture, the CCI Indentures or any Charter Refinancing Indebtedness (including any expenses incurred by any Parent in connection therewith) or (B) consisting of purchases, redemptions or other acquisitions by CCH II or its Restricted Subsidiaries of Indebtedness under the Charter Holdings Indentures, the CIH Indenture, the CCH I Indenture, the CCI Indentures, or any Charter Refinancing Indebtedness (including any expenses incurred by CCH II and its Restricted Subsidiaries in connection therewith) and the distribution, loan to or investment in any Parent of Indebtedness so purchased, redeemed or acquired; and

(9) Restricted Payments that are part of the Exchange Offers.

The amount of all Restricted Payments (other than cash) shall be the fair market value on the date of the Restricted Payment of the asset(s) or securities proposed to be transferred or issued by CCH II or any of its Restricted Subsidiaries pursuant to the Restricted Payment. The fair market value of any assets or securities that are required to be valued by this covenant shall be determined by the Board of Directors of CCH II, whose resolution with respect thereto shall be delivered to the trustee. Such Board of Directors’ determination must be based upon an opinion or appraisal issued by an accounting, appraisal or investment banking firm of national standing if the fair market value exceeds \$100 million.

Not later than the date of making any Restricted Payment involving an amount or fair market value in excess of \$10 million, the Issuers shall deliver to the trustee an officers’ certificate stating that such Restricted Payment is permitted and setting forth the basis upon which the calculations required by this “Restricted Payments” covenant were computed, together with a copy of any fairness opinion or appraisal required by the CCH II Indenture.

### ***Investments***

CCH II will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly:

- (1) make any Restricted Investment; or
- (2) allow any of its Restricted Subsidiaries to become an Unrestricted Subsidiary, unless, in each case:
  - (a) no Default or Event of Default under the CCH II Indenture shall have occurred and be continuing or would occur as a consequence thereof; and
  - (b) CCH II would, at the time of, and after giving effect to, such Restricted Investment or such designation of a Restricted Subsidiary as an Unrestricted Subsidiary, have been permitted to incur at least \$1.00 of additional Indebtedness pursuant to the applicable Leverage Ratio test set forth in the first paragraph of the covenant described below under the caption “— Incurrence of Indebtedness and Issuance of Preferred Stock.”

An Unrestricted Subsidiary may be redesignated as a Restricted Subsidiary if such redesignation would not cause a Default.

### ***Incurrence of Indebtedness and Issuance of Preferred Stock***

CCH II will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly, create, incur, issue, assume, guarantee or otherwise become directly or indirectly liable, contingently or otherwise, with respect to (collectively, “incur”) any Indebtedness (including Acquired Debt) and CCH II will not issue any Disqualified Stock and will not permit any of its Restricted Subsidiaries to issue any shares of

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Disqualified Stock or Preferred Stock, provided that CCH II or any of its Restricted Subsidiaries may incur Indebtedness, CCH II may issue Disqualified Stock and subject to the final paragraph of this covenant below, Restricted Subsidiaries of CCH II may incur Preferred Stock if the Leverage Ratio of CCH II and its Restricted Subsidiaries would have been not greater than 5.5 to 1.0 determined on a pro forma basis (including a pro forma application of the net proceeds therefrom), as if the additional Indebtedness had been incurred, or the Disqualified Stock or Preferred Stock had been issued, as the case may be, at the beginning of the most recently ended fiscal quarter.

So long as no Default under the CCH II Indenture shall have occurred and be continuing or would be caused thereby, the first paragraph of this covenant will not prohibit the incurrence of any of the following items of Indebtedness (collectively, "Permitted Debt"):

(1) the incurrence by CCH II and its Restricted Subsidiaries of Indebtedness under the Credit Facilities; provided that the aggregate principal amount of all Indebtedness of CCH II and its Restricted Subsidiaries outstanding under this clause (1) for all Credit Facilities of CCH II and its Restricted Subsidiaries after giving effect to such incurrence does not exceed an amount equal to \$9.75 billion less the aggregate amount of all Net Proceeds from Asset Sales applied by CCH II or any of its Restricted Subsidiaries to repay any such Indebtedness under a Credit Facility pursuant to the covenant described under "—Repurchase at the Option of Holders — Asset Sales;"

(2) the incurrence by CCH II and its Restricted Subsidiaries of Existing Indebtedness (other than under the Credit Facilities);

(3) the incurrence on the Issue Date by CCH II of Indebtedness represented by the CCH II Notes (but not including any Additional CCH II Notes);

(4) the incurrence by CCH II or any of its Restricted Subsidiaries of Indebtedness represented by Capital Lease Obligations, mortgage financings or purchase money obligations, in each case, incurred for the purpose of financing all or any part of the purchase price or cost of construction or improvement (including, without limitation, the cost of design, development, construction, acquisition, transportation, installation, improvement, and migration) of Productive Assets of CCH II or any of its Restricted Subsidiaries in an aggregate principal amount not to exceed, together with any related Permitted Refinancing Indebtedness permitted by clause (5) below, \$75 million at any time outstanding;

(5) the incurrence by CCH II or any of its Restricted Subsidiaries of Permitted Refinancing Indebtedness in exchange for, or the net proceeds of which are used to refund, refinance or replace, in whole or in part, Indebtedness (other than intercompany Indebtedness) that was permitted by the CCH II Indenture to be incurred under this clause (5), the first paragraph of this covenant or clauses (2), (3) or (4) of this paragraph;

(6) the incurrence by CCH II or any of its Restricted Subsidiaries of intercompany Indebtedness between or among CCH II and any of its Restricted Subsidiaries; provided that:

(a) if CCH II is the obligor on such Indebtedness, such Indebtedness must be expressly subordinated to the prior payment in full in cash of all obligations with respect to the CCH II Notes; and

(b) (i) any subsequent issuance or transfer of Equity Interests that results in any such Indebtedness being held by a Person other than CCH II or a Restricted Subsidiary of CCH II and (ii) any sale or other transfer of any such Indebtedness to a Person that is not either CCH II or a Restricted Subsidiary of CCH II, shall be deemed, in each case, to constitute an incurrence of such Indebtedness that was not permitted by this clause (6);

(7) the incurrence by CCH II or any of its Restricted Subsidiaries of Hedging Obligations that are incurred for the purpose of fixing or hedging interest rate risk with respect to any floating rate Indebtedness that is permitted by the terms of the CCH II Indenture to be outstanding;

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(8) the guarantee by CCH II or any of its Restricted Subsidiaries of Indebtedness of a Restricted Subsidiary that was permitted to be incurred by another provision of this covenant;

(9) the incurrence by CCH II or any of its Restricted Subsidiaries of additional Indebtedness in an aggregate principal amount at any time outstanding under this clause (9), not to exceed \$300 million; and

(10) the accretion or amortization of original issue discount and the write up of Indebtedness in accordance with purchase accounting.

For purposes of determining compliance with this “Incurrence of Indebtedness and Issuance of Preferred Stock” covenant, any Indebtedness under Credit Facilities outstanding on the Issue Date shall be deemed to have been incurred pursuant to clause (1) above and, in the event that an item of proposed Indebtedness (other than any Indebtedness initially deemed on the Issue Date to be incurred under clause (1) above) (a) meets the criteria of more than one of the categories of Permitted Debt described in clauses (1) through (10) above or (b) is entitled to be incurred pursuant to the first paragraph of this covenant, CCH II will be permitted to classify and from time to time to reclassify such item of Indebtedness in any manner that complies with this covenant. Once any item of Indebtedness is so reclassified, it will no longer be deemed outstanding under the category of Permitted Debt, where initially incurred or previously reclassified. For avoidance of doubt, Indebtedness incurred pursuant to a single agreement, instrument, program, facility or line of credit may be classified as Indebtedness arising in part under one of the clauses listed above or under the first paragraph of this covenant, and in part under any one or more of the clauses listed above, to the extent that such Indebtedness satisfies the criteria for such classification.

Notwithstanding the foregoing, in no event shall any Restricted Subsidiary of CCH II consummate a Subordinated Debt Financing or a Preferred Stock Financing. A “Subordinated Debt Financing” or a “Preferred Stock Financing,” as the case may be, with respect to any Restricted Subsidiary of CCH II shall mean a public offering or private placement (whether pursuant to Rule 144A under the Securities Act or otherwise) of Subordinated Notes or Preferred Stock (whether or not such Preferred Stock constitutes Disqualified Stock), as the case may be, of such Restricted Subsidiary to one or more purchasers (other than to one or more Affiliates of CCH II). “Subordinated Notes” with respect to any Restricted Subsidiary of CCH II shall mean Indebtedness of such Restricted Subsidiary that is contractually subordinated in right of payment to any other Indebtedness of such Restricted Subsidiary (including, without limitation, Indebtedness under the Credit Facilities), provided that the foregoing shall not apply to priority of Liens, including by way of intercreditor arrangements. The foregoing limitation shall not apply to:

(a) any Indebtedness or Preferred Stock of any Person existing at the time such Person is merged with or into or becomes a Subsidiary of CCH II; provided that such Indebtedness or Preferred Stock was not incurred or issued in connection with, or in contemplation of, such Person merging with or into, or becoming a Subsidiary of, CCH II, and

(b) any Indebtedness or Preferred Stock of a Restricted Subsidiary issued in connection with, and as part of the consideration for, an acquisition, whether by stock purchase, asset sale, merger or otherwise, in each case involving such Restricted Subsidiary, which Indebtedness or Preferred Stock is issued to the seller or sellers of such stock or assets; provided that such Restricted Subsidiary is not obligated to register such Indebtedness or Preferred Stock under the Securities Act or obligated to provide information pursuant to Rule 144A under the Securities Act.

### ***Liens***

The CCH II Indenture will provide that CCH II will not, directly or indirectly, create, incur, assume or suffer to exist any Lien of any kind securing Indebtedness, Attributable Debt or trade payables on any asset of CCH II, whether owned on the Issue Date or thereafter acquired, except Permitted Liens.

***Dividend and Other Payment Restrictions Affecting Subsidiaries***

CCH II will not, directly or indirectly, create or permit to exist or become effective any encumbrance or restriction on the ability of any of its Restricted Subsidiaries to:

- (1) pay dividends or make any other distributions on its Capital Stock to CCH II or any of its Restricted Subsidiaries, or with respect to any other interest or participation in, or measured by, its profits, or pay any Indebtedness owed to CCH II or any of its Restricted Subsidiaries;
- (2) make loans or advances to CCH II or any of its Restricted Subsidiaries; or
- (3) transfer any of its properties or assets to CCH II or any of its Restricted Subsidiaries.

However, the preceding restrictions will not apply to encumbrances or restrictions existing under or by reason of:

- (1) Existing Indebtedness, contracts and other instruments as in effect on the Issue Date and any amendments, modifications, restatements, renewals, increases, supplements, refundings, replacements or refinancings thereof; provided that such amendments, modifications, restatements, renewals, increases, supplements, refundings, replacements or refinancings are not materially more restrictive, taken as a whole, with respect to such dividend and other payment restrictions than those contained in the most restrictive Existing Indebtedness, contracts or other instruments, as in effect on the Issue Date;
- (2) applicable law;
- (3) any instrument governing Indebtedness or Capital Stock of a Person acquired by CCH II or any of its Restricted Subsidiaries as in effect at the time of such acquisition (except to the extent such Indebtedness was incurred in connection with or in contemplation of such acquisition), which encumbrance or restriction is not applicable to any Person, or the properties or assets of any Person, other than the Person, or the property or assets of the Person, so acquired; provided that, in the case of Indebtedness, such Indebtedness was permitted by the terms of the CCH II Indenture to be incurred;
- (4) customary non-assignment provisions in leases, franchise agreements and other commercial agreements entered into in the ordinary course of business;
- (5) purchase money obligations for property acquired in the ordinary course of business that impose restrictions on the property so acquired of the nature described in clause (3) of the preceding paragraph;
- (6) any agreement for the sale or other disposition of Capital Stock or assets of a Restricted Subsidiary that restricts distributions by such Restricted Subsidiary pending such sale or other disposition;
- (7) Permitted Refinancing Indebtedness; provided that the restrictions contained in the agreements governing such Permitted Refinancing Indebtedness are not materially more restrictive at the time such restrictions become effective, taken as a whole, than those contained in the agreements governing the Indebtedness being refinanced;
- (8) Liens securing Indebtedness or other obligations otherwise permitted to be incurred pursuant to the provisions of the covenant described above under the caption “— Liens” that limit the right of CCH II or any of its Restricted Subsidiaries to dispose of the assets subject to such Lien;
- (9) provisions with respect to the disposition or distribution of assets or property in joint venture agreements and other similar agreements entered into in the ordinary course of business;
- (10) restrictions on cash or other deposits or net worth imposed by customers under contracts entered into in the ordinary course of business;
- (11) restrictions contained in the terms of Indebtedness or Preferred Stock permitted to be incurred under the covenant described under the caption “— Incurrence of Indebtedness and Issuance of Preferred Stock”; provided that such restrictions are not materially more restrictive, taken as a whole,

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than the terms contained in the most restrictive, together or individually, of the Credit Facilities and other Existing Indebtedness as in effect on the Issue Date; and

(12) restrictions that are not materially more restrictive, taken as a whole, than customary provisions in comparable financings and that the management of CCH II determines, at the time of such financing, will not materially impair the Issuers' ability to make payments as required under the CCH II Notes.

### ***Merger, Consolidation or Sale of Assets***

Neither CCH II Issuer may, directly or indirectly, (1) consolidate or merge with or into another Person (whether or not such CCH II Issuer is the surviving Person) or (2) sell, assign, transfer, convey or otherwise dispose of all or substantially all of its properties or assets, in one or more related transactions, to another Person; unless:

(A) either:

(i) such CCH II Issuer is the surviving Person; or

(ii) the Person formed by or surviving any such consolidation or merger (if other than such CCH II Issuer) or to which such sale, assignment, transfer, conveyance or other disposition shall have been made is a Person organized or existing under the laws of the United States, any state thereof or the District of Columbia, provided that if the Person formed by or surviving any such consolidation or merger with such CCH II Issuer is a Person other than a corporation, a corporate co-issuer shall also be an obligor with respect to the CCH II Notes;

(B) the Person formed by or surviving any such consolidation or merger (if other than such CCH II Issuer) or the Person to which such sale, assignment, transfer, conveyance or other disposition shall have been made assumes all the obligations of such CCH II Issuer under the CCH II Notes and the CCH II Indenture pursuant to agreements reasonably satisfactory to the trustee;

(C) immediately after such transaction no Default or Event of Default exists; and

(D) such CCH II Issuer or the Person formed by or surviving any such consolidation or merger (if other than such CCH II Issuer) will, on the date of such transaction after giving pro forma effect thereto and any related financing transactions as if the same had occurred at the beginning of the applicable four-quarter period,

(x) be permitted to incur at least \$1.00 of additional Indebtedness pursuant to the Leverage Ratio test set forth in the first paragraph of the covenant described above under the caption "— Incurrence of Indebtedness and Issuance of Preferred Stock;" or

(y) have a Leverage Ratio immediately after giving effect to such consolidation or merger no greater than the Leverage Ratio immediately prior to such consolidation or merger.

In addition, neither of the CCH II Issuers may, directly or indirectly, lease all or substantially all of their properties or assets, in one or more related transactions, to any other Person. The foregoing clause (D) of this "Merger, Consolidation, or Sale of Assets" covenant will not apply to a sale, assignment, transfer, conveyance or other disposition of assets between or among a CCH II Issuer and any of its Wholly Owned Restricted Subsidiaries or to the consummation of the Exchange Offers.

### ***Transactions with Affiliates***

CCH II will not, and will not permit any of its Restricted Subsidiaries to, make any payment to, or sell, lease, transfer or otherwise dispose of any of its properties or assets to, or purchase any property or assets

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from, or enter into or make or amend any transaction, contract, agreement, understanding, loan, advance or guarantee with, or for the benefit of, any Affiliate (each, an “Affiliate Transaction”), unless:

- (1) such Affiliate Transaction is on terms that are not less favorable to CCH II or the relevant Restricted Subsidiary than those that would have been obtained in a comparable transaction by CCH II or such Restricted Subsidiary with an unrelated Person; and
- (2) CCH II delivers to the trustee:
  - (a) with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration given or received by CCH II or any such Restricted Subsidiary in excess of \$15 million, a resolution of the Board of Directors of CCH II or CCI set forth in an officers’ certificate certifying that such Affiliate Transaction complies with this covenant and that such Affiliate Transaction has been approved by a majority of the members of such Board of Directors; and
  - (b) with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration given or received by CCH II or any such Restricted Subsidiary in excess of \$50 million, an opinion as to the fairness to the holders of such Affiliate Transaction from a financial point of view issued by an accounting, appraisal or investment banking firm of national standing.

The following items shall not be deemed to be Affiliate Transactions and, therefore, will not be subject to the provisions of the prior paragraph:

- (1) any existing employment agreement and employee benefit arrangement (including stock purchase or option agreements, deferred compensation plans, and retirement, savings or similar plans) entered into by CCH II or any of its Subsidiaries and any employment agreement and employee benefit arrangements entered into by CCH II or any of its Restricted Subsidiaries in the ordinary course of business;
- (2) transactions between or among CCH II and/or its Restricted Subsidiaries;
- (3) payment of reasonable directors fees to Persons who are not otherwise Affiliates of CCH II, and customary indemnification and insurance arrangements in favor of directors, regardless of affiliation with CCH II or any of its Restricted Subsidiaries;
- (4) payment of Management Fees;
- (5) Restricted Payments that are permitted by the provisions of the covenant described above under the caption “— Restricted Payments” and Restricted Investments that are permitted by the provisions of the covenant described above under the caption “— Investments”;
- (6) Permitted Investments;
- (7) transactions pursuant to agreements existing on the Issue Date, as in effect on the Issue Date, or as subsequently modified, supplemented, or amended, to the extent that any such modifications, supplements, or amendments comply with the applicable provisions of paragraph (1) of this covenant; and
- (8) contributions to the common equity capital of CCH II or the issue or sale of Equity Interests of CCH II.



***Sale and Leaseback Transactions***

CCH II will not, and will not permit any of its Restricted Subsidiaries to, enter into any sale and leaseback transaction; provided that CCH II and its Restricted Subsidiaries may enter into a sale and leaseback transaction if:

(1) CCH II or such Restricted Subsidiary could have

(a) incurred Indebtedness in an amount equal to the Attributable Debt relating to such sale and leaseback transaction under the Leverage Ratio test in the first paragraph of the covenant described above under the caption “— Incurrence of Indebtedness and Issuance of Preferred Stock”; and

(b) incurred a Lien to secure such Indebtedness pursuant to the covenant described above under the caption “— Liens” or the definition of “Permitted Liens”; and

(2) the transfer of assets in that sale and leaseback transaction is permitted by, and CCH II or such Restricted Subsidiary applies the proceeds of such transaction in compliance with, the covenant described above under the caption “— Repurchase at the Option of Holders — Asset Sales.”

The foregoing restrictions do not apply to a sale and leaseback transaction if the lease is for a period, including renewal rights, of not in excess of three years.

***Limitations on Issuances of Guarantees of Indebtedness***

CCH II will not permit any of its Restricted Subsidiaries, directly or indirectly, to Guarantee or pledge any assets to secure the payment of any other Indebtedness of CCH II, except in respect of Credit Facilities (the “Guaranteed Indebtedness”), unless

(1) such Restricted Subsidiary simultaneously executes and delivers a supplemental indenture providing for the Guarantee (a “Subsidiary Guarantee”) of the payment of the CCH II Notes by such Restricted Subsidiary, and

(2) until one year after all the CCH II Notes have been paid in full in cash, such Restricted Subsidiary waives and will not in any manner whatsoever claim or take the benefit or advantage of, any rights of reimbursement, indemnity or subrogation or any other rights against CCH II or any other Restricted Subsidiary of CCH II as a result of any payment by such Restricted Subsidiary under its Subsidiary Guarantee; provided that this paragraph shall not be applicable to any Guarantee or any Restricted Subsidiary that existed at the time such Person became a Restricted Subsidiary and was not incurred in connection with, or in contemplation of, such Person becoming a Restricted Subsidiary.

If the Guaranteed Indebtedness is subordinated to the CCH II Notes, then the Guarantee of such Guaranteed Indebtedness shall be subordinated to the Subsidiary Guarantee at least to the extent that the Guaranteed Indebtedness is subordinated to the CCH II Notes.

Any Subsidiary Guarantee shall terminate upon the release of such guarantor from its guarantee of the Guaranteed Indebtedness.

***Payments for Consent***

CCH II will not, and will not permit any of its Subsidiaries to, directly or indirectly, pay or cause to be paid any consideration to or for the benefit of any holder of CCH II Notes for or as an inducement to any consent, waiver or amendment of any of the terms or provisions of the CCH II Indenture or the CCH II Notes unless such consideration is offered to be paid and is paid to all holders of the CCH II Notes that consent, waive or agree to amend in the time frame set forth in the solicitation documents relating to such consent, waiver or amendment.

### **Reports**

Whether or not required by the SEC, so long as any CCH II Notes will be outstanding, the Issuers will furnish to the holders of the CCH II Notes, within the time periods specified in the SEC's rules and regulations:

(1) all quarterly and annual financial information that would be required to be contained in a filing with the SEC on Forms 10-Q and 10-K if the CCH II Issuers were required to file such forms, including a "Management's Discussion and Analysis of Financial Condition and Results of Operations" section and, with respect to the annual information only, a report on the annual consolidated financial statements of CCH II of its independent public accountants; and

(2) all current reports that would be required to be filed with the SEC on Form 8-K if the CCH II Issuers were required to file such reports.

While (a) any Parent of CCH II that guarantees the CCH II Notes is subject to the reporting obligations of Section 13 or 15(d) of the Exchange Act (including pursuant to the terms of its Indebtedness), (b) the rules and regulations of the SEC permit CCH II and any such Parent to report at the level of such Parent on a consolidated basis and (c) such Parent is not engaged in any business in any material respect other than incidental to its direct or indirect ownership of the Capital Stock of CCH II and CC VIII, LLC, such consolidated reporting at such Parent level in a manner consistent with that described in this covenant for CCH II shall satisfy this covenant; *provided* that such Parent includes in its reports information about CCH II that is required to be provided by a parent guaranteeing debt of an operating company subsidiary pursuant to Rule 3-10 of Regulation S-X or any successor rule then in effect.

For any fiscal quarter or fiscal year at the end of which Subsidiaries of CCH II are Unrestricted Subsidiaries, the quarterly and annual financial information required by the preceding paragraph shall include a reasonably detailed presentation, either on the face of the financial statements or in the footnotes thereto, and in Management's Discussion and Analysis of Financial Condition and Results of Operations, of the financial condition and results of operations of CCH II and its Restricted Subsidiaries separate from the financial condition and results of operations of the Unrestricted Subsidiaries of CCH II.

In addition, whether or not required by the SEC, the CCH II Issuers will file a copy of all of the information and reports referred to in clauses (1) and (2) above with the SEC for public availability within the time periods specified in the SEC's rules and regulations, unless the SEC will not accept such a filing, and make such information available to securities analysts and prospective investors upon request.

### **Events of Default and Remedies**

Each of the following is an Event of Default with respect to the CCH II Notes:

(1) default for 30 consecutive days in the payment when due of interest on the CCH II Notes;

(2) default in payment when due of the principal of or premium, if any, on the CCH II Notes;

(3) failure by CCH II or any of its Restricted Subsidiaries to comply with the provisions of the CCH II Indenture described under the captions "— Repurchase at the Option of Holders — Change of Control" or "— Certain Covenants — Merger, Consolidation, or Sale of Assets";

(4) failure by CCH II or any of its Restricted Subsidiaries for 30 consecutive days after written notice thereof has been given to the Issuers by the trustee or to the CCH II Issuers and the trustee by holders of at least 25% of the aggregate principal amount of the CCH II Notes outstanding to comply with any of their other covenants or agreements in the CCH II Indenture;

(5) default under any mortgage, indenture or instrument under which there may be issued or by which there may be secured or evidenced any Indebtedness for money borrowed by CCH II or any of its Restricted Subsidiaries (or the payment of which is guaranteed by CCH II or any of its Restricted Subsidiaries) whether such Indebtedness or guarantee now exists, or is created after the Issue Date, if that default:

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(a) is caused by a failure to pay at final stated maturity the principal amount on such Indebtedness prior to the expiration of the grace period provided in such Indebtedness on the date of such default (a "Payment Default"); or

(b) results in the acceleration of such Indebtedness prior to its express maturity, and, in each case, the principal amount of any such Indebtedness, together with the principal amount of any other such Indebtedness under which there has been a Payment Default or the maturity of which has been so accelerated, aggregates \$100 million or more;

(6) failure by CCH II or any of its Restricted Subsidiaries to pay final judgments which are nonappealable aggregating in excess of \$100 million, net of applicable insurance which has not been denied in writing by the insurer, which judgments are not paid, discharged or stayed for a period of 60 days;

(7) CCH II or any of its Significant Subsidiaries pursuant to or within the meaning of any Bankruptcy Law:

(a) commences a voluntary case,

(b) consents to the entry of an order for relief against it in an involuntary case,

(c) consents to the appointment of a custodian of it or for all or substantially all of its property, or

(d) makes a general assignment for the benefit of its creditors; or

(8) a court of competent jurisdiction enters an order or decree under any Bankruptcy Law that:

(a) is for relief against CCH II or any of its Significant Subsidiaries in an involuntary case;

(b) appoints a custodian of CCH II or any of its Significant Subsidiaries or for all or substantially all of the property of CCH II or any of its Significant Subsidiaries; or

(c) orders the liquidation of CCH II or any of its Significant Subsidiaries;

and the order or decree remains unstayed and in effect for 60 consecutive days.

In the case of an Event of Default described in the foregoing clauses (7) and (8) with respect to CCH II, all outstanding CCH II Notes will become due and payable immediately without further action or notice. If any other Event of Default occurs and is continuing, the trustee or the holders of at least 25% in principal amount of the then outstanding CCH II Notes may declare the CCH II Notes to be due and payable immediately.

Holders of the CCH II Notes may not enforce the CCH II Indenture or the CCH II Notes except as provided in the CCH II Indenture. Subject to certain limitations, the holders of a majority in principal amount of the then outstanding CCH II Notes may direct the trustee in its exercise of any trust or power. The trustee may withhold from holders of the CCH II Notes notice of any continuing Default or Event of Default under the CCH II Indenture (except a Default or Event of Default relating to the payment of principal or interest) if it determines that withholding notice is in their interest.

The holders of a majority in aggregate principal amount of the CCH II Notes then outstanding by notice to the trustee may on behalf of the holders of all of the CCH II Notes waive any existing Default or Event of Default and its consequences under the CCH II Indenture except a continuing Default or Event of Default in the payment of interest on, or the principal of, or premium, if any, on, the CCH II Notes.

The CCH II Issuers will be required to deliver to the trustee annually a statement regarding compliance with the CCH II Indenture. Upon becoming aware of any Default or Event of Default, the CCH II Issuers will be required to deliver to the trustee a statement specifying such Default or Event of Default and what action the CCH II Issuers are taking or propose to take with respect thereto.

## **No Personal Liability of Directors, Officers, Employees, Members and Stockholders**

No director, officer, employee or incorporator of the CCH II Issuers or the Parent Guarantor, as such, and no member or stockholder of the CCH II Issuers or the Parent Guarantor, as such, shall have any liability for any obligations of the CCH II Issuers or the Parent Guarantor under the CCH II Notes, the CCH II Indenture, the Note Guarantee or the registration rights agreement, or for any claim based on, in respect of, or by reason of, such obligations or their creation. Each holder of CCH II Notes by accepting a CCH II Note and a Note Guarantee waives and releases all such liability. The waiver and release will be part of the consideration for issuance of the CCH II Notes and the Note Guarantee. The waiver may not be effective to waive liabilities under the federal securities laws.

## **Legal Defeasance and Covenant Defeasance**

The CCH II Issuers and the Parent Guarantor may, at their option and at any time, elect to have all of their obligations discharged with respect to any outstanding CCH II Notes and the Note Guarantee (“Legal Defeasance”) except for:

- (1) the rights of holders of outstanding CCH II Notes to receive payments in respect of the principal of, premium, if any, and interest on the CCH II Notes when such payments are due from the trust referred to below;
- (2) the CCH II Issuers’ obligations with respect to the CCH II Notes concerning issuing temporary CCH II Notes, registration of CCH II Notes, mutilated, destroyed, lost or stolen CCH II Notes and the maintenance of an office or agency for payment and money for security payments held in trust;
- (3) the rights, powers, trusts, duties and immunities of the trustee, and the CCH II Issuers’ obligations in connection therewith; and
- (4) the Legal Defeasance provisions of the CCH II Indenture.

In addition, the CCH II Issuers may, at their option and at any time, elect to have the obligations of the CCH II Issuers and the Parent Guarantor released with respect to certain covenants that are described in the CCH II Indenture and the Note Guarantee (“Covenant Defeasance”) and thereafter any omission to comply with those covenants shall not constitute a Default or Event of Default with respect to the CCH II Notes or the Note Guarantee. In the event Covenant Defeasance occurs, certain events (not including non-payment, bankruptcy, receivership, rehabilitation and insolvency events) described under “Events of Default” will no longer constitute Events of Default with respect to the CCH II Notes or the Note Guarantee. In addition, upon covenant defeasance, the Note Guarantee will be released.

In order to exercise either Legal Defeasance or Covenant Defeasance:

- (1) the CCH II Issuers or the Parent Guarantor must irrevocably deposit with the trustee, in trust, for the benefit of the holders of the CCH II Notes, cash in U.S. dollars, non-callable Government Securities, or a combination thereof, in such amounts as will be sufficient, in the opinion of a nationally recognized firm of independent public accountants, to pay the principal of, premium, if any, and interest on the outstanding CCH II Notes on the stated maturity or on the applicable redemption date, as the case may be, and the CCH II Issuers and the Parent Guarantor must specify whether the CCH II Notes will be defeased to maturity or to a particular redemption date;
- (2) in the case of Legal Defeasance, the CCH II Issuers shall have delivered to the trustee an opinion of counsel reasonably acceptable to the trustee confirming that
  - (a) the CCH II Issuers and the Parent Guarantor have received from, or there has been published by, the Internal Revenue Service a ruling or
  - (b) since the Issue Date, there has been a change in the applicable federal income tax law, in either case to the effect that, and based thereon such opinion of counsel shall confirm that, the holders of the outstanding CCH II Notes will not recognize income, gain or loss for federal income

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tax purposes as a result of such Legal Defeasance and will be subject to federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Legal Defeasance had not occurred;

(3) in the case of Covenant Defeasance, the CCH II Issuers or the Parent Guarantor shall have delivered to the trustee an opinion of counsel confirming that the holders of the outstanding CCH II Notes will not recognize income, gain or loss for federal income tax purposes as a result of such Covenant Defeasance and will be subject to federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Covenant Defeasance had not occurred;

(4) no Default or Event of Default under the CCH II Indenture shall have occurred and be continuing either:

(a) on the date of such deposit (other than a Default or Event of Default resulting from the borrowing of funds to be applied to such deposit and the grant of any Lien securing such borrowing); or

(b) insofar as Events of Default from bankruptcy or insolvency events are concerned, at any time in the period ending on the 91st day after the date of deposit;

(5) such Legal Defeasance or Covenant Defeasance will not result in a breach or violation of, or constitute a default under any material agreement or instrument (other than the CCH II Indenture) to which the CCH II Issuers or any of their Restricted Subsidiaries is a party or by which the CCH II Issuers or any of their Restricted Subsidiaries is bound;

(6) the CCH II Issuers must have delivered to the trustee an opinion of counsel to the effect that after the 91st day, assuming no intervening bankruptcy, that no holder is an insider of either of the CCH II Issuers following the deposit and that such deposit would not be deemed by a court of competent jurisdiction a transfer for the benefit of the CCH II Issuers in their capacities as such, the trust funds will not be subject to the effect of any applicable bankruptcy, insolvency, reorganization or similar laws affecting creditors' rights generally;

(7) the CCH II Issuers or the Parent Guarantor must deliver to the trustee an officers' certificate stating that the deposit was not made by the CCH II Issuers with the intent of preferring the holders of the CCH II Notes over the other creditors of the CCH II Issuers or the Parent Guarantor or with the intent of defeating, hindering, delaying or defrauding creditors of the CCH II Issuers, the Parent Guarantor or others; and

(8) the CCH II Issuers or the Parent Guarantor must deliver to the trustee an officers' certificate and an opinion of counsel, each stating that all conditions precedent relating to the Legal Defeasance or the Covenant Defeasance have been complied with.

Notwithstanding the foregoing, the opinion of counsel required by clause (2) above with respect to a Legal Defeasance need not be delivered and the conditions set forth in clauses 4(b) and 6 shall not apply if all applicable CCH II Notes not theretofore delivered to the trustee for cancellation

(a) have become due and payable or

(b) will become due and payable on the maturity date or a redemption date within one year under arrangements satisfactory to the trustee for the giving of notice of redemption by the trustee in the name, and at the expense, of the CCH II Issuers.

### **Amendment, Supplement and Waiver**

Except as provided below, the CCH II Indenture, the CCH II Notes or the Note Guarantee may be amended or supplemented with the consent of the holders of at least a majority in aggregate principal amount of the then outstanding CCH II Notes. This includes consents obtained in connection with a purchase of CCH II Notes, a tender offer for CCH II Notes or an exchange offer for CCH II Notes. Any existing Default or compliance with any provision of the CCH II Indenture, the CCH II Notes or the Note Guarantee (other

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than any provision relating to the right of any holder of a CCH II Note to bring suit for the enforcement of any payment of principal, premium, if any, and interest on the CCH II Note, on or after the scheduled due dates expressed in the CCH II Notes) may be waived with the consent of the holders of a majority in aggregate principal amount of the then outstanding CCH II Notes. This includes consents obtained in connection with a purchase of CCH II Notes, a tender offer for CCH II Notes or an exchange offer for CCH II Notes.

Without the consent of each holder affected thereby, an amendment or waiver may not (with respect to any CCH II Notes held by such holder):

- (1) reduce the principal amount of such CCH II Notes;
- (2) change the fixed maturity of such CCH II Notes or reduce the premium payable upon redemption of such CCH II Notes;
- (3) reduce the rate of or extend the time for payment of interest on such CCH II Notes;
- (4) waive a Default or an Event of Default in the payment of principal of or premium, if any, or interest on the CCH II Notes (except a rescission of acceleration of the CCH II Notes by the holders of at least a majority in aggregate principal amount of the CCH II Notes and a waiver of the payment default that resulted from such acceleration);
- (5) make such CCH II Notes payable in money other than that stated in such CCH II Notes;
- (6) make any change in the provisions of the CCH II Indenture relating to waivers of past Defaults applicable to any CCH II Notes or the rights of holders thereof to receive payments of principal of, or premium, if any, or interest on such CCH II Notes;
- (7) waive a redemption payment with respect to such CCH II Notes (other than a payment required by one of the covenants described above under the caption “— Repurchase at the Option of Holders”); or
- (8) make any change in the preceding amendment and waiver provisions.

Notwithstanding the preceding, without the consent of any holder of CCH II Notes, the CCH II Issuers, the Parent Guarantor and the trustee may amend or supplement the CCH II Indenture, the CCH II Notes or the Note Guarantee:

- (1) to cure any ambiguity, defect or inconsistency;
- (2) to provide for uncertificated CCH II Notes in addition to or in place of certificated CCH II Notes;
- (3) to provide for or confirm the issuance of Additional CCH II Notes;
- (4) to provide for the assumption of the CCH II Issuers’ or the Parent Guarantor’s obligations to holders of CCH II Notes in the case of a merger or consolidation or sale of all or substantially all of the CCH II Issuers’ assets;
- (5) to release any Subsidiary Guarantee in accordance with the provisions of the CCH II Indenture;
- (6) to make any change that would provide any additional rights or benefits to the holders of CCH II Notes or that does not adversely affect the legal rights under the CCH II Indenture of any such holder; or
- (7) to comply with requirements of the SEC in order to effect or maintain the qualification of the CCH II Indenture under the Trust Indenture Act or otherwise as necessary to comply with applicable law.

## **Governing Law**

The CCH II Indenture and the CCH II Notes will be governed by the laws of the State of New York.

## **Concerning the Trustee**

If the trustee becomes a creditor of the CCH II Issuers, the CCH II Indenture will limit its right to obtain payment of claims in certain cases, or to realize on certain property received in respect of any such claim as security or otherwise. The trustee will be permitted to engage in other transactions; however, if it acquires any conflicting interest it must eliminate such conflict within 90 days, apply to the SEC for permission to continue or resign.

The holders of a majority in principal amount of the then outstanding CCH II Notes will have the right to direct the time, method and place of conducting any proceeding for exercising any remedy available to the trustee, subject to certain exceptions. The CCH II Indenture will provide that in case an Event of Default shall occur and be continuing, the trustee will be required, in the exercise of its power, to use the degree of care of a prudent man in the conduct of his own affairs. Subject to such provisions, the trustee will be under no obligation to exercise any of its rights or powers under the CCH II Indenture at the request of any holder of CCH II Notes, unless such holder shall have offered to the trustee indemnity satisfactory to it against any loss, liability or expense.

## **Additional Information**

Anyone who receives this Prospectus may obtain a copy of the CCH II Indenture without charge by writing to the CCH II Issuers at Charter Plaza, 12405 Powerscourt Drive, St. Louis, Missouri 63131, Attention: Corporate Secretary.

## **Certain Definitions**

This section sets forth certain defined terms used in the CCH II Indenture. Reference is made to the CCH II Indenture for a full disclosure of all such terms, as well as any other capitalized terms used herein for which no definition is provided.

“Acquired Debt” means, with respect to any specified Person:

(1) Indebtedness of any other Person existing at the time such other Person is merged with or into or became a Subsidiary of such specified Person, whether or not such Indebtedness is incurred in connection with, or in contemplation of, such other Person merging with or into, or becoming a Subsidiary of, such specified Person; and

(2) Indebtedness secured by a Lien encumbering any asset acquired by such specified Person.

“Additional CCH II Notes” means any CCH II Notes issued under the CCH II Indenture in addition to the original CCH II Notes (other than CCH II Notes issued in exchange or replacement for the original CCH II Notes).

“Affiliate” of any specified Person means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For purposes of this definition, “control,” as used with respect to any Person, shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of such Person, whether through the ownership of voting securities, by agreement or otherwise; provided that beneficial ownership of 10% or more of the Voting Stock of a Person shall be deemed to be control. For purposes of this definition, the terms “controlling,” “controlled by” and “under common control with” shall have correlative meanings.

“Asset Acquisition” means

(a) an Investment by CCH II or any of its Restricted Subsidiaries in any other Person pursuant to which such Person shall become a Restricted Subsidiary of CCH II or any of its Restricted Subsidiaries or shall be merged with or into CCH II or any of its Restricted Subsidiaries, or

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(b) the acquisition by CCH II or any of its Restricted Subsidiaries of the assets of any Person which constitute all or substantially all of the assets of such Person, any division or line of business of such Person or any other properties or assets of such Person other than in the ordinary course of business.

“Asset Sale” means:

(1) the sale, lease, conveyance or other disposition of any assets or rights, other than sales of inventory in the ordinary course of the Cable Related Business; provided that the sale, conveyance or other disposition of all or substantially all of the assets of CCH II and its Subsidiaries, taken as a whole, will be governed by the provisions of the CCH II Indenture described above under the caption “— Repurchase at the Option of Holders — Change of Control” and/or the provisions described above under the caption “— Certain Covenants — Merger, Consolidation, or Sale of Assets” and not by the provisions of the Asset Sale covenant described above under the caption “— Repurchase at the Option of Holders — Asset Sales”; and

(2) the issuance of Equity Interests by any Restricted Subsidiary of CCH II or the sale by CCH II or any Restricted Subsidiary of CCH II of Equity Interests of any Restricted Subsidiary of CCH II.

Notwithstanding the preceding, the following items shall not be deemed to be Asset Sales:

(1) any single transaction or series of related transactions that:

(a) involves assets having a fair market value of less than \$100 million; or

(b) results in net proceeds to CCH II and its Restricted Subsidiaries of less than \$100 million;

(2) a transfer of assets between or among CCH II and/or its Restricted Subsidiaries;

(3) an issuance of Equity Interests by a Restricted Subsidiary of CCH II to CCH II or to another Wholly Owned Restricted Subsidiary of CCH II;

(4) a Restricted Payment that is permitted by the covenant described above under the caption “— Certain Covenants — Restricted Payments,” a Restricted Investment that is permitted by the covenant described above under the caption “— Certain Covenants — Investments” or a Permitted Investment;

(5) the incurrence of Liens not prohibited by the CCH II Indenture and the disposition of assets related to such Liens by the secured party pursuant to a foreclosure; and

(6) any disposition of cash or Cash Equivalents.

“Attributable Debt” in respect of a sale and leaseback transaction means, at the time of determination, the present value of the obligation of the lessee for net rental payments during the remaining term of the lease included in such sale and leaseback transaction, including any period for which such lease has been extended or may, at the option of the lessee, be extended. Such present value shall be calculated using a discount rate equal to the rate of interest implicit in such transaction, determined in accordance with GAAP.

“Bankruptcy Law” means Title 11, U.S. Code or any federal or state law of any jurisdiction relating to bankruptcy, insolvency, winding up, liquidation, reorganization or relief of debtors.

“Beneficial Owner” has the meaning assigned to such term in Rule 13d-3 and Rule 13d-5 under the Exchange Act, except that in calculating the beneficial ownership of any particular “person” (as such term is used in Section 13(d)(3) of the Exchange Act) such “person” shall be deemed to have beneficial ownership of all securities that such “person” has the right to acquire, whether such right is currently exercisable or is exercisable only upon the occurrence of a subsequent condition.

“Board of Directors” means the board of directors or comparable governing body of CCI or if so specified CCH II, in either case, as constituted as of the date of any determination required to be made, or action required to be taken, pursuant to the CCH II Indenture.

“Cable Related Business” means the business of owning cable television systems and businesses ancillary, complementary or related thereto.



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“Capital Lease Obligation” means, at the time any determination thereof is to be made, the amount of the liability in respect of a capital lease that would at that time be required to be capitalized on a balance sheet in accordance with GAAP.

“Capital Stock” means:

- (1) in the case of a corporation, corporate stock;
- (2) in the case of an association or business entity, any and all shares, interests, participations, rights or other equivalents (however designated) of corporate stock;
- (3) in the case of a partnership or limited liability company, partnership or membership interests (whether general or limited); and
- (4) any other interest (other than any debt obligation) or participation that confers on a Person the right to receive a share of the profits and losses of, or distributions of assets of, the issuing Person.

“Capital Stock Sale Proceeds” means the aggregate net proceeds (including the fair market value of the non-cash proceeds, as determined by an independent appraisal firm) received by CCH II from and after the Issue Date, in each case

- (x) as a contribution to the common equity capital or from the issue or sale of Equity Interests (other than Disqualified Stock and other than issuances or sales to a Subsidiary of CCH II) of CCH II after the Issue Date, or
- (y) from the issue or sale of convertible or exchangeable Disqualified Stock or convertible or exchangeable debt securities of CCH II that have been converted into or exchanged for such Equity Interests (other than Equity Interests (or Disqualified Stock or debt securities) sold to a Subsidiary of CCH II).

“Cash Equivalents” means:

- (1) United States dollars;
- (2) securities issued or directly and fully guaranteed or insured by the United States government or any agency or instrumentality thereof (provided that the full faith and credit of the United States is pledged in support thereof) having maturities of not more than twelve months from the date of acquisition;
- (3) certificates of deposit and eurodollar time deposits with maturities of twelve months or less from the date of acquisition, bankers’ acceptances with maturities not exceeding six months and overnight bank deposits, in each case, with any domestic commercial bank having combined capital and surplus in excess of \$500 million and a Thompson Bank Watch Rating at the time of acquisition of “B” or better;
- (4) repurchase obligations with a term of not more than seven days for underlying securities of the types described in clauses (2) and (3) above entered into with any financial institution meeting the qualifications specified in clause (3) above;
- (5) commercial paper having a rating at the time of acquisition of at least “P-1” from Moody’s or at least “A-1” from S&P and in each case maturing within twelve months after the date of acquisition;
- (6) corporate debt obligations maturing within twelve months after the date of acquisition thereof, rated at the time of acquisition at least “Aaa” or “P-1” by Moody’s or “AAA” or “A-1” by S&P;
- (7) auction-rate Preferred Stocks of any corporation maturing not later than 45 days after the date of acquisition thereof, rated at the time of acquisition at least “Aaa” by Moody’s or “AAA” by S&P;
- (8) securities issued by any state, commonwealth or territory of the United States, or by any political subdivision or taxing authority thereof, maturing not later than six months after the date of acquisition thereof, rated at the time of acquisition at least “A” by Moody’s or S&P; and

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(9) money market or mutual funds at least 90% of the assets of which constitute Cash Equivalents of the kinds described in clauses (1) through (8) of this definition.

“CCH I” means CCH I, LLC, a Delaware limited liability company, and any successor Person thereto.

“CCH I Indenture” means, collectively (a) the indenture pursuant to which the CCH I Notes were issued and (b) any indentures, note purchase agreements or similar documents entered into by CCH I and/or CCH I Capital Corp. on or after the Issue Date for the purpose of incurring Indebtedness in exchange for, or the proceeds of which are used to refinance, any of the Indebtedness outstanding under the CCH I Indenture described in the foregoing clause (a), in each case, together with all instruments and other agreements entered into by CCH I or CCH I Capital Corp. in connection therewith, as the same may be refinanced, replaced, amended, supplemented or otherwise modified from time to time.

“CCH I Notes” means the 11.00% senior secured notes due 2015 issued by CCH I and CCH I Capital Corp.

“CCH II” means CCH II, LLC, a Delaware limited liability company, and any successor Person thereto.

“CCHC” means CCHC, LLC, a Delaware limited liability company, and any successor Person thereto.

“CCI” means Charter Communications, Inc., a Delaware corporation, and any successor Person thereto.

“CCI Indentures” means, collectively, the indentures entered into by CCI with respect to its 5.875% Convertible Senior Notes due 2009, and any indentures, note purchase agreements or similar documents entered into by CCI for the purpose of incurring Indebtedness in exchange for, or the proceeds of which are used to refinance, any of the Indebtedness described above, in each case, together with all instruments and other agreements entered into by CCI in connection therewith, as any of the foregoing may be refinanced, replaced, amended, supplemented or otherwise modified from time to time.

“CCO” means Charter Communications Operating, LLC, a Delaware limited liability company and any successor Person thereto.

“CCO Holdings” means CCO Holdings, LLC, a Delaware limited liability company, and any successor Person thereto.

“Change of Control” means the occurrence of any of the following:

(1) the sale, transfer, conveyance or other disposition (other than by way of merger or consolidation), in one or a series of related transactions, of all or substantially all of the assets of CCH II and its Subsidiaries, taken as a whole, or of a Parent and its Subsidiaries, taken as a whole, to any “person” (as such term is used in Section 13(d)(3) of the Exchange Act) other than Paul G. Allen and the Related Parties;

(2) the adoption of a plan relating to the liquidation or dissolution of CCH II or a Parent (except the liquidation of any Parent into any other Parent);

(3) the consummation of any transaction, including, without limitation, any merger or consolidation, the result of which is that any “person” (as defined above) other than Paul G. Allen and Related Parties becomes the Beneficial Owner, directly or indirectly, of more than 35% of the Voting Stock of CCH II or a Parent, measured by voting power rather than the number of shares, unless Paul G. Allen or a Related Party Beneficially owns, directly or indirectly, a greater percentage of Voting Stock of CCH II or such Parent, as the case may be, measured by voting power rather than the number of shares, than such person;

(4) after the Issue Date, the first day on which a majority of the members of the Board of Directors of CCI are not Continuing Directors;

(5) CCH II or a Parent consolidates with, or merges with or into, any Person, or any Person consolidates with, or merges with or into, CCH II or a Parent, in any such event pursuant to a transaction in which any of the outstanding Voting Stock of CCH II or such Parent is converted into or exchanged

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for cash, securities or other property, other than any such transaction where the Voting Stock of CCH II or such Parent outstanding immediately prior to such transaction is converted into or exchanged for Voting Stock (other than Disqualified Stock) of the surviving or transferee Person constituting a majority of the outstanding shares of such Voting Stock of such surviving or transferee Person immediately after giving effect to such issuance; or

(6) (i) Charter Communications Holding Company, LLC shall cease to own beneficially, directly or indirectly, 100% of the Capital Stock of Charter Holdings or (ii) Charter Holdings shall cease to own beneficially, directly or indirectly, 100% of the Capital Stock of CCH II.

“Charter Holdings” means Charter Communications Holdings, LLC, a Delaware limited liability company, and any successor Person thereto.

“Charter Holdings Indentures” means, collectively (a) the indentures entered into by Charter Holdings and Charter Communications Holdings Capital Corp. in connection with the issuance of the 8.250% Senior Notes Due 2007 dated March 1999, 8.625% Senior Notes Due 2009 dated March 1999, 9.920% Senior Discount Notes Due 2011 dated March 1999, 10.00% Senior Notes Due 2009 dated January 2000, 10.250% Senior Notes Due 2010 dated January 2000, 11.750% Senior Discount Notes Due 2010 dated January 2000, 10.75% Senior Notes Due 2009 dated January 2001, 11.125% Senior Notes Due 2011 dated January 2001, 13.50% Senior Discount Notes Due 2011 dated January 2001, 9.625% Senior Notes Due 2009 dated May 2001, 10.00% Senior Notes Due 2011 dated May 2001, 11.750% Senior Discount Notes Due 2011 dated May 2001, 9.625% Senior Notes Due 2009 dated January 2002, 10.00% Senior Notes Due 2011 dated January 2002, and 12.125% Senior Discount Notes due 2012 dated January 2002, and (b) any indentures, note purchase agreements or similar documents entered into by Charter Holdings and/or Charter Communications Holdings Capital Corp. on or after the Issue Date for the purpose of incurring Indebtedness in exchange for, or the proceeds of which are used to refinance, any of the Indebtedness described in the foregoing clause (a), in each case, together with all instruments and other agreements entered into by Charter Holdings or Charter Communications Holdings Capital Corp. in connection therewith, as the same may be refinanced, replaced, amended, supplemented or otherwise modified from time to time.

“Charter Refinancing Indebtedness” means any Indebtedness of a Charter Refinancing Subsidiary issued in exchange for, or the net proceeds of which are used within 90 days after the date of issuance thereof to extend, repay, refinance, renew, replace, defease, purchase, acquire or refund (including successive extensions, refinancings, renewals, replacements, defeasances, purchases, acquisitions or refunds), (i) Indebtedness initially incurred under any one or more of the CCI Indentures, the Charter Holdings Indentures, the CIH Indenture, the CCH I Indenture, the Existing CCH II Indenture or the CCH II Indenture or (ii) any other Indebtedness of CCH II or any Restricted Subsidiary of CCH II up to an aggregate principal amount of \$1.5 billion pursuant to this clause (ii); provided that:

(1) the principal amount (or accreted value, if applicable) of such Charter Refinancing Indebtedness does not exceed the principal amount (or accreted value, if applicable) plus accrued interest and premium, if any, on the Indebtedness so extended, refinanced, renewed, replaced, defeased, purchased, acquired or refunded (plus the amount of reasonable fees, commissions and expenses incurred in connection therewith); and

(2) such Charter Refinancing Indebtedness has a final maturity date later than the final maturity date of, and has a Weighted Average Life to Maturity equal to or greater than the Weighted Average Life to Maturity of, the Indebtedness being extended, refinanced, renewed, replaced, defeased, purchased, acquired or refunded.

“Charter Refinancing Subsidiary” means any direct or indirect, wholly owned Subsidiary (and any related corporate co-obligor if such Subsidiary is a limited liability company or other association not taxed as a corporation) of CCI or Charter Communications Holding Company, LLC, which is or becomes a Parent.

“CIH” means CCH I Holdings, LLC, a Delaware limited liability company, and any successor Person thereto.

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“CIH Indenture” means, collectively (a) the indenture pursuant to which the CIH Notes were issued and (b) any indentures, note purchase agreements or similar documents entered into by CIH and/or CCH I Holdings Capital Corporation on or after the Issue Date for the purpose of incurring Indebtedness in exchange for, or the proceeds of which are used to refinance, any of the Indebtedness outstanding under the CIH Indenture described in the foregoing clause (a), in each case, together with all instruments and other agreements entered into by CIH or CCH I Holdings Capital Corporation in connection therewith, as the same may be refinanced, replaced, amended, supplemented or otherwise modified from time to time.

“CIH Notes” means each of the following series of notes issued by CIH and CCH I Holdings Capital Corporation: The 11.125% Senior Notes Due 2014, the 9.920% Senior Notes Due 2014, the 10.00% Senior Notes Due 2014, 11.75% Senior Accreting Notes Due 2014, the 13.50% Senior Accreting Notes Due 2014 and the 12.125% Senior Accreting Notes Due 2015.

“Consolidated EBITDA” means with respect to any Person, for any period, the consolidated net income (or net loss) of such Person and its Restricted Subsidiaries for such period calculated in accordance with GAAP plus, to the extent such amount was deducted in calculating such net income:

(1) Consolidated Interest Expense;

(2) income taxes;

(3) depreciation expense;

(4) amortization expense;

(5) all other non-cash items, extraordinary items and nonrecurring and unusual items (including without limitation any restructuring charges and charges related to litigation settlements or judgments) and the cumulative effects of changes in accounting principles reducing such net income, less all non-cash items, extraordinary items, nonrecurring and unusual items and cumulative effects of changes in accounting principles increasing such net income;

(6) amounts actually paid during such period pursuant to a deferred compensation plan; and

(7) for purposes of the covenant described above under the caption “— Incurrence of Indebtedness and Issuance of Preferred Stock,” Management Fees;

all as determined on a consolidated basis for such Person and its Restricted Subsidiaries in conformity with GAAP, provided that Consolidated EBITDA shall not include:

(x) the net income (or net loss) of any Person that is not a Restricted Subsidiary (“Other Person”), except

(i) with respect to net income, to the extent of the amount of dividends or other distributions actually paid to such Person or any of its Restricted Subsidiaries by such Other Person during such period; and

(ii) with respect to net losses, to the extent of the amount of investments made by such Person or any Restricted Subsidiary of such Person in such Other Person during such period;

(y) solely for the purposes of calculating the amount of Restricted Payments that may be made pursuant to the second clause (3) in the first paragraph of the covenant described under the caption “— Certain Covenants — Restricted Payments” (and in such case, except to the extent includable pursuant to clause (x) above), the net income (or net loss) of any Other Person accrued prior to the date it becomes a Restricted Subsidiary or is merged into or consolidated with such Person or any Restricted Subsidiaries or all or substantially all of the property and assets of such Other Person are acquired by such Person or any of its Restricted Subsidiaries; and

(z) the net income of any Restricted Subsidiary of CCH II to the extent that the declaration or payment of dividends or similar distributions by such Restricted Subsidiary of such net income is not at the time of determination of such Consolidated EBITDA permitted by the operation of the terms of

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such Restricted Subsidiary's charter or any agreement, instrument, judgment, decree, order, statute, rule or governmental regulation applicable to such Restricted Subsidiary (other than any agreement or instrument evidencing Indebtedness or Preferred Stock (i) outstanding on the Issue Date or (ii) incurred or issued thereafter in compliance with the covenant described under the caption “— Certain Covenants — Incurrence of Indebtedness and Issuance of Preferred Stock”; provided that (a) the terms of any such agreement or instrument (other than Existing Indebtedness and any modifications, increases or refinancings that are not materially more restrictive taken as a whole) restricting the declaration and payment of dividends or similar distributions apply only in the event of a default with respect to a financial covenant or a covenant relating to payment, beyond any applicable period of grace, contained in such agreement or instrument, (b) such terms are determined by such Person to be customary in comparable financings and (c) such restrictions are determined by CCH II not to materially affect the CCH II Issuers' ability to make principal or interest payments on the applicable CCH II Notes when due).

“Consolidated Indebtedness” means, with respect to any Person as of any date of determination, the sum, without duplication, of:

- (1) the total amount of outstanding Indebtedness of such Person and its Restricted Subsidiaries, plus
- (2) the total amount of Indebtedness of any other Person that has been Guaranteed by the referent Person or one or more of its Restricted Subsidiaries, plus
- (3) the aggregate liquidation value of all Disqualified Stock of such Person and all Preferred Stock of Restricted Subsidiaries of such Person, in each case, determined on a consolidated basis in accordance with GAAP.

“Consolidated Interest Expense” means, with respect to any Person for any period, without duplication, the sum of:

- (1) the consolidated interest expense of such Person and its Restricted Subsidiaries for such period, whether paid or accrued (including, without limitation, amortization or original issue discount, non-cash interest payments, the interest component of any deferred payment obligations, the interest component of all payments associated with Capital Lease Obligations, commissions, discounts and other fees and charges incurred in respect of letter of credit or bankers' acceptance financings, and net payments (if any) pursuant to Hedging Obligations); and
- (2) the consolidated interest expense of such Person and its Restricted Subsidiaries that was capitalized during such period; and
- (3) any interest expense on Indebtedness of another Person that is guaranteed by such Person or one of its Restricted Subsidiaries or secured by a Lien on assets of such Person or one of its Restricted Subsidiaries (whether or not such Guarantee or Lien is called upon); in each case, on a consolidated basis and in accordance with GAAP, excluding, however, any amount of such interest of any Restricted Subsidiary of the referent Person if the net income of such Restricted Subsidiary is excluded in the calculation of Consolidated EBITDA pursuant to clause (z) of the definition thereof (but only in the same proportion as the net income of such Restricted Subsidiary is excluded from the calculation of Consolidated EBITDA pursuant to clause (z) of the definition thereof).

“Continuing Directors” means, as of any date of determination, any member of the Board of Directors of CCI who:

- (1) was a member of the Board of Directors of CCI on the Issue Date; or
- (2) was nominated for election or elected to the Board of Directors of CCI with the approval of a majority of the Continuing Directors who were members of such Board of Directors of CCI at the time of such nomination or election or whose election or appointment was previously so approved.

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“Credit Facilities” means, with respect to CCH II and/or its Restricted Subsidiaries, one or more debt facilities or commercial paper facilities, in each case with banks or other lenders (other than a Parent of the Issuers) providing for revolving credit loans, term loans, receivables financing (including through the sale of receivables to such lenders or to special purpose entities formed to borrow from such lenders against such receivables) or letters of credit, in each case, as amended, restated, modified, renewed, refunded, replaced or refinanced in whole or in part from time to time.

“Default” means any event that is, or with the passage of time or the giving of notice or both would be, an Event of Default.

“Disposition” means, with respect to any Person, any merger, consolidation or other business combination involving such Person (whether or not such Person is the Surviving Person) or the sale, assignment, transfer, lease or conveyance, or other disposition of all or substantially all of such Person’s assets or Capital Stock.

“Disqualified Stock” means any Capital Stock that, by its terms (or by the terms of any security into which it is convertible, or for which it is exchangeable, in each case at the option of the holder thereof) or upon the happening of any event, matures or is mandatorily redeemable, pursuant to a sinking fund obligation or otherwise, or redeemable at the option of the holder thereof, in whole or in part, on or prior to the date that is 91 days after the date on which the CCH II Notes mature. Notwithstanding the preceding sentence, any Capital Stock that would constitute Disqualified Stock solely because the holders thereof have the right to require CCH II to repurchase such Capital Stock upon the occurrence of a change of control or an asset sale shall not constitute Disqualified Stock if the terms of such Capital Stock provide that CCH II may not repurchase or redeem any such Capital Stock pursuant to such provisions unless such repurchase or redemption complies with the covenant described above under the caption “— Certain Covenants — Restricted Payments.”

“Equity Interests” means Capital Stock and all warrants, options or other rights to acquire Capital Stock (but excluding any debt security that is convertible into, or exchangeable for, Capital Stock).

“Equity Offering” means any private or underwritten public offering of Qualified Capital Stock of CCH II or a Parent of which the gross proceeds to CCH II or received by CCH II as a capital contribution from such Parent (directly or indirectly), as the case may be, are at least \$25 million.

“Exchange Offers” means:

(1) the acquisition by CCHC and/or CCH II of Indebtedness outstanding under the CCI Indentures, in exchange for the Issuers’ 10.25% Senior Notes due 2010, Class A common stock of CCI and cash, pursuant to the Prospectus dated August 11, 2006 and related documents, as such documents may be supplemented, modified or extended from time to time; and

(2) the acquisition by CCH I and/or CCH II of Indebtedness outstanding under the Charter Holdings Indentures, in exchange for CCH I Notes and CCH II Notes, pursuant to the Offering Memorandum dated August 11, 2006 and related documents, as such documents may be supplemented, modified or extended from time to time; and

(3) the distribution, loan or investment of (a) Indebtedness accepted in the exchanges contemplated by clauses (1) and (2) of this definition and (b) amounts sufficient to satisfy the expenses incurred by any Parent in connection therewith (including any required payment of accrued interest thereon), in each case, directly or indirectly to or in any Parent;

*provided*, that any such Indebtedness referred to in clause (1) or (2) of this definition either shall be held by a Parent of Charter Holdings or shall be or has been cancelled as part of the Exchange Offers.

“Existing CCH II Indenture” means, collectively (a) the indenture pursuant to which the Issuers’ 10.25% Senior Notes due 2010 were issued and (b) any indentures, note purchase agreements or similar documents entered into by the CCH II Issuers on or after the Issue Date for the purpose of incurring Indebtedness in exchange for, or the proceeds of which are used to refinance, any of the Indebtedness

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outstanding under the Existing CCH II Indenture described in the foregoing clause (a), in each case, together with all instruments and other agreements entered into by the CCH II Issuers in connection therewith, as the same may be refinanced, replaced, amended, supplemented or otherwise modified from time to time.

“Existing Indebtedness” means Indebtedness of CCH II and its Restricted Subsidiaries in existence on the Issue Date, until such amounts are repaid.

“Existing Notes Issue Date” means September 23, 2003.

“GAAP” means generally accepted accounting principles set forth in the opinions and pronouncements of the Accounting Principles Board of the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board or in such other statements by such other entity as have been approved by a significant segment of the accounting profession, which are in effect on the Issue Date.

“Guarantee” or “guarantee” means a guarantee other than by endorsement of negotiable instruments for collection in the ordinary course of business, direct or indirect, in any manner including, without limitation, by way of a pledge of assets or through letters of credit or reimbursement agreements in respect thereof, of all or any part of any Indebtedness, measured as the lesser of the aggregate outstanding amount of the Indebtedness so guaranteed and the face amount of the guarantee.

“Hedging Obligations” means, with respect to any Person, the obligations of such Person under:

- (1) interest rate swap agreements, interest rate cap agreements and interest rate collar agreements;
- (2) interest rate option agreements, foreign currency exchange agreements, foreign currency swap agreements; and
- (3) other agreements or arrangements designed to protect such Person against fluctuations in interest and currency exchange rates.

“Indebtedness” means, with respect to any specified Person, any indebtedness of such Person, whether or not contingent:

- (1) in respect of borrowed money;
- (2) evidenced by bonds, notes, debentures or similar instruments or letters of credit (or reimbursement agreements in respect thereof);
- (3) in respect of banker’s acceptances;
- (4) representing Capital Lease Obligations;

(5) in respect of the balance deferred and unpaid of the purchase price of any property, except any such balance that constitutes an accrued expense or trade payable; or

(6) representing the notional amount of any Hedging Obligations, if and to the extent any of the preceding items (other than letters of credit and Hedging Obligations) would appear as a liability upon a balance sheet of the specified Person prepared in accordance with GAAP. In addition, the term

“Indebtedness” includes all Indebtedness of others secured by a Lien on any asset of the specified Person (whether or not such Indebtedness is assumed by the specified Person) and, to the extent not otherwise included, the guarantee by such Person of any indebtedness of any other Person.

The amount of any Indebtedness outstanding as of any date shall be:

- (1) the accreted value thereof, in the case of any Indebtedness issued with original issue discount; and
- (2) the principal amount thereof, together with any interest thereon that is more than 30 days past due, in the case of any other Indebtedness.

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“Investment Grade Rating” means a rating equal to or higher than Baa3 (or the equivalent) by Moody’s and BBB- (or the equivalent) by S&P.

“Investments” means, with respect to any Person, all investments by such Person in other Persons, including Affiliates, in the forms of direct or indirect loans (including guarantees of Indebtedness or other obligations), advances or capital contributions (excluding commission, travel and similar advances to officers and employees made in the ordinary course of business) and purchases or other acquisitions for consideration of Indebtedness, Equity Interests or other securities, together with all items that are or would be classified as investments on a balance sheet prepared in accordance with GAAP.

“Issue Date” means September 14, 2006.

“Leverage Ratio” means, as to CCH II, as of any date, the ratio of:

(1) the Consolidated Indebtedness of CCH II on such date to

(2) the aggregate amount of Consolidated EBITDA for CCH II for the most recently ended fiscal quarter for which internal financial statements are available (the “Reference Period”), multiplied by four.

In addition to the foregoing, for purposes of this definition, “Consolidated EBITDA” shall be calculated on a pro forma basis after giving effect to

(1) the issuance of the CCH II Notes;

(2) the incurrence of the Indebtedness or the issuance of the Disqualified Stock by CCH II or a Restricted Subsidiary or Preferred Stock of a Restricted Subsidiary (and the application of the proceeds therefrom) giving rise to the need to make such calculation and any incurrence or issuance (and the application of the proceeds therefrom) or repayment of other Indebtedness, Disqualified Stock or Preferred Stock of a Restricted Subsidiary, other than the incurrence or repayment of Indebtedness for ordinary working capital purposes, at any time subsequent to the beginning of the Reference Period and on or prior to the date of determination, as if such incurrence (and the application of the proceeds thereof), or the repayment, as the case may be, occurred on the first day of the Reference Period; and

(3) any Dispositions or Asset Acquisitions (including, without limitation, any Asset Acquisition giving rise to the need to make such calculation as a result of such Person or one of its Restricted Subsidiaries (including any person that becomes a Restricted Subsidiary as a result of such Asset Acquisition) incurring, assuming or otherwise becoming liable for or issuing Indebtedness, Disqualified Stock or Preferred Stock) made on or subsequent to the first day of the Reference Period and on or prior to the date of determination, as if such Disposition or Asset Acquisition (including the incurrence, assumption or liability for any such Indebtedness, Disqualified Stock or Preferred Stock and also including any Consolidated EBITDA associated with such Asset Acquisition, including any cost savings adjustments in compliance with Regulation S-X promulgated by the SEC) had occurred on the first day of the Reference Period.

“Lien” means, with respect to any asset, any mortgage, lien, pledge, charge, security interest or encumbrance of any kind in respect of such asset, whether or not filed, recorded or otherwise perfected under applicable law, including any conditional sale or other title retention agreement, any lease in the nature thereof, any option or other agreement to sell or give a security interest in and any filing of or agreement to give any financing statement under the Uniform Commercial Code (or equivalent statutes) of any jurisdiction.

“Management Fees” means the fees (including expense reimbursements) payable to any Parent pursuant to the management and mutual services agreements between any Parent of CCH II and CCO or between any Parent of CCH II and other Restricted Subsidiaries of CCH II or pursuant to the limited liability company agreements of certain Restricted Subsidiaries as such management, mutual services or limited liability company agreements exist on the Issue Date (or, if later, on the date any new Restricted Subsidiary is acquired or created), including any amendment or replacement thereof, *provided*, that any such new agreements or amendments or replacements of existing agreements, taken as a whole, are not more



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disadvantageous to the holders of the CCH II Notes in any material respect than such agreements existing on the Issue Date and further provided, that such new, amended or replacement management agreements do not provide for percentage fees, taken together with fees under existing agreements, any higher than 3.5% of CCI's consolidated total revenues for the applicable payment period.

“Moody’s” means Moody’s Investors Service, Inc. or any successor to the rating agency business thereof.

“Net Proceeds” means the aggregate cash proceeds received by CCH II or any of its Restricted Subsidiaries in respect of any Asset Sale (including, without limitation, any cash received upon the sale or other disposition of any non-cash consideration received in any Asset Sale), net of the direct costs relating to such Asset Sale, including, without limitation, legal, accounting and investment banking fees, and sales commissions, and any relocation expenses incurred as a result thereof or taxes paid or payable as a result thereof (including amounts distributable in respect of owners’, partners’ or members’ tax liabilities resulting from such sale), in each case after taking into account any available tax credits or deductions and any tax sharing arrangements and amounts required to be applied to the repayment of Indebtedness.

“Non-Recourse Debt” means Indebtedness:

(1) as to which neither CCH II nor any of its Restricted Subsidiaries

(a) provides credit support of any kind (including any undertaking, agreement or instrument that would constitute Indebtedness);

(b) is directly or indirectly liable as a guarantor or otherwise; or

(c) constitutes the lender;

(2) no default with respect to which (including any rights that the holders thereof may have to take enforcement action against an Unrestricted Subsidiary) would permit upon notice, lapse of time or both any holder of any other Indebtedness (other than the CCH II Notes) of CCH II or any of its Restricted Subsidiaries to declare a default on such other Indebtedness or cause the payment thereof to be accelerated or payable prior to its stated maturity; and

(3) as to which the lenders have been notified in writing that they will not have any recourse to the Capital Stock or assets of CCH II or any of its Restricted Subsidiaries.

“Note Guarantee” means the unconditional Guarantee by the Parent Guarantor of the CCH II Issuers’ payment Obligations under the CCH II Notes.

“Obligations” means any principal, interest, penalties, fees, indemnifications, reimbursements, damages, Guarantees and other liabilities payable under the documentation governing any Indebtedness, in each case, whether now or hereafter existing, renewed or restructured, whether or not from time to time decreased or extinguished and later increased, created or incurred, whether or not arising on or after the commencement of a case under Title 11, U.S. Code or any similar federal or state law for the relief of debtors (including post-petition interest) and whether or not allowed or allowable as a claim in any such case.

“Parent” means CCH I, CIH, Charter Holdings, CCHC, Charter Communications Holding Company, LLC, CCI and/or any direct or indirect Subsidiary of the foregoing 100% of the Capital Stock of which is owned directly or indirectly by one or more of the foregoing Persons, as applicable, and that directly or indirectly beneficially owns 100% of the Capital Stock of CCH II, and any successor Person to any of the foregoing.

“Parent Guarantor” means Charter Holdings.

“Permitted Investments” means:

(1) any Investment by CCH II in a Restricted Subsidiary thereof, or any Investment by a Restricted Subsidiary of CCH II in CCH II or in another Restricted Subsidiary of CCH II;

(2) any Investment in Cash Equivalents;

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(3) any Investment by CCH II or any of its Restricted Subsidiaries in a Person, if as a result of such Investment:

(a) such Person becomes a Restricted Subsidiary of CCH II; or

(b) such Person is merged, consolidated or amalgamated with or into, or transfers or conveys substantially all of its assets to, or is liquidated into, CCH II or a Restricted Subsidiary of CCH II;

(4) any Investment made as a result of the receipt of non-cash consideration from an Asset Sale that was made pursuant to and in compliance with the covenant described above under the caption “— Repurchase at the Option of Holders — Asset Sales”;

(5) any Investment made out of the net cash proceeds of the issue and sale (other than to a Subsidiary of CCH II) of Equity Interests (other than Disqualified Stock) or cash contributions to the common equity of CCH II, in each case after the Issue Date, to the extent that such net cash proceeds have not been applied to make a Restricted Payment or to effect other transactions pursuant to the covenant described under “— Certain Covenants — Restricted Payments” (with the amount of usage of the basket in this clause (5) being determined net of the aggregate amount of principal, interest, dividends, distributions, repayments, proceeds or other value otherwise returned or recovered in respect of any such Investment, but not to exceed the initial amount of such Investment);

(6) other Investments in any Person (other than any Parent) having an aggregate fair market value when taken together with all other Investments in any Person made by CCH II and its Restricted Subsidiaries (without duplication) pursuant to this clause (6) from and after the Issue Date, not to exceed \$750 million (initially measured on the date each such Investment was made and without giving effect to subsequent changes in value, but reducing the amount outstanding by the aggregate amount of principal, interest, dividends, distributions, repayments, proceeds or other value otherwise returned or recovered in respect of any such Investment, but not to exceed the initial amount of such Investment) at any one time outstanding;

(7) Investments in customers and suppliers in the ordinary course of business which either

(A) generate accounts receivable, or

(B) are accepted in settlement of bona fide disputes;

(8) Investments consisting of payments by CCH II or any of its subsidiaries of amounts that are neither dividends nor distributions but are payments of the kind described in clause (4) of the second paragraph of the covenant described above under the caption “— Certain Covenants — Restricted Payments” to the extent such payments constitute Investments;

(9) regardless of whether a Default then exists, Investments in any Unrestricted Subsidiary made by CCH II and/or any of its Restricted Subsidiaries with the proceeds of distributions from any Unrestricted Subsidiary; and

(10) Investments that are part of the Exchange Offers.

“Permitted Liens” means:

(1) Liens on the assets of the Company and its Restricted Subsidiaries securing Indebtedness and other Obligations under any Credit Facilities;

(2) Liens on property of a Person existing at the time such Person is merged with or into or consolidated with CCH II; provided that such Liens were in existence prior to the contemplation of such merger or consolidation and do not extend to any assets other than those of the Person merged into or consolidated with CCH II and related assets, such as the proceeds thereof;

(3) Liens on property existing at the time of acquisition thereof by CCH II; provided that such Liens were in existence prior to the contemplation of such acquisition;

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- (4) Liens to secure the performance of statutory obligations, surety or appeal bonds, performance bonds or other obligations of a like nature incurred in the ordinary course of business;
- (5) purchase money mortgages or other purchase money Liens (including, without limitation, any Capitalized Lease Obligations) incurred by CCH II upon any fixed or capital assets acquired after the Issue Date or purchase money mortgages (including, without limitation, Capital Lease Obligations) on any such assets, whether or not assumed, existing at the time of acquisition of such assets, whether or not assumed, so long as
- (a) such mortgage or lien does not extend to or cover any of the assets of CCH II, except the asset so developed, constructed, or acquired, and directly related assets such as enhancements and modifications thereto, substitutions, replacements, proceeds (including insurance proceeds), products, rents and profits thereof, and
  - (b) such mortgage or lien secures the obligation to pay all or a portion of the purchase price of such asset, interest thereon and other charges, costs and expenses (including, without limitation, the cost of design, development, construction, acquisition, transportation, installation, improvement, and migration) and is incurred in connection therewith (or the obligation under such Capitalized Lease Obligation) only;
- (6) Liens existing on the Issue Date and replacement Liens therefore that do not encumber additional property;
- (7) Liens for taxes, assessments or governmental charges or claims that are not yet delinquent or that are being contested in good faith by appropriate proceedings promptly instituted and diligently concluded; provided that any reserve or other appropriate provision as shall be required in conformity with GAAP shall have been made therefore;
- (8) statutory and common law Liens of landlords and carriers, warehousemen, mechanics, suppliers, materialmen, repairmen or other similar Liens arising in the ordinary course of business and with respect to amounts not yet delinquent or being contested in good faith by appropriate legal proceedings promptly instituted and diligently conducted and for which a reserve or other appropriate provision, if any, as shall be required in conformity with GAAP shall have been made;
- (9) Liens incurred or deposits made in the ordinary course of business in connection with workers' compensation, unemployment insurance and other types of social security;
- (10) Liens incurred or deposits made to secure the performance of tenders, bids, leases, statutory or regulatory obligation, bankers' acceptance, surety and appeal bonds, government contracts, performance and return-of-money bonds and other obligations of a similar nature incurred in the ordinary course of business (exclusive of obligations for the payment of borrowed money);
- (11) easements, rights-of-way, municipal and zoning ordinances and similar charges, encumbrances, title defects or other irregularities that do not materially interfere with the ordinary course of business of CCH II or any of its Restricted Subsidiaries;
- (12) Liens of franchisors or other regulatory bodies arising in the ordinary course of business;
- (13) Liens arising from filing Uniform Commercial Code financing statements regarding leases or other Uniform Commercial Code financing statements for precautionary purposes relating to arrangements not constituting Indebtedness;
- (14) Liens arising from the rendering of a final judgment or order against CCH II or any of its Restricted Subsidiaries that does not give rise to an Event of Default;
- (15) Liens securing reimbursement obligations with respect to letters of credit that encumber documents and other property relating to such letters of credit and the products and proceeds thereof;
- (16) Liens encumbering customary initial deposits and margin deposits, and other Liens that are within the general parameters customary in the industry and incurred in the ordinary course of business,

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in each case, securing Indebtedness under Hedging Obligations and forward contracts, options, future contracts, future options or similar agreements or arrangements designed solely to protect CCH II or any of its Restricted Subsidiaries from fluctuations in interest rates, currencies or the price of commodities;

(17) Liens consisting of any interest or title of licensor in the property subject to a license;

(18) Liens on the Capital Stock of Unrestricted Subsidiaries;

(19) Liens arising from sales or other transfers of accounts receivable which are past due or otherwise doubtful of collection in the ordinary course of business;

(20) Liens incurred in the ordinary course of business of CCH II and its Restricted Subsidiaries with respect to obligations which in the aggregate do not exceed \$50 million at any one time outstanding;

(21) Liens in favor of the trustee arising under the CCH II Indenture and similar provisions in favor of trustees or other agents or representatives under indentures or other agreements governing debt instruments entered into after the date hereof;

(22) Liens in favor of the trustee for its benefit and the benefit of holders of the CCH II Notes, as their respective interests appear; and

(23) Liens securing Permitted Refinancing Indebtedness, to the extent that the Indebtedness being refinanced was secured or was permitted to be secured by such Liens.

“Permitted Refinancing Indebtedness” means any Indebtedness of CCH II or any of its Restricted Subsidiaries issued in exchange for, or the net proceeds of which are used within 60 days after the date of issuance thereof to extend, refinance, renew, replace, defease or refund, other Indebtedness of CCH II or any of its Restricted Subsidiaries (other than intercompany Indebtedness); provided that unless permitted otherwise by the CCH II Indenture, no Indebtedness of any Restricted Subsidiary may be issued in exchange for, nor may the net proceeds of Indebtedness be used to extend, refinance, renew, replace, defease or refund, Indebtedness of CCH II; provided further that:

(1) the principal amount (or accreted value, if applicable) of such Permitted Refinancing Indebtedness does not exceed the principal amount of (or accreted value, if applicable) plus accrued interest and premium, if any, on the Indebtedness so extended, refinanced, renewed, replaced, defeased or refunded (plus the amount of reasonable expenses incurred in connection therewith), except to the extent that any such excess principal amount (or accreted value, as applicable) would be then permitted to be incurred by other provisions of the covenant described above under the caption “— Certain Covenants — Incurrence of Indebtedness and Issuance of Preferred Stock.”

(2) such Permitted Refinancing Indebtedness has a final maturity date later than the final maturity date of, and has a Weighted Average Life to Maturity equal to or greater than the Weighted Average Life to Maturity of, the Indebtedness being extended, refinanced, renewed, replaced, defeased or refunded; and

(3) if the Indebtedness being extended, refinanced, renewed, replaced, defeased or refunded is subordinated in right of payment to the CCH II Notes, such Permitted Refinancing Indebtedness has a final maturity date later than the final maturity date of, and is subordinated in right of payment to, the CCH II Notes on terms at least as favorable to the holders of CCH II Notes as those contained in the documentation governing the Indebtedness being extended, refinanced, renewed, replaced, defeased or refunded.

“Person” means any individual, corporation, partnership, joint venture, association, limited liability company, joint stock company, trust, unincorporated organization, government or agency or political subdivision thereof or any other entity.

“Preferred Stock,” as applied to the Capital Stock of any Person, means Capital Stock of any class or classes (however designated) which, by its terms, is preferred as to the payment of dividends, or as to the

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distribution of assets upon any voluntary or involuntary liquidation or dissolution of such Person, over shares of Capital Stock of any other class of such Person.

“Productive Assets” means assets (including assets of a Person owned directly or indirectly through ownership of Capital Stock) of a kind used or useful in the Cable Related Business.

“Qualified Capital Stock” means any Capital Stock that is not Disqualified Stock.

“Rating Agencies” means Moody’s and S&P.

“Related Party” means: (1) the spouse or an immediate family member, estate or heir of Paul G. Allen; or (2) any trust, corporation, partnership or other entity, the beneficiaries, stockholders, partners, owners or Persons beneficially holding an 80% or more controlling interest of which consist of Paul G. Allen and/or such other Persons referred to in the immediately preceding clause (1).

“Restricted Investment” means an Investment other than a Permitted Investment.

“Restricted Subsidiary” of a Person means any Subsidiary of the referent Person that is not an Unrestricted Subsidiary.

“S&P” means Standard & Poor’s Ratings Service, a division of the McGraw-Hill Companies, Inc. or any successor to the rating agency business thereof.

“SEC” means the Securities and Exchange Commission.

“Significant Subsidiary” means (a) with respect to any Person, any Restricted Subsidiary of such Person which would be considered a “Significant Subsidiary” as defined in Rule 1-02(w) of Regulation S-X under the Securities Act and (b) in addition, with respect to CCH II, CCH II Capital Corp.

“Stated Maturity” means, with respect to any installment of interest or principal on any series of Indebtedness, the date on which such payment of interest or principal was scheduled to be paid in the documentation governing such Indebtedness on the Issue Date, or, if none, the original documentation governing such Indebtedness, and shall not include any contingent obligations to repay, redeem or repurchase any such interest or principal prior to the date originally scheduled for the payment thereof.

“Subsidiary” means, with respect to any Person:

(1) any corporation, association or other business entity of which at least 50% of the total voting power of shares of Capital Stock entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof is at the time owned or controlled, directly or indirectly, by such Person or one or more of the other Subsidiaries of that Person (or a combination thereof) and, in the case of any such entity of which 50% of the total voting power of shares of Capital Stock is so owned or controlled by such Person or one or more of the other Subsidiaries of such Person, such Person and its Subsidiaries also have the right to control the management of such entity pursuant to contract or otherwise; and

(2) any partnership

(a) the sole general partner or the managing general partner of which is such Person or a Subsidiary of such Person, or

(b) the only general partners of which are such Person or one or more Subsidiaries of such Person (or any combination thereof).

“Unrestricted Subsidiary” means any Subsidiary of CCH II that is designated by the Board of Directors of CCH II as an Unrestricted Subsidiary pursuant to a board resolution, but only to the extent that such Subsidiary:

(1) has no Indebtedness other than Non-Recourse Debt;

(2) is not party to any agreement, contract, arrangement or understanding with CCH II or any Restricted Subsidiary of CCH II unless the terms of any such agreement, contract, arrangement or

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understanding are no less favorable to CCH II or such Restricted Subsidiary of CCH II than those that might be obtained at the time from Persons who are not Affiliates of CCH II unless such terms constitute Investments permitted by the covenant described above under the caption “— Certain Covenants — Investments,” Permitted Investments, Asset Sales permitted under the covenant described above under the caption “— Repurchase at the Option of the Holders — Asset Sales” or sale-leaseback transactions permitted by the covenant described above under the caption “Certain Covenants — Sale and Leaseback Transactions”;

(3) is a Person with respect to which neither CCH II nor any of its Restricted Subsidiaries has any direct or indirect obligation

(a) to subscribe for additional Equity Interests or

(b) to maintain or preserve such Person’s financial condition or to cause such Person to achieve any specified levels of operating results;

(4) has not guaranteed or otherwise directly or indirectly provided credit support for any Indebtedness of CCH II or any of its Restricted Subsidiaries; and

(5) does not own any Capital Stock of any Restricted Subsidiary of CCH II.

Any designation of a Subsidiary of CCH II as an Unrestricted Subsidiary shall be evidenced to the trustee by filing with the trustee a certified copy of the board resolution giving effect to such designation and an officers’ certificate certifying that such designation complied with the preceding conditions and was permitted by the covenant described above under the caption “— Certain Covenants — Investments.” If, at any time, any Unrestricted Subsidiary would fail to meet the preceding requirements as an Unrestricted Subsidiary, it shall thereafter cease to be an Unrestricted Subsidiary for purposes of the CCH II Indenture and any Indebtedness of such Subsidiary shall be deemed to be incurred by a Restricted Subsidiary of CCH II as of such date and, if such Indebtedness is not permitted to be incurred as of such date under the covenant described under the caption “— Certain Covenants — Incurrence of Indebtedness and Issuance of Preferred Stock,” CCH II shall be in default of such covenant. The Board of Directors of CCH II may at any time designate any Unrestricted Subsidiary to be a Restricted Subsidiary; provided that such designation shall be deemed to be an incurrence of Indebtedness by a Restricted Subsidiary of any outstanding Indebtedness of such Unrestricted Subsidiary and such designation shall only be permitted if:

(1) such Indebtedness is permitted under the covenant described under the caption “— Certain Covenants — Incurrence of Indebtedness and Issuance of Preferred Stock,” calculated on a pro forma basis as if such designation had occurred at the beginning of the four-quarter reference period; and

(2) no Default or Event of Default would be in existence immediately following such designation.

“Voting Stock” of any Person as of any date means the Capital Stock of such Person that is at the time entitled to vote in the election of the board of directors or comparable governing body of such Person.

“Weighted Average Life to Maturity” means, when applied to any Indebtedness at any date, the number of years obtained by dividing:

(1) the sum of the products obtained by multiplying

(a) the amount of each then remaining installment, sinking fund, serial maturity or other required payments of principal, including payment at final maturity, in respect thereof, by

(b) the number of years (calculated to the nearest one-twelfth) that will elapse between such date and the making of such payment; by

(2) the then outstanding principal amount of such Indebtedness.

“Wholly Owned Restricted Subsidiary” of any Person means a Restricted Subsidiary of such Person all of the outstanding common equity interests or other ownership interests of which (other than directors’ qualifying shares) shall at the time be owned by such Person and/or by one or more Wholly Owned Restricted Subsidiaries of such Person.

## THE EXCHANGE OFFER

### Terms of the Exchange Offer

**General.** We issued the original notes on September 14, 2006 in a transaction exempt from the registration requirements of the Securities Act of 1933, as amended.

In connection with the sale of original notes, the holders of the original notes became entitled to the benefits of the exchange and registration rights agreement, dated September 14, 2006, among us and the initial purchasers.

Under the exchange and registration rights agreement, we became obligated to file a registration statement in connection with exchange offers no later than April 30, 2007 and to use our reasonable best efforts to have the exchange offer registration statement declared effective within 90 days after the filing thereof. The exchange offers being made by this Prospectus, if consummated within the required time periods, will satisfy our obligations under the exchange and registration rights agreement. This Prospectus, together with the Letter of Transmittal, is being sent to all beneficial holders of original notes known to us.

Upon the terms and subject to the conditions set forth in this Prospectus and in the accompanying Letter of Transmittal, we will accept for exchange all original notes properly tendered and not withdrawn on or prior to the expiration date. We will issue \$1,000 principal amount of new notes in exchange for each \$1,000 principal amount of outstanding original notes accepted in the exchange offers. Holders may tender some or all of their original notes pursuant to the exchange offers.

Based on no-action letters issued by the staff of the Securities and Exchange Commission to third parties, we believe that holders of the new notes issued in exchange for original notes may offer for resale, resell and otherwise transfer the new notes, other than any holder that is an affiliate of ours within the meaning of Rule 405 under the Securities Act of 1933, without compliance with the registration and prospectus delivery provisions of the Securities Act of 1933. This is true as long as the new notes are acquired in the ordinary course of the holders' business, the holder has no arrangement or understanding with any person to participate in the distribution of the new notes and neither the holder nor any other person is engaging in or intends to engage in a distribution of the new notes. A broker-dealer that acquired original notes directly from us cannot exchange the original notes in the exchange offers. Any holder who tenders in the exchange offers for the purpose of participating in a distribution of the new notes cannot rely on the no-action letters of the staff of the Securities and Exchange Commission and must comply with the registration and prospectus delivery requirements of the Securities Act of 1933 in connection with any resale transaction.

Each broker-dealer that receives new notes for its own account in exchange for original notes, where original notes were acquired by such broker-dealer as a result of market-making or other trading activities, must acknowledge that it will deliver a prospectus in connection with any resale of such new notes. See "Plan of Distribution" for additional information.

The Offerors shall be deemed to have accepted validly tendered original notes when, as and if the Offerors have given oral or written notice of the acceptance of such notes to the exchange agent. The exchange agent will act as agent for the tendering holders of original notes for the purposes of receiving the new notes from the issuers and delivering new notes to such holders.

If any tendered original notes are not accepted for exchange because of an invalid tender or the occurrence of the conditions set forth under "— Conditions" without waiver by the Offerors, certificates for any such unaccepted original notes will be returned, without expense, to the tendering holder of any such original notes as promptly as practicable after the expiration date.

Holders of original notes who tender in the exchange offers will not be required to pay brokerage commissions or fees or, subject to the instructions in the Letter of Transmittal, or transfer taxes with respect to the exchange of original notes, pursuant to the exchange offers. We will pay all charges and expenses, other than certain applicable taxes in connection with the exchange offer. See "— Fees and Expenses."

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**Shelf Registration Statement.** Pursuant to the exchange and registration rights agreement, if the exchange offers is not completed prior to the date on which the earliest of any of the following events occurs:

- (a) existing law or applicable policy or interpretations of the staff of the Securities and Exchange Commission do not permit us to effect the exchange offers,
- (b) any holder of notes notifies us that either:
  - (1) such holder is not eligible to participate in the exchange offers, or
  - (2) such holder participates in the exchange offers and does not receive freely transferable new notes in exchange for tendered original notes, or
- (c) the exchange offers are not completed within 240 days after September 14, 2006, we will, at our cost:
  - file a shelf registration statement covering resales of the original notes,
  - use our reasonable best efforts to cause the shelf registration statement to be declared effective under the Securities Act of 1933 at the earliest possible time, but no later than 90 days after the time such obligation to file arises, and
  - use our reasonable best efforts to keep effective the shelf registration statement until the earlier of two years after the date as of which the Securities and Exchange Commission declares such shelf registration statement effective or the shelf registration otherwise becomes effective, or the time when all of the applicable original notes are no longer outstanding.

If any of the events described occurs, the Offerors will refuse to accept any original notes and will return all tendered original notes.

We will, if and when we file the shelf registration statement, provide to each holder of the original notes copies of the prospectus which is a part of the shelf registration statement, notify each holder when the shelf registration statement has become effective and take other actions as are required to permit unrestricted resales of the original notes. A holder that sells original notes pursuant to the shelf registration statement generally must be named as a selling security holder in the related prospectus and must deliver a prospectus to purchasers, and such a seller will be subject to civil liability provisions under the Securities Act of 1933 in connection with these sales. A seller of the original notes also will be bound by applicable provisions of the registration rights agreements, including indemnification obligations. In addition, each holder of original notes must deliver information to be used in connection with the shelf registration statement and provide comments on the shelf registration statement in order to have its original notes included in the shelf registration statement and benefit from the provisions regarding any liquidated damages in the registration rights agreement.

**Expiration Date; Extensions; Amendment.** The Offerors will keep the exchange offers open for not less than 20 business days, or longer if required by applicable law, after the date on which notice of the exchange offers are mailed to the holders of the original notes. The term “expiration date” means the expiration date set forth on the cover page of this Prospectus, unless the Offerors extend the exchange offers, in which case the term “expiration date” means the latest date to which the exchange offers are extended.

In order to extend the expiration date, the Offerors will notify the exchange agent of any extension by oral or written notice and will issue a public announcement of the extension, each prior to 5:00 p.m., New York City time, on the next business day after the previously scheduled expiration date.

The Offerors reserve the right

(a) to delay accepting any original notes, to extend the exchange offer or to terminate the exchange offer and not accept original notes not previously accepted if any of the conditions set forth under “— Conditions” shall have occurred and shall not have been waived by the Offerors, if permitted to be waived by the Offerors, by giving oral or written notice of such delay, extension or termination to the exchange agent, or



(b) to amend the terms of the exchange offer in any manner deemed by us to be advantageous to the holders of the original notes.

Any delay in acceptance, extension, termination or amendment will be followed as promptly as practicable by oral or written notice. If the exchange offer is amended in a manner determined by us to constitute a material change, the Offerors promptly will disclose such amendment in a manner reasonably calculated to inform the holders of the original notes of such amendment. Depending upon the significance of the amendment, the Offerors may extend the exchange offers if they otherwise would expire during such extension period.

Without limiting the manner in which the Offerors may choose to make a public announcement of any extension, amendment or termination of the exchange offers, the Offerors will not be obligated to publish, advertise, or otherwise communicate any such announcement, other than by making a timely release to an appropriate news agency.

#### ***Procedures for Tendering***

To tender in the exchange offers, a holder must complete, sign and date the Letter of Transmittal, or a facsimile of the Letter of Transmittal, have the signatures on the Letter of Transmittal guaranteed if required by instruction 2 of the Letter of Transmittal, and mail or otherwise deliver such Letter of Transmittal or such facsimile or an agent's message in connection with a book entry transfer, together with the original notes and any other required documents. To be validly tendered, such documents must reach the exchange agent before 5:00 p.m., New York City time, on the expiration date. Delivery of the original notes may be made by book-entry transfer in accordance with the procedures described below. Confirmation of such book-entry transfer must be received by the exchange agent prior to the expiration date.

The term "agent's message" means a message, transmitted by a book-entry transfer facility to, and received by, the exchange agent, forming a part of a confirmation of a book-entry transfer, which states that such book-entry transfer facility has received an express acknowledgment from the participant in such book-entry transfer facility tendering the original notes that such participant has received and agrees to be bound by the terms of the Letter of Transmittal and that the Offerors may enforce such agreement against such participant.

The tender by a holder of original notes will constitute an agreement between such holder and us in accordance with the terms and subject to the conditions set forth in this prospectus and in the Letter of Transmittal.

Delivery of all documents must be made to the exchange agent at its address set forth below. Holders may also request their respective brokers, dealers, commercial banks, trust companies or nominees to effect such tender for such holders.

**The method of delivery of original notes and the Letter of Transmittal and all other required documents to the exchange agent is at the election and risk of the holders. Instead of delivery by mail, it is recommended that holders use an overnight or hand delivery service. In all cases, sufficient time should be allowed to assure timely delivery to the exchange agent before 5:00 p.m., New York City time, on the expiration date. No Letter of Transmittal or original notes should be sent to the Offerors.**

There will be no fixed record date for determining registered holders of original notes entitled to participate in the exchange offers.

Any beneficial holder whose original notes are registered in the name of its broker, dealer, commercial bank, trust company or other nominee and who wishes to tender should contact such registered holder promptly and instruct such registered holder to tender on its behalf. If such beneficial holder wishes to tender on its own behalf, such registered holder must, prior to completing and executing the letter of transmittal and delivering its original notes, either make appropriate arrangements to register ownership of the original notes in such holder's name or obtain a properly completed bond power from the registered holder. The transfer of record ownership may take considerable time.

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Signatures on a letter of transmittal or a notice of withdrawal, must be guaranteed by a member firm of a registered national securities exchange or of the National Association of Securities Dealers, Inc. or a commercial bank or trust company having an office or correspondent in the United States referred to as an “eligible institution”, unless the original notes are tendered:

(a) by a registered holder who has not completed the box entitled “Special Issuance Instructions” or “Special Delivery Instructions” on the Letter of Transmittal or

(b) for the account of an eligible institution. In the event that signatures on a Letter of Transmittal or a notice of withdrawal, are required to be guaranteed, such guarantee must be by an eligible institution.

If the Letter of Transmittal is signed by a person other than the registered holder of any original notes listed therein, such original notes must be endorsed or accompanied by appropriate bond powers and a proxy which authorizes such person to tender the original notes on behalf of the registered holder, in each case signed as the name or names of the registered holder or holders appear on the original notes.

If the Letter of Transmittal or any original notes or bond powers are signed by trustees, executors, administrators, guardians, attorneys-in-fact, officers of corporations or others acting in a fiduciary or representative capacity, such persons should so indicate when signing, and unless waived by the Offerors, evidence satisfactory to the Offerors of their authority so to act must be submitted with the Letter of Transmittal.

All questions as to the validity, form, eligibility, including time of receipt, and withdrawal of the tendered original notes will be determined by the Offerors in their sole discretion, which determination will be final and binding. The Offerors reserve the absolute right to reject any and all original notes not properly tendered or any original notes the Offerors acceptance of which, in the opinion of counsel for the Offerors, would be unlawful. The Offerors also reserve the right to waive any irregularities or conditions of tender as to particular original notes. The Offerors interpretation of the terms and conditions of the exchange offers, including the instructions in the Letter of Transmittal, will be final and binding on all parties. Unless waived, any defects or irregularities in connection with tenders of original notes must be cured within such time as the Offerors shall determine. None of the Offerors, the exchange agent or any other person shall be under any duty to give notification of defects or irregularities with respect to tenders of original notes, nor shall any of them incur any liability for failure to give such notification. Tendere of original notes will not be deemed to have been made until such irregularities have been cured or waived. Any original notes received by the exchange agent that are not properly tendered and as to which the defects or irregularities have not been cured or waived will be returned without cost to such holder by the exchange agent to the tendering holders of original notes, unless otherwise provided in the Letter of Transmittal, as soon as practicable following the expiration date.

In addition, the Offerors reserve the right in their sole discretion to

(a) purchase or make offers for any original notes that remain outstanding subsequent to the expiration date or, as set forth under “— Conditions,” to terminate the exchange offers in accordance with the terms of the registration rights agreement and

(b) to the extent permitted by applicable law, purchase original notes in the open market, in privately negotiated transactions or otherwise. The terms of any such purchases or offers may differ from the terms of the exchange offer.

By tendering, each holder will represent to the Offerors that, among other things,

(a) the new notes acquired pursuant to the exchange offers are being obtained in the ordinary course of business of such holder or other person,

(b) neither such holder nor such other person is engaged in or intends to engage in a distribution of the new notes,

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(c) neither such holder or other person has any arrangement or understanding with any person to participate in the distribution of such new notes, and

(d) such holder or other person is not our “affiliate,” as defined under Rule 405 of the Securities Act of 1933, or, if such holder or other person is such an affiliate, will comply with the registration and prospectus delivery requirements of the Securities Act of 1933 to the extent applicable.

We understand that the exchange agent will make a request promptly after the date of this Prospectus to establish accounts with respect to the original notes at The Depository Trust Company for the purpose of facilitating the exchange offers, and subject to the establishment of such accounts, any financial institution that is a participant in The Depository Trust Company’s system may make book-entry delivery of original notes by causing The Depository Trust Company to transfer such original notes into the exchange agent’s account with respect to the original notes in accordance with The Depository Trust Company’s procedures for such transfer. Although delivery of the original notes may be effected through book-entry transfer into the exchange agent’s account at The Depository Trust Company, an appropriate Letter of Transmittal properly completed and duly executed with any required signature guarantee, or an agent’s message in lieu of the Letter of Transmittal, and all other required documents must in each case be transmitted to and received or confirmed by the exchange agent at its address set forth below on or prior to the expiration date, or, if the guaranteed delivery procedures described below are complied with, within the time period provided under such procedures. Delivery of documents to The Depository Trust Company does not constitute delivery to the exchange agent.

### **Guaranteed Delivery Procedures**

Holders who wish to tender their original notes and

(a) whose original notes are not immediately available or

(b) who cannot deliver their original notes, the Letter of Transmittal or any other required documents to the exchange agent prior to the expiration date, may effect a tender if:

(1) The tender is made through an eligible institution;

(2) prior to the expiration date, the exchange agent receives from such eligible institution a properly completed and duly executed Notice of Guaranteed Delivery, by facsimile transmission, mail or hand delivery, setting forth the name and address of the holder of the original notes, the certificate number or numbers of such original notes and the principal amount of original notes tendered, stating that the tender is being made thereby, and guaranteeing that, within three business days after the expiration date, the letter of transmittal, or facsimile thereof or agent’s message in lieu of the Letter of Transmittal, together with the certificate(s) representing the original notes to be tendered in proper form for transfer and any other documents required by the Letter of Transmittal will be deposited by the eligible institution with the exchange agent; and

(3) such properly completed and executed Letter of Transmittal (or facsimile thereof) together with the certificate(s) representing all tendered original notes in proper form for transfer and all other documents required by the Letter of Transmittal are received by the exchange agent within three business days after the expiration date.

### **Withdrawal of Tenders**

Except as otherwise provided in this Prospectus, tenders of original notes may be withdrawn at any time prior to 5:00 p.m., New York City time, on the expiration date. However, where the expiration date has been extended, tenders of original notes previously accepted for exchange as of the original expiration date may not be withdrawn.

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To withdraw a tender of original notes in the exchange offer, a written or facsimile transmission notice of withdrawal must be received by the exchange agent as its address set forth in this Prospectus prior to 5:00 p.m., New York City time, on the expiration date. Any such notice of withdrawal must:

- (a) specify the name of the depositor, who is the person having deposited the original notes to be withdrawn,
- (b) identify the original notes to be withdrawn, including the certificate number or numbers and principal amount of such original notes or, in the case of original notes transferred by book-entry transfer, the name and number of the account at The Depository Trust Company to be credited,
- (c) be signed by the depositor in the same manner as the original signature on the letter of transmittal by which such original notes were tendered, including any required signature guarantees, or be accompanied by documents of transfer sufficient to have the trustee with respect to the original notes register the transfer of such original notes into the name of the depositor withdrawing the tender, and
- (d) Specify the name in which any such original notes are to be registered, if different from that of the depositor. All questions as to the validity, form and eligibility, including time of receipt, of such withdrawal notices will be determined by us, and our determination shall be final and binding on all parties. Any original notes so withdrawn will be deemed not to have been validly tendered for purposes of the exchange offers and no new notes will be issued with respect to the original notes withdrawn unless the original notes so withdrawn are validly retendered. Any original notes which have been tendered but which are not accepted for exchange will be returned to its holder without cost to such holder as soon as practicable after withdrawal, rejection of tender or termination of the exchange offers. Properly withdrawn original notes may be retendered by following one of the procedures described above under “— Procedures for Tendering” at any time prior to the expiration date.

## **Conditions**

Notwithstanding any other term of the exchange offer, the Offerors will not be required to accept for exchange, or exchange, any new notes for any original notes, and may terminate or amend the exchange offers before the expiration date, if the exchange offers violate any applicable law or interpretation by the staff of the Securities and Exchange Commission.

If the Offerors determine in their reasonable discretion that the foregoing condition exists, the Offerors may

- (1) refuse to accept any original notes and return all tendered original notes to the tendering holders,
- (2) extend the exchange offers and retain all original notes tendered prior to the expiration of the exchange offers, subject, however, to the rights of holders who tendered such original notes to withdraw their tendered original notes, or
- (3) waive such condition, if permissible, with respect to the exchange offers and accept all properly tendered original notes which have not been withdrawn. If such waiver constitutes a material change to the exchange offers, the Offerors will promptly disclose such waiver by means of a prospectus supplement that will be distributed to the holders, and the Offerors will extend the exchange offers as required by applicable law.

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### **Exchange Agent**

The Bank of New York Trust Company, NA has been appointed as exchange agent for the exchange offer. Questions and requests for assistance and requests for additional copies of this Prospectus or of the Letter of Transmittal should be directed to The Bank of New York Trust Company addressed as follows:

For Information by Telephone:  
212-815-3738  
The Bank of New York Trust Company, NA.

By Regular Mail or Overnight Courier:  
The Bank of New York Trust Company, NA.  
Attn: Mrs. Evangeline R. Gonzales  
101 Barclay Street — 7 East  
New York, NY 10286

By Hand:  
The Bank of New York Trust Company, NA.  
Attn: Mrs. Evangeline R. Gonzales  
101 Barclay Street — 7 East  
New York, NY 10286

By Registered/ Certified Mail:  
The Bank of New York Trust Company, NA.  
Attn: Mrs. Evangeline R. Gonzales  
101 Barclay Street — 7 East  
New York, NY 10286  
By Facsimile Transmission:  
212-298-1915  
(Telephone Confirmation)  
212-815-3738

### **Fees and Expenses**

The Offerors have agreed to bear the expenses of the exchange offer pursuant to the exchange and registration rights agreement. The Offerors have not retained any dealer-manager in connection with the exchange offers and will not make any payments to brokers, dealers or others soliciting acceptances of the exchange offers. The Offerors, however, will pay the exchange agent reasonable and customary fees for its services and will reimburse it for its reasonable out-of-pocket expenses in connection with providing the services.

The cash expenses to be incurred in connection with the exchange offers will be paid by us. Such expenses include fees and expenses of The Bank of New York Trust Company, NA. as exchange agent, accounting and legal fees and printing costs, among others.

### **Accounting Treatment**

The new notes will be recorded at the same carrying value as the original notes as reflected in our accounting records on the date of exchange. Accordingly, no gain or loss for accounting purposes will be recognized by us. The expenses of the exchange offer and the unamortized expenses related to the issuance of the original notes will be amortized over the term of the notes.

### **Consequences of Failure to Exchange**

Holders of original notes who are eligible to participate in the exchange offer but who do not tender their original notes will not have any further registration rights, and their original notes will continue to be subject to restrictions on transfer. Accordingly, such original notes may be resold only

- to us, upon redemption of these notes or otherwise,
- so long as the original notes are eligible for resale pursuant to Rule 144A under the Securities Act of 1933, to a person inside the United States whom the seller reasonably believes is a qualified

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institutional buyer within the meaning of Rule 144A in a transaction meeting the requirements of Rule 144A,

- in accordance with Rule 144 under the Securities Act of 1933, or under another exemption from the registration requirements of the Securities Act of 1933, and based upon an opinion of counsel reasonably acceptable to us,
- outside the United States to a foreign person in a transaction meeting the requirements of Rule 904 under the Securities Act of 1933, or
- under an effective registration statement under the Securities Act of 1933, in each case in accordance with any applicable securities laws of any state of the United States.

### **Regulatory Approvals**

We do not believe that the receipt of any material federal or state regulatory approval will be necessary in connection with the exchange offers, other than the effectiveness of the exchange offer registration statement under the Securities Act of 1933.

### **Other**

Participation in the exchange offers are voluntary and holders of original notes should carefully consider whether to accept the terms and condition of this exchange offers. Holders of the original notes are urged to consult their financial and tax advisors in making their own decision on what action to take with respect to the exchange offers.

## IMPORTANT UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS

### General

The following is a general discussion of the material U.S. federal income tax consequences of the purchase, ownership and disposition of the new notes by a person who acquires new notes pursuant to these exchange offers. Except where noted, the summary deals only with the new notes held as capital assets within the meaning of section 1221 of the Internal Revenue Code of 1986, as amended (the “Code”), and does not deal with special situations, such as those of broker-dealers, tax exempt organizations, individual retirement accounts and other tax deferred accounts, financial institutions, insurance companies, holders whose functional currency is not the U.S. dollar, or persons holding new notes as part of a hedging or conversion transaction or a straddle, or a constructive sale. Further, the discussion below is based upon the provisions of the Code and Treasury regulations, rulings and judicial decisions thereunder as of the date hereof, and such authorities may be repealed, revoked, or modified, possibly with retroactive effect, so as to result in United States federal income tax consequences different from those discussed below. In addition, except as otherwise indicated, the following does not consider the effect of any applicable foreign, state, local or other tax laws or estate or gift tax considerations. Furthermore, this discussion does not consider the tax treatment of holders of the new notes who are partnerships or other pass-through entities for U.S. federal income tax purposes, or who are former citizens or long-term residents of the United States.

This summary addresses tax consequences relevant to a holder of the new notes that is either a U.S. Holder or a Non-U.S. Holder. As used herein, a “U.S. Holder” is a beneficial owner of a new note who is, for U.S. federal income tax purposes, either an individual who is a citizen or resident of the United States, a corporation or other entity taxable as a corporation for U.S. federal income tax purposes created in, or organized in or under the laws of, the United States or any political subdivision thereof, an estate the income of which is subject to U.S. federal income taxation regardless of its source, or a trust the administration of which is subject to the primary supervision of a U.S. court and which has one or more United States persons who have the authority to control all substantial decisions of the trust or that was in existence on, August 20, 1996, was treated as a United States person under the Code on that date and has made a valid election to be treated as a United States person under the Code. A “Non-U.S. Holder” is a beneficial owner of a new note that is, for U.S. federal income tax purposes, not a U.S. Holder or a partnership or other pass-through entity for U.S. federal income tax purposes.

PROSPECTIVE INVESTORS ARE ADVISED TO CONSULT THEIR OWN TAX ADVISORS WITH REGARD TO THE APPLICATION OF THE TAX CONSIDERATIONS DISCUSSED BELOW TO THEIR PARTICULAR SITUATIONS, AS WELL AS THE APPLICATION OF ANY STATE, LOCAL, FOREIGN, ESTATE, GIFT OR OTHER TAX LAWS, OR SUBSEQUENT REVISIONS THEREOF.

### United States Federal Income Taxation of U.S. Holders

#### *Exchange Offers*

Pursuant to the exchange offers holders are entitled to exchange the outstanding notes for new notes that will be substantially identical in all material respects to the outstanding notes, except that the new notes will be registered and therefore will not be subject to transfer restrictions. Accordingly,

- (1) no gain or loss will be realized by a U.S. Holder upon receipt of a new note,
- (2) the holding period of the new note will include the holding period of the outstanding note exchanged therefor,
- (3) the adjusted tax basis of the new notes will be the same as the adjusted tax basis of the original notes exchanged at the time of the exchange, and
- (4) the U.S. Holder will continue to take into account income in respect of the new note in the same manner as before the exchange.

***Payments of Interest on the New Notes***

Interest on the new notes will be taxable to a U.S. Holder as ordinary income at the time such interest is accrued or actually or constructively received in accordance with the U.S. Holder's regular method of accounting for U.S. federal income tax purposes.

***Sale, Redemption, Retirement or Other Taxable Disposition of the New Notes***

Unless a non-recognition event applies, upon the sale, redemption, retirement or other taxable disposition of a new note, the U.S. Holder will generally recognize gain or loss in an amount equal to the difference between (1) the amount of cash and the fair market value of other property received in exchange therefor and (2) the holder's adjusted tax basis in such new note. Amounts attributable to accrued but unpaid interest on the new notes will be treated as ordinary interest income as described above. A U.S. Holder's adjusted tax basis in a new note will generally equal the purchase price paid by such holder for the new note increased by the amount of any market discount, if any, that the U.S. Holder elected to include in income and decreased by the amount of any amortizable bond premium applied to reduce interest on the new notes.

Except as discussed below with respect to market discount, gain or loss realized on the sale, redemption, retirement or other taxable disposition of a new note will be capital gain or loss and will be long term capital gain or loss at the time of sale, redemption, retirement or other taxable disposition, if the new note has been held for more than one year. The deductibility of capital losses is subject to certain limitations.

***Market Discount***

The resale of new notes may be affected by the impact on a purchaser of the market discount provisions of the Code. For this purpose, the market discount on a new note generally will be equal to the amount, if any, by which the stated redemption price at maturity of the new note immediately after its acquisition, other than at original issue, exceeds the U.S. Holder's adjusted tax basis in the new note. Subject to a de minimis exception, these provisions generally require a U.S. Holder who acquires a new note at a market discount to treat as ordinary income any gain recognized on the disposition of such new note to the extent of the accrued market discount on such new note at the time of disposition, unless the U.S. Holder elects to include accrued market discount in income currently. In general, market discount will be treated as accruing on a straight line basis over the remaining term of the new note at the time of acquisition, or at the election of the U.S. Holder, under a constant yield method. If an election is made, the holder's basis in the new notes will be increased to reflect the amount of income recognized and the rules described below regarding deferral of interest deductions will not apply. The election to include market discount in income currently, once made, applies to all market discount obligations acquired on or after the first taxable year to which the election applies and may not be revoked without the consent of the Internal Revenue Service.

A U.S. Holder who acquires a new note at a market discount and who does not elect to include accrued market discount in income currently may be required to defer the deduction of a portion of the interest on any indebtedness incurred or maintained to purchase or carry such new note.

***Amortizable Bond Premium***

A U.S. Holder that purchased an original note for an amount in excess of the amount payable on maturity (which is in this case, the face amount of the original note) will be considered to have purchased such original note and received the new note with "amortizable bond premium." A U.S. Holder generally may elect to amortize the premium over the remaining term of the new note on a constant yield method. However, because the new notes could be redeemed for an amount in excess of their principal amount, the amortization of a portion of potential bond premium (equal to the excess of the amount payable on the earlier call date over the amount payable at maturity) could be deferred until later in the term of the new note. The amount amortized in any year will be treated as a reduction of the U.S. Holder's interest income from the new note. Amortizable bond premium on a new note held by a U.S. Holder that does not elect annual amortization will decrease the gain or increase the loss otherwise recognized upon disposition of the new note. The election to amortize premium on a constant yield method, once made, applies to all debt obligations held or



subsequently acquired by the electing U.S. Holder on or after the first day of the first taxable year to which the election applies and may not be revoked without the consent of the Internal Revenue Service.

### ***Information Reporting and Backup Withholding***

Backup withholding and information reporting requirements may apply to certain payments of principal, premium, if any, and interest on a new note and to certain payments of the proceeds of the sale or redemption of a new note. We or our paying agent, as the case may be, will be required to withhold from any payment that is subject to backup withholding tax at a rate of 28 percent if a U.S. Holder fails to furnish his U.S. taxpayer identification number (“TIN”), certify that such number is correct, certify that such holder is not subject to backup withholding or otherwise comply with the applicable backup withholding rules. Unless extended by future legislation, however, the reduction in the backup withholding rate to 28 percent expires and the 31 percent backup withholding rate will be reinstated for payments made after December 31, 2010. Exempt holders (including, among others, all corporations) are not subject to these backup withholding and information reporting requirements.

Any amounts withheld under the backup withholding rules from a payment to a U.S. Holder of the new notes will be allowed as a refund or a credit against such holder’s U.S. federal income tax liability, provided that the required information is furnished to the Internal Revenue Service.

### **United States Federal Income Taxation of Non-U.S. Holders**

#### ***Exchange Offers***

The exchange of outstanding notes for the new notes pursuant to these exchange offers will not constitute a taxable event for a Non-U.S. Holder.

#### ***Payments of Interest***

Subject to the discussion of information reporting and backup withholding below, and assuming that the DTC’s book-entry procedures set forth in the section entitled [“Description of the Notes — Book-Entry, Delivery and Form”] are observed upon issuance and throughout the term of the Notes, the payment to a Non-U.S. Holder of interest on a new note will not be subject to United States federal withholding tax pursuant to the “portfolio interest exception,” provided that:

(1) the interest is not effectively connected with the conduct of a trade or business in the United States;

(2) the Non-U.S. Holder (A) does not actually or constructively own 10 percent or more of the combined voting power of all classes of stock of CCO Holdings Capital entitled to vote nor 10 percent or more of the capital or profits interests of Charter Communications Holding Company, LLC and (B) is neither a controlled foreign corporation that is related to us through stock ownership within the meaning of the Code, nor a bank that received the new notes on an extension of credit in the ordinary course of its trade or business; and

(3) either (A) the beneficial owner of the new notes certifies to us or our paying agent, under penalties of perjury, that it is not a U.S. Holder and provides its name and address on Internal Revenue Service Form W-8BEN (or a suitable substitute form) or (B) a securities clearing organization, bank or other financial institution that holds the new notes on behalf of such Non-U.S. Holder in the ordinary course of its trade or business (a “financial institution”) certifies under penalties of perjury that such an Internal Revenue Service Form W-8BEN or W-8IMY (or suitable substitute form) has been received from the beneficial owner by it or by a financial institution between it and the beneficial owner and, in case of a non-qualified intermediary, furnishes the payor with a copy thereof.

If a Non-U.S. Holder cannot satisfy the requirements of the portfolio interest exception described above, payments of interest made to such Non-U.S. Holder will be subject to a 30 percent withholding tax, unless the beneficial owner of the Note provides us or our paying agent, as the case may be, with a properly

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executed (1) Internal Revenue Service Form W-8BEN (or successor form) providing a correct TIN and claiming an exemption from or reduction in the rate of withholding under the benefit of a income tax treaty or (2) Internal Revenue Service Form W-8ECI (or successor form) providing a correct TIN and stating that interest paid on the new note is not subject to withholding tax because it is effectively connected with the beneficial owner's conduct of a trade or business in the United States.

Notwithstanding the foregoing, if a Non-U.S. Holder of a new note is engaged in a trade or business in the United States and interest on the new note is effectively connected with the conduct of such trade or business, and, where an income tax treaty applies, is attributable to a U.S. permanent establishment or, in the case of an individual, a fixed base in the United States, such Non-U.S. Holder generally will be subject to U.S. federal income tax on such interest in the same manner as if it were a U.S. Holder (that is, will be taxable on a net basis at applicable graduated individual or corporate rates). In addition, if such Non-U.S. Holder is a foreign corporation, it may be subject to a branch profits tax equal to 30 percent of its effectively connected earnings and profits for that taxable year unless it qualifies for a lower rate under an applicable income tax treaty.

### ***Sale, Redemption, Retirement or Other Taxable Disposition of New Notes***

Generally, any gain realized on the sale, redemption, retirement or other taxable disposition of a new note by a Non-U.S. Holder will not be subject to U.S. federal income tax, unless:

(1) such gain is effectively connected with the conduct by such holder of a trade or business in the United States, and, where an income tax treaty applies, the gain is attributable to a permanent establishment maintained in the United States or, in the case of an individual, a fixed base in the United States, or

(2) in the case of gains derived by an individual, such individual is present in the United States for 183 days or more in the taxable year of the disposition and certain other conditions are met.

If a Non-U.S. Holder of a new note is engaged in the conduct of a trade or business in the United States, gain on the taxable disposition of a new note that is effectively connected with the conduct of such trade or business and, where an income tax treaty applies, is attributable to a U.S. permanent establishment or, in the case of an individual, a fixed base in the United States, generally will be taxed on a net basis at applicable graduated individual or corporate rates. Effectively connected gain of a foreign corporation may, under certain circumstances, be subject as well to a branch profits tax at a rate of 30 percent or a lower applicable income tax treaty rate.

If an individual Non-U.S. Holder is present in the United States for 183 days or more in the taxable year of the disposition of the Note and is nevertheless a "Non-U.S. Holder", such Non-U.S. Holder generally will be subject to U.S. federal income tax at a rate of 30 percent (or a lower applicable income tax treaty rate) on the amount by which capital gains allocable to U.S. sources (including gain, if such gain is allowable to U.S. sources, from the sale, exchange, retirement or other disposition of the Note) exceed capital losses which are allocable to U.S. sources and recognized during the same taxable year.

### ***Information Reporting and Backup Withholding***

We must report annually to the Internal Revenue Service and to each Non-U.S. Holder any interest, regardless of whether withholding was required, and any tax withheld with respect to the interest. Copies of these information returns may also be made available under the provisions of a specific treaty or agreement of the tax authorities of the country in which the Non-U.S. Holder resides.

Certain Non-U.S. Holders may, under applicable U.S. Treasury regulations, be presumed to be U.S. persons. Interest paid to such holders generally will be subject to information reporting and backup withholding at a 28 percent rate unless such holders provide to us or our paying agent, as the case maybe, an Internal Revenue Service Form W-8BEN (or satisfy certain certification documentary evidence requirements for establishing that such holders are non-United States persons under U.S. Treasury regulations) or otherwise establish an exemption. Unless extended by future legislation, however, the reduction in the

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backup withholding rate to 28 percent expires and the 31 percent backup withholding rate will be reinstated for payments made after December 31, 2010. Backup withholding will not apply to interest that was subject to the 30 percent withholding tax (or at applicable income tax treaty rate) applicable to certain Non-U.S. Holders, as described above.

Information reporting and backup withholding will also generally apply to a payment of the proceeds of a disposition of a new note (including a redemption) if payment is effected by or through a U.S. office of a broker, unless a Non-U.S. Holder provides us or our paying agent, as the case may be, with such Non-U.S. Holder's name and address and either certifies non-United States status or otherwise establishes an exemption. In general, backup withholding and information reporting will not apply to the payment of the proceeds from the disposition of the Notes by or through a foreign office of a broker. If, however, such broker is (i) a United States person, (ii) a foreign person 50 percent or more of whose gross income is from a U.S. trade or business for a specified three-year period, (iii) a "controlled foreign corporation" as to the United States, or (iv) a foreign partnership that, at any time during its taxable year, is 50 percent or more (by income or capital interest) owned by United States persons or is engaged in the conduct of a U.S. trade or business, such payment will be subject to information reporting, but not backup withholding, unless such broker has documentary evidence in its records that the holder is a Non-U.S. Holder and certain other conditions are met, or the holder otherwise establishes an exemption. Any amounts withheld under the backup withholding rules from a payment to a holder of the new notes will be allowed as a refund or a credit against such holder's U.S. federal income tax liability, provided that the required information is furnished to the Internal Revenue Service.

Any amounts withheld under the backup withholding rules from a payment to a holder of the new notes will be allowed as a refund or a credit against such holder's U.S. federal income tax liability, provided that the required information is furnished to the Internal Revenue Service.

### **PLAN OF DISTRIBUTION**

A broker-dealer that is the holder of original notes that were acquired for the account of such broker-dealer as a result of market-making or other trading activities, other than original notes acquired directly from us or any of our affiliates may exchange such original notes for new notes pursuant to the exchange offers. This is true so long as each broker-dealer that receives new notes for its own account in exchange for original notes, where such original notes were acquired by such broker-dealer as a result of market-making or other trading activities acknowledges that it will deliver a Prospectus in connection with any resale of such new notes. This Prospectus, as it may be amended or supplemented from time to time, may be used by a broker-dealer in connection with resales of new notes received in exchange for original notes where such original notes were acquired as a result of market-making activities or other trading activities. We have agreed that for a period of 180 days after consummation of the exchange offers or such time as any broker-dealer no longer owns any registrable securities, we will make this Prospectus, as it may be amended or supplemented from time to time, available to any broker-dealer for use in connection with any such resale. All dealers effecting transactions in the new notes will be required to deliver a Prospectus.

We will not receive any proceeds from any sale of new notes by broker-dealers or any other holder of new notes. New notes received by broker-dealers for their own account in the exchange offers may be sold from time to time in one or more transactions in the over-the-counter market, in negotiated transactions, through the writing of options on the new notes or a combination of such methods of resale, at market prices prevailing at the time of resale, at prices related to such prevailing market prices or negotiated prices. Any such resale may be made directly to purchasers or to or through brokers or dealers who may receive compensation in the form of commissions or concessions from any such broker-dealer and/or the purchasers of any such new notes. Any broker-dealer that resells new notes that were received by it for its own account pursuant to the exchange offers and any broker or dealer that participates in a distribution of such new notes may be deemed to be an "underwriter" within the meaning of the Securities Act of 1933, and any profit on any such resale of new notes and any commissions or concessions received by any such persons may be deemed to be underwriting compensation under the Securities Act of 1933. The Letter of Transmittal states that by

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acknowledging that it will deliver and by delivering a Prospectus, a broker-dealer will not be deemed to admit that it is an “underwriter” within the meaning of the Securities Act of 1933.

For a period of 180 days after consummation of the exchange offer (or, if earlier, until such time as any broker-dealer no longer owns any registrable securities), we will promptly send additional copies of this Prospectus and any amendment or supplement to this Prospectus to any broker-dealer that requests such documents in the Letter of Transmittal. We have agreed to pay all expenses incident to the exchange offers and to our performance of, or compliance with, the exchange and registration rights agreement (other than commissions or concessions of any brokers or dealers) and will indemnify the holders of the notes (including any broker-dealers) against certain liabilities, including liabilities under the Securities Act of 1933.

### **LEGAL MATTERS**

The validity of the new notes offered in this Prospectus will be passed upon for the Offerors by Gibson, Dunn & Crutcher LLP, New York, New York.

### **EXPERTS**

The consolidated financial statements of Charter Communications Holdings, LLC and its subsidiaries as of December 31, 2005 and 2004, and for each of the years in the three-year period ended December 31, 2005, have been included herein in reliance upon the report of KPMG LLP, independent registered public accounting firm, appearing elsewhere herein, and upon the authority of said firm as experts in accounting and auditing. The reports on the consolidated financial statements referred to above include explanatory paragraphs regarding the adoption, effective September 30, 2004 of EITF Topic D-108, “Use of the Residual Method to Value Acquired Assets Other than Goodwill,” and, effective January 1, 2003, of Statement of Financial Accounting Standards, No. 123, “Accounting for Stock-Based Compensation,” as amended by Statement of Financial Accounting Standards No. 148, “Accounting for Stock Based Compensation — Transition and Disclosure — an amendment to FASB Statement No. 123.”

### **WHERE YOU CAN FIND MORE INFORMATION**

Charter Holdings is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the “Exchange Act”) and in accordance therewith file reports and other information with the SEC. These reports and other information may be inspected and copied at the Public Reference Room of the SEC at 100 F Street, N.E., Washington, D.C. 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. Reports, information statements and other information, including the registration statement of which this Prospectus is a part, filed electronically with the SEC, are available at the SEC’s website at <http://www.sec.gov>.

The information in this Prospectus may not contain all the information that may be important to you. You should read the entire Prospectus, the registration statement of which this Prospectus is a part, including the exhibits thereto before making an investment decision.

This Prospectus contains summaries, believed to be accurate in all material respects, of certain terms of the New CCH I Notes and New CCH II Notes (including but not limited to the indentures governing the New CCH I Notes and New CCH II Notes), but reference is hereby made to the actual agreements, copies of which will be made available to you upon request to us for complete information with respect thereto, and all such summaries are qualified in their entirety by this reference. Any such request for the agreements summarized herein should be directed to Investor Relations, CCH II, LLC/ CCH I, LLC, Charter Plaza, 12405 Powerscourt Drive, St. Louis, Missouri 63131, telephone number (314) 965-0555.

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**Report of Independent Registered Public Accounting Firm**

To the Board of Directors

Charter Communications Holdings, LLC:

We have audited the accompanying consolidated balance sheets of Charter Communications Holdings, LLC and subsidiaries (the Company) as of December 31, 2005 and 2004, and the related consolidated statements of operations, changes in member's equity (deficit), and cash flows for each of the years in the three-year period ended December 31, 2005. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Charter Communications Holdings, LLC and subsidiaries as of December 31, 2005 and 2004, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2005, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 7 to the consolidated financial statements, effective September 30, 2004, the Company adopted EITF Topic D-108, *Use of the Residual Method to Value Acquired Assets Other than Goodwill*.

As discussed in Note 17 to the consolidated financial statements, effective January 1, 2003, the Company adopted Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation*, as amended by Statement of Financial Accounting Standards No. 148, *Accounting for Stock-Based Compensation — Transition and Disclosure — an amendment of FASB Statement No. 123*.

St. Louis, Missouri  
February 27, 2006, except as to Notes 4 and 26,  
which are as of August 8, 2006, and September 14, 2006, respectively

## CHARTER COMMUNICATIONS HOLDINGS, LLC AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

(Dollars in Millions)

	December 31,	
	2005	2004
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 14	\$ 546
Accounts receivable, less allowance for doubtful accounts of \$17 and \$15, respectively	212	186
Prepaid expenses and other current assets	22	20
Total current assets	<u>248</u>	<u>752</u>
<b>INVESTMENT IN CABLE PROPERTIES:</b>		
Property, plant and equipment, net of accumulated depreciation of \$6,712 and \$5,142, respectively	5,800	6,110
Franchises, net	9,826	9,878
Total investment in cable properties, net	<u>15,626</u>	<u>15,988</u>
<b>OTHER NONCURRENT ASSETS</b>		
	318	344
Total assets	<u>\$ 16,192</u>	<u>\$ 17,084</u>
<b>LIABILITIES AND MEMBER'S DEFICIT</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable and accrued expenses	\$ 1,096	\$ 1,112
Payables to related party	83	19
Total current liabilities	<u>1,179</u>	<u>1,131</u>
LONG-TERM DEBT	18,525	18,474
LOANS PAYABLE — RELATED PARTY	22	29
DEFERRED MANAGEMENT FEES — RELATED PARTY	14	14
OTHER LONG-TERM LIABILITIES	392	493
MINORITY INTEREST	622	656
<b>MEMBER'S DEFICIT:</b>		
Member's deficit	(4,564)	(3,698)
Accumulated other comprehensive income (loss)	2	(15)
Total member's deficit	<u>(4,562)</u>	<u>(3,713)</u>
Total liabilities and member's deficit	<u>\$ 16,192</u>	<u>\$ 17,084</u>

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

## CHARTER COMMUNICATIONS HOLDINGS, LLC AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in Millions)

	Year Ended December 31,		
	2005	2004	2003
REVENUES	\$ 5,033	\$ 4,760	\$ 4,616
COSTS AND EXPENSES:			
Operating (excluding depreciation and amortization)	2,203	1,994	1,873
Selling, general and administrative	998	934	905
Depreciation and amortization	1,443	1,433	1,396
Impairment of franchises	—	2,297	—
Asset impairment charges	39	—	—
(Gain) loss on sale of assets, net	6	(86)	5
Option compensation expense, net	14	31	4
Hurricane asset retirement loss	19	—	—
Special charges, net	7	104	21
Unfavorable contracts and other settlements	—	(5)	(72)
	<u>4,729</u>	<u>6,702</u>	<u>4,132</u>
Operating income (loss) from continuing operations	<u>304</u>	<u>(1,942)</u>	<u>484</u>
OTHER INCOME AND EXPENSES:			
Interest expense, net	(1,739)	(1,618)	(1,486)
Gain on derivative instruments and hedging activities, net	50	69	65
Gain (loss) on extinguishment of debt	494	(21)	187
Other, net	22	2	(10)
	<u>(1,173)</u>	<u>(1,568)</u>	<u>(1,244)</u>
Loss from continuing operations before minority interest, income taxes and cumulative effect of accounting change	<u>(869)</u>	<u>(3,510)</u>	<u>(760)</u>
MINORITY INTEREST	33	20	(29)
Loss from continuing operations before income taxes and cumulative effect of accounting change	<u>(836)</u>	<u>(3,490)</u>	<u>(789)</u>
INCOME TAX BENEFIT (EXPENSE)	(9)	35	(13)
Loss from continuing operations before cumulative effect of accounting change	<u>(845)</u>	<u>(3,455)</u>	<u>(802)</u>
INCOME (LOSS) FROM DISCONTINUED OPERATIONS, NET OF TAX	39	(104)	32
Loss before cumulative effect of accounting change	<u>(806)</u>	<u>(3,559)</u>	<u>(770)</u>
CUMULATIVE EFFECT OF ACCOUNTING CHANGE, NET OF TAX	—	(840)	—
Net loss	<u>\$ (806)</u>	<u>\$ (4,399)</u>	<u>\$ (770)</u>



**CHARTER COMMUNICATIONS HOLDINGS, LLC AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN MEMBER'S EQUITY (DEFICIT)**  
**(Dollars in Millions)**

	Member's Equity (Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Member's Equity (Deficit)
BALANCE, December 31, 2002	\$ 2,011	\$ (105)	\$ 1,906
Distributions to parent company	(548)	—	(548)
Changes in fair value of interest rate agreements	—	48	48
Other, net	3	—	3
Net loss	(770)	—	(770)
BALANCE, December 31, 2003	696	(57)	639
Changes in fair value of interest rate agreements	—	42	42
Other, net	5	—	5
Net loss	(4,399)	—	(4,399)
BALANCE, December 31, 2004	(3,698)	(15)	(3,713)
Distributions to parent company	(60)	—	(60)
Changes in fair value of interest rate agreements and other	—	17	17
Net loss	(806)	—	(806)
BALANCE, December 31, 2005	<u>\$ (4,564)</u>	<u>\$ 2</u>	<u>\$ (4,562)</u>

CHARTER COMMUNICATIONS HOLDINGS, LLC AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in Millions)

	Year Ended December 31,		
	2005	2004	2003
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net loss	\$ (806)	\$ (4,399)	\$ (770)
Adjustments to reconcile net loss to net cash flows from operating activities:			
Minority interest	(33)	(20)	29
Depreciation and amortization	1,499	1,495	1,453
Impairment of franchises	—	2,433	—
Asset impairment charges	39	—	—
(Gain) loss on sale of assets, net	6	(86)	5
Option compensation expense, net	14	27	4
Hurricane asset retirement loss	19	—	—
Special charges, net	—	85	—
Unfavorable contracts and other settlements	—	(5)	(72)
Noncash interest expense	257	315	410
Gain on derivative instruments and hedging activities, net	(50)	(69)	(65)
(Gain) loss on extinguishment of debt	(501)	18	(187)
Deferred income taxes	3	(42)	13
Cumulative effect of accounting change, net of tax	—	840	—
Other, net	(22)	(3)	—
Changes in operating assets and liabilities, net of effects from acquisitions and dispositions:			
Accounts receivable	(31)	(3)	62
Prepaid expenses and other assets	(6)	(4)	13
Accounts payable, accrued expenses and other	(44)	(83)	(109)
Receivables from and payables to related party, including deferred management fees	(90)	(68)	(40)
Net cash flows from operating activities	<u>254</u>	<u>431</u>	<u>746</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Purchases of property, plant and equipment	(1,088)	(893)	(804)
Change in accrued expenses related to capital expenditures	13	(33)	(41)
Proceeds from sale of assets	44	744	91
Purchases of investments	(1)	(6)	(8)
Proceeds from investments	16	—	—
Other, net	(2)	(3)	(3)
Net cash flows from investing activities	<u>(1,018)</u>	<u>(191)</u>	<u>(765)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Borrowings of long-term debt	1,207	3,147	739
Borrowings from related parties	140	—	—
Repayments of long-term debt	(1,107)	(4,860)	(1,369)
Repayments to related parties	(147)	(8)	(36)
Proceeds from issuance of debt	294	2,050	529
Payments for debt issuance costs	(70)	(108)	(42)
Redemption of preferred interest	(25)	—	—
Distributions	(60)	—	(27)
Net cash flows from financing activities	<u>232</u>	<u>221</u>	<u>(206)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<u>(532)</u>	<u>461</u>	<u>(225)</u>
CASH AND CASH EQUIVALENTS, beginning of period	546	85	310
CASH AND CASH EQUIVALENTS, end of period	<u>\$ 14</u>	<u>\$ 546</u>	<u>\$ 85</u>
<b>CASH PAID FOR INTEREST</b>	<u>\$ 1,467</u>	<u>\$ 1,264</u>	<u>\$ 1,069</u>
<b>NONCASH TRANSACTIONS:</b>			
Issuance of debt by CCH I Holdings, LLC	\$ 2,423	\$ —	\$ —
Issuance of debt by CCH I, LLC	\$ 3,686	\$ —	\$ —
Issuance of debt by Charter Communications Operating, LLC	\$ 333	\$ —	\$ —
Retirement of Charter Communications Holdings, LLC debt	\$ (7,000)	\$ —	\$ 1,257
Transfer of property, plant and equipment from parent company	\$ 139	\$ —	\$ —
Issuance of debt by CCH II, LLC	\$ —	\$ —	\$ 1,572
CCH II, LLC notes distributed to retire parent company debt	\$ —	\$ —	\$ 521

**CHARTER COMMUNICATIONS HOLDINGS, LLC AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2005, 2004 AND 2003**

**(Dollars in Millions, Except Where Indicated)**

**1. Organization and Basis of Presentation**

Charter Communications Holdings, LLC (“Charter Holdings”) is a holding company whose principal assets at December 31, 2005 are equity interests in its operating subsidiaries. Charter Holdings is a subsidiary of CCHC, LLC (“CCHC”) which is a subsidiary of Charter Communications Holding Company, LLC (“Charter Holdco”), which is a subsidiary of Charter Communications, Inc. (“Charter”). The consolidated financial statements include the accounts of Charter Holdings and all of its wholly owned subsidiaries where the underlying operations reside, which are collectively referred to herein as the “Company.” All significant intercompany accounts and transactions among consolidated entities have been eliminated. The Company is a broadband communications company operating in the United States. The Company offers its customers traditional cable video programming (analog and digital video) as well as high-speed Internet services and, in some areas, advanced broadband services such as high-definition television, video on demand and telephone. The Company sells its cable video programming, high-speed Internet and advanced broadband services on a subscription basis. The Company also sells local advertising on satellite-delivered networks.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Areas involving significant judgments and estimates include capitalization of labor and overhead costs; depreciation and amortization costs; impairments of property, plant and equipment, franchises and goodwill; income taxes; and contingencies. Actual results could differ from those estimates.

*Reclassifications.* Certain prior year amounts have been reclassified to conform with the 2005 presentation.

**2. Liquidity and Capital Resources**

The Company incurred net loss of \$806 million, \$4.4 billion and \$770 million in 2005, 2004 and 2003, respectively. The Company’s net cash flows from operating activities were \$254 million, \$431 million and \$746 million for the years ending December 31, 2005, 2004 and 2003, respectively.

The Company has a significant level of debt. The Company’s long-term financing as of December 31, 2005 consists of \$5.7 billion of credit facility debt and \$12.8 billion accreted value of high-yield notes. In 2006, \$30 million of the Company’s debt matures and in 2007, an additional \$385 million matures. In 2008 and beyond, significant additional amounts will become due under the Company’s remaining long-term debt obligations.

***Recent Financing Transactions***

In January 2006, CCH II, LLC (“CCH II”) and CCH II Capital Corp. issued \$450 million in debt securities, the proceeds of which were provided, directly or indirectly, to Charter Communications Operating, LLC (“Charter Operating”), which used such funds to reduce borrowings, but not commitments, under the revolving portion of its credit facilities.

In October 2005, CCO Holdings, LLC (“CCO Holdings”) and CCO Holdings Capital Corp., as guarantor thereunder, entered into a senior bridge loan agreement (the “Bridge Loan”) with JPMorgan Chase Bank, N.A., Credit Suisse, Cayman Islands Branch and Deutsche Bank AG Cayman Islands Branch (the “Lenders”) whereby the Lenders committed to make loans to CCO Holdings in an aggregate amount of \$600 million. Upon the issuance of \$450 million of CCH II notes discussed above, the commitment under the Bridge Loan was reduced to \$435 million. CCO Holdings may draw upon the facility between January 2,

**CHARTER COMMUNICATIONS HOLDINGS, LLC AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

2006 and September 29, 2006 and the loans will mature on the sixth anniversary of the first borrowing under the Bridge Loan.

In September 2005, Charter Holdings and its wholly owned subsidiaries, CCH I, LLC (“CCH I”) and CCH I Holdings, LLC (“CIH”), completed the exchange of approximately \$6.8 billion total principal amount of outstanding debt securities of Charter Holdings in a private placement for new debt securities. Holders of Charter Holdings notes due in 2009 and 2010 exchanged \$3.4 billion principal amount of notes for \$2.9 billion principal amount of new 11% CCH I notes due 2015. Holders of Charter Holdings notes due 2011 and 2012 exchanged \$845 million principal amount of notes for \$662 million principal amount of 11% CCH I notes due 2015. In addition, holders of Charter Holdings notes due 2011 and 2012 exchanged \$2.5 billion principal amount of notes for \$2.5 billion principal amount of various series of new CIH notes. Each series of new CIH notes has the same interest rate and provisions for payment of cash interest as the series of old Charter Holdings notes for which such CIH notes were exchanged. In addition, the maturities for each series were extended three years. See Note 9 for discussion of transaction and related financial statement impact.

The Company requires significant cash to fund debt service costs, capital expenditures and ongoing operations. The Company has historically funded these requirements through cash flows from operating activities, borrowings under its credit facilities, equity contributions from Charter Holdco, sales of assets, issuances of debt securities and cash on hand. However, the mix of funding sources changes from period to period. For the year ended December 31, 2005, the Company generated \$254 million of net cash flows from operating activities after paying cash interest of \$1.5 billion. In addition, the Company used \$1.1 billion for purchases of property, plant and equipment. Finally, the Company had net cash flows from financing activities of \$232 million.

The Company expects that cash on hand, cash flows from operating activities and the amounts available under its credit facilities and Bridge Loan will be adequate to meet its and its parent companies’ cash needs in 2006. The Company believes that cash flows from operating activities and amounts available under the Company’s credit facilities and Bridge Loan will not be sufficient to fund the Company’s operations and satisfy its and its parent companies’ interest and debt repayment obligations in 2007 and beyond. The Company has been advised that Charter is working with its financial advisors to address this funding requirement. However, there can be no assurance that such funding will be available to Charter, Charter Holdco or the Company. In addition, Paul G. Allen, Charter’s Chairman and controlling shareholder, and his affiliates are not obligated to purchase equity from, contribute to or loan funds to Charter, Charter Holdco or the Company.

***Debt Covenants***

The Company’s ability to operate depends upon, among other things, its continued access to capital, including credit under the Charter Operating credit facilities and Bridge Loan. The Charter Operating credit facilities, along with the Company’s indentures and Bridge Loan, contain certain restrictive covenants, some of which require the Company to maintain specified financial ratios and meet financial tests and to provide audited financial statements with an unqualified opinion from the Company’s independent auditors. As of December 31, 2005, the Company is in compliance with the covenants under its indentures, Bridge Loan and credit facilities, and the Company expects to remain in compliance with those covenants for the next twelve months. As of December 31, 2005, the Company’s potential availability under its credit facilities totaled approximately \$553 million, none of which was limited by covenants. In addition, as of January 2, 2006, the Company had additional borrowing availability of \$600 million under the Bridge Loan (which was reduced to \$435 million as a result of the issuance of the CCH II notes). Continued access to the Company’s credit facilities and Bridge Loan is subject to the Company remaining in compliance with these covenants, including covenants tied to the Company’s operating performance. If any events of non-compliance occur,

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

funding under the credit facilities and Bridge Loan may not be available and defaults on some or potentially all of the Company's debt obligations could occur. An event of default under any of the Company's debt instruments could result in the acceleration of its payment obligations under that debt and, under certain circumstances, in cross-defaults under its other debt obligations, which could have a material adverse effect on the Company's consolidated financial condition and results of operations.

***Parent Company Debt Obligations***

Any financial or liquidity problems of the Company's parent companies could cause serious disruption to the Company's business and have a material adverse effect on the Company's business and results of operations.

***Specific Limitations***

Charter's ability to make interest payments on its convertible senior notes, and, in 2006 and 2009, to repay the outstanding principal of its convertible senior notes of \$20 million and \$863 million, respectively, will depend on its ability to raise additional capital and/or on receipt of payments or distributions from Charter Holdco and its subsidiaries. During 2005, Charter Holdings distributed \$60 million of cash to Charter Holdco. As of December 31, 2005, Charter Holdco was owed \$22 million in intercompany loans from its subsidiaries, which were available to pay interest and principal on Charter's convertible senior notes. In addition, Charter has \$98 million of governmental securities pledged as security for the next four scheduled semi-annual interest payments on Charter's 5.875% convertible senior notes.

Distributions by Charter's subsidiaries to a parent company (including Charter, Charter Holdco, CCHC and Charter Holdings) for payment of principal on parent company notes are restricted under the indentures governing the CIH notes, CCH I notes, CCH II notes, CCO Holdings notes and Charter Operating notes unless there is no default, each applicable subsidiary's leverage ratio test is met at the time of such distribution and, in the case of Charter's convertible senior notes, other specified tests are met. For the quarter ended December 31, 2005, there was no default under any of these indentures and each such subsidiary met its applicable leverage ratio tests based on December 31, 2005 financial results. Such distributions would be restricted, however, if any such subsidiary fails to meet these tests. In the past, certain subsidiaries have from time to time failed to meet their leverage ratio test. There can be no assurance that they will satisfy these tests at the time of such distribution. Distributions by Charter Operating and CCO Holdings for payment of principal on parent company notes are further restricted by the covenants in the credit facilities and Bridge Loan, respectively.

Distributions by CIH, CCH I, CCH II, CCO Holdings and Charter Operating to a parent company for payment of parent company interest are permitted if there is no default under the aforementioned indentures. However, distributions for payment of interest on Charter's convertible senior notes are further limited to when each applicable subsidiary's leverage ratio test is met and other specified tests are met. There can be no assurance that they will satisfy these tests at the time of such distribution.

The indentures governing the Charter Holdings notes permit Charter Holdings to make distributions to Charter Holdco for payment of interest or principal on the convertible senior notes, only if, after giving effect to the distribution, Charter Holdings can incur additional debt under the leverage ratio of 8.75 to 1.0, there is no default under Charter Holdings' indentures and other specified tests are met. For the quarter ended December 31, 2005, there was no default under Charter Holdings' indentures and Charter Holdings met its leverage ratio test based on December 31, 2005 financial results. Such distributions would be restricted, however, if Charter Holdings fails to meet these tests. In the past, Charter Holdings has from time to time failed to meet this leverage ratio test. There can be no assurance that Charter Holdings will satisfy these tests at the time of such distribution. During periods in which distributions are restricted, the indentures governing the Charter Holdings notes permit Charter Holdings and its subsidiaries to make specified investments (that

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are not restricted payments) in Charter Holdco or Charter up to an amount determined by a formula, as long as there is no default under the indentures.

### 3. Summary of Significant Accounting Policies

#### *Cash Equivalents*

The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents. These investments are carried at cost, which approximates market value.

#### *Property, Plant and Equipment*

Property, plant and equipment are recorded at cost, including all material, labor and certain indirect costs associated with the construction of cable transmission and distribution facilities. While the Company's capitalization is based on specific activities, once capitalized, costs are tracked by fixed asset category at the cable system level and not on a specific asset basis. Costs associated with initial customer installations and the additions of network equipment necessary to enable advanced services are capitalized. Costs capitalized as part of initial customer installations include materials, labor, and certain indirect costs. Indirect costs are associated with the activities of the Company's personnel who assist in connecting and activating the new service and consist of compensation and indirect costs associated with these support functions. Indirect costs primarily include employee benefits and payroll taxes, direct variable costs associated with capitalizable activities, consisting primarily of installation and construction vehicle costs, the cost of dispatch personnel and indirect costs directly attributable to capitalizable activities. The costs of disconnecting service at a customer's dwelling or reconnecting service to a previously installed dwelling are charged to operating expense in the period incurred. Costs for repairs and maintenance are charged to operating expense as incurred, while plant and equipment replacement and betterments, including replacement of cable drops from the pole to the dwelling, are capitalized.

Depreciation is recorded using the straight-line composite method over management's estimate of the useful lives of the related assets as follows:

Cable distribution systems	7-20 years
Customer equipment and installations	3-5 years
Vehicles and equipment	1-5 years
Buildings and leasehold improvements	5-15 years
Furniture, fixtures and equipment	5 years

#### *Asset Retirement Obligations*

Certain of the Company's franchise agreements and leases contain provisions requiring the Company to restore facilities or remove equipment in the event that the franchise or lease agreement is not renewed. The Company expects to continually renew its franchise agreements and has concluded that substantially all of the related franchise rights are indefinite lived intangible assets. Accordingly, the possibility is remote that the Company would be required to incur significant restoration or removal costs related to these franchise agreements in the foreseeable future. Statement of Financial Accounting Standards ("SFAS") No. 143, *Accounting for Asset Retirement Obligations*, as interpreted by Financial Accounting Standards Board ("FASB") Interpretation ("FIN") No. 47, *Accounting for Conditional Asset Retirement Obligations — an Interpretation of FASB Statement No. 143*, requires that a liability be recognized for an asset retirement obligation in the period in which it is incurred if a reasonable estimate of fair value can be made. The Company has not recorded an estimate for potential franchise related obligations but would record an estimated liability in the unlikely event a franchise agreement containing such a provision were no longer

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expected to be renewed. The Company also expects to renew many of its lease agreements related to the continued operation of its cable business in the franchise areas. For the Company's lease agreements, the liabilities related to the removal provisions, where applicable, have been recorded and are not significant to the financial statements.

**Franchises**

Franchise rights represent the value attributed to agreements with local authorities that allow access to homes in cable service areas acquired through the purchase of cable systems. Management estimates the fair value of franchise rights at the date of acquisition and determines if the franchise has a finite life or an indefinite-life as defined by SFAS No. 142, *Goodwill and Other Intangible Assets*. All franchises that qualify for indefinite-life treatment under SFAS No. 142 are no longer amortized against earnings but instead are tested for impairment annually as of October 1, or more frequently as warranted by events or changes in circumstances (see Note 7). The Company concluded that 99% of its franchises qualify for indefinite-life treatment; however, certain franchises did not qualify for indefinite-life treatment due to technological or operational factors that limit their lives. These franchise costs are amortized on a straight-line basis over 10 years. Costs incurred in renewing cable franchises are deferred and amortized over 10 years.

**Other Noncurrent Assets**

Other noncurrent assets primarily include deferred financing costs, governmental securities, investments in equity securities and goodwill. Costs related to borrowings are deferred and amortized to interest expense over the terms of the related borrowings.

Investments in equity securities are accounted for at cost, under the equity method of accounting or in accordance with SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*. Charter recognizes losses for any decline in value considered to be other than temporary. Certain marketable equity securities are classified as available-for-sale and reported at market value with unrealized gains and losses recorded as accumulated other comprehensive income or loss.

The following summarizes investment information as of and for the years ended December 31, 2005 and 2004:

	Carrying Value at December 31,		Gain (loss) For the Years Ended December 31,		
	2005	2004	2005	2004	2003
Equity investments, under the cost method	\$ 27	\$ 8	\$ —	\$ (3)	\$ (2)
Equity investments, under the equity method	13	24	22	6	2
	<u>\$ 40</u>	<u>\$ 32</u>	<u>\$ 22</u>	<u>\$ 3</u>	<u>\$ —</u>

The gain on equity investments, under the equity method for the year ended December 31, 2005 primarily represents a gain realized on an exchange of the Company's interest in an equity investee for an investment in a larger enterprise. Such amounts are included in other, net in the statements of operations.

**Valuation of Property, Plant and Equipment**

The Company evaluates the recoverability of long-lived assets to be held and used for impairment when events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable using asset groupings consistent with those used to evaluate franchises. Such events or changes in circumstances could include such factors as impairment of the Company's indefinite life franchise under SFAS No. 142, changes in technological advances, fluctuations in the fair value of such assets, adverse changes in

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relationships with local franchise authorities, adverse changes in market conditions or a deterioration of operating results. If a review indicates that the carrying value of such asset is not recoverable from estimated undiscounted cash flows, the carrying value of such asset is reduced to its estimated fair value. While the Company believes that its estimates of future cash flows are reasonable, different assumptions regarding such cash flows could materially affect its evaluations of asset recoverability. No impairments of long-lived assets to be held and used were recorded in 2005, 2004 and 2003, however, approximately \$39 million of impairment on assets held for sale was recorded for the year ended December 31, 2005 (see Note 4).

***Derivative Financial Instruments***

The Company accounts for derivative financial instruments in accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended. For those instruments which qualify as hedging activities, related gains or losses are recorded in accumulated other comprehensive income. For all other derivative instruments, the related gains or losses are recorded in the income statement. The Company uses interest rate risk management derivative instruments, such as interest rate swap agreements, interest rate cap agreements and interest rate collar agreements (collectively referred to herein as interest rate agreements) as required under the terms of the credit facilities of the Company's subsidiaries. The Company's policy is to manage interest costs using a mix of fixed and variable rate debt. Using interest rate swap agreements, the Company agrees to exchange, at specified intervals, the difference between fixed and variable interest amounts calculated by reference to an agreed-upon notional principal amount. Interest rate cap agreements are used to lock in a maximum interest rate should variable rates rise, but enable the Company to otherwise pay lower market rates. Interest rate collar agreements are used to limit exposure to and benefits from interest rate fluctuations on variable rate debt to within a certain range of rates. The Company does not hold or issue any derivative financial instruments for trading purposes.

***Revenue Recognition***

Revenues from residential and commercial video, high-speed Internet and telephone services are recognized when the related services are provided. Advertising sales are recognized at estimated realizable values in the period that the advertisements are broadcast. Local governmental authorities impose franchise fees on the Company ranging up to a federally mandated maximum of 5% of gross revenues as defined in the franchise agreement. Such fees are collected on a monthly basis from the Company's customers and are periodically remitted to local franchise authorities. Franchise fees are reported as revenues on a gross basis with a corresponding operating expense.

***Programming Costs***

The Company has various contracts to obtain analog, digital and premium video programming from program suppliers whose compensation is typically based on a flat fee per customer. The cost of the right to exhibit network programming under such arrangements is recorded in operating expenses in the month the programming is available for exhibition. Programming costs are paid each month based on calculations performed by the Company and are subject to periodic audits performed by the programmers. Certain programming contracts contain launch incentives to be paid by the programmers. The Company receives these payments related to the activation of the programmer's cable television channel and recognizes the launch incentives on a straight-line basis over the life of the programming agreement as a reduction of programming expense. This offset to programming expense was \$40 million, \$59 million and \$63 million for the years ended December 31, 2005, 2004 and 2003, respectively. Programming costs included in the accompanying statement of operations were \$1.4 billion, \$1.3 billion and \$1.2 billion for the years ended December 31, 2005, 2004 and 2003, respectively. As of December 31, 2005 and 2004, the deferred amount of launch incentives, included in other long-term liabilities, were \$83 million and \$105 million, respectively.



**CHARTER COMMUNICATIONS HOLDINGS, LLC AND SUBSIDIARIES**  
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**Advertising Costs**

Advertising costs associated with marketing the Company's products and services are generally expensed as costs are incurred. Such advertising expense was \$94 million, \$70 million and \$60 million for the years ended December 31, 2005, 2004 and 2003, respectively.

**Stock-Based Compensation**

The Company has historically accounted for stock-based compensation in accordance with Accounting Principles Board ("APB") Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations, as permitted by SFAS No. 123, *Accounting for Stock-Based Compensation*. On January 1, 2003, the Company adopted the fair value measurement provisions of SFAS No. 123 using the prospective method under which the Company will recognize compensation expense of a stock-based award to an employee over the vesting period based on the fair value of the award on the grant date consistent with the method described in FIN No. 28, *Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans*. Adoption of these provisions resulted in utilizing a preferable accounting method as the consolidated financial statements will present the estimated fair value of stock-based compensation in expense consistently with other forms of compensation and other expense associated with goods and services received for equity instruments. In accordance with SFAS No. 148, *Accounting for Stock-Based Compensation — Transition and Disclosure*, the fair value method was applied only to awards granted or modified after January 1, 2003, whereas awards granted prior to such date were accounted for under APB No. 25, unless they were modified or settled in cash.

SFAS No. 123 requires pro forma disclosure of the impact on earnings as if the compensation expense for these plans had been determined using the fair value method. The following table presents the Company's net loss as reported and the pro forma amounts that would have been reported using the fair value method under SFAS No. 123 for the years presented:

	Year Ended December 31,		
	2005	2004	2003
Net loss	\$ (806)	\$ (4,399)	\$ (770)
Add back stock-based compensation expense related to stock options included in reported net loss	14	31	4
Less employee stock-based compensation expense determined under fair value based method for all employee stock option awards	(14)	(33)	(30)
Effects of unvested options in stock option exchange (see Note 17)	—	48	—
Pro forma	<u>\$ (806)</u>	<u>\$ (4,353)</u>	<u>\$ (796)</u>

The fair value of each option granted is estimated on the date of grant using the Black-Scholes option-pricing model. The following weighted average assumptions were used for grants during the years ended December 31, 2005, 2004 and 2003, respectively: risk-free interest rates of 4.0%, 3.3%, and 3.0%; expected volatility of 70.9%, 92.4% and 93.6%; and expected lives of 4.5 years, 4.6 years and 4.5 years, respectively. The valuations assume no dividends are paid.

**Unfavorable Contracts and Other Settlements**

The Company recognized \$5 million of benefit for the year ended December 31, 2004 related to changes in estimated legal reserves established as part of previous business combinations, which, based on an evaluation of current facts and circumstances, are no longer required.

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The Company recognized \$72 million of benefit for the year ended December 31, 2003 as a result of the settlement of estimated liabilities recorded in connection with prior business combinations. The majority of this benefit (approximately \$52 million) is due to the renegotiation of a major programming contract, for which a liability had been recorded for the above market portion of the agreement in conjunction with the Falcon acquisition in 1999 and the Bresnan acquisition in 2000. The remaining benefit relates to the reversal of previously recorded liabilities, which are no longer required.

**Income Taxes**

Charter Holdings is a single member limited liability company not subject to income tax. Charter Holdings holds all operations through indirect subsidiaries. The majority of these indirect subsidiaries are limited liability companies that are also not subject to income tax. However, certain of Charter Holdings' indirect subsidiaries are corporations that are subject to income tax. The Company recognizes deferred tax assets and liabilities for temporary differences between the financial reporting basis and the tax basis of these indirect corporate subsidiaries' assets and liabilities and expected benefits of utilizing net operating loss carryforwards. The impact on deferred taxes of changes in tax rates and tax law, if any, applied to the years during which temporary differences are expected to be settled, are reflected in the consolidated financial statements in the period of enactment (see Note 20).

**Segments**

SFAS No. 131, *Disclosure about Segments of an Enterprise and Related Information*, established standards for reporting information about operating segments in annual financial statements and in interim financial reports issued to shareholders. Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated on a regular basis by the chief operating decision maker, or decision making group, in deciding how to allocate resources to an individual segment and in assessing performance of the segment.

The Company's operations are managed on the basis of geographic divisional operating segments. The Company has evaluated the criteria for aggregation of the geographic operating segments under paragraph 17 of SFAS No. 131 and believes it meets each of the respective criteria set forth. The Company delivers similar products and services within each of its geographic divisional operations. Each geographic and divisional service area utilizes similar means for delivering the programming of the Company's services; have similarity in the type or class of customer receiving the products and services; distributes the Company's services over a unified network; and operates within a consistent regulatory environment. In addition, each of the geographic divisional operating segments has similar economic characteristics. In light of the Company's similar services, means for delivery, similarity in type of customers, the use of a unified network and other considerations across its geographic divisional operating structure, management has determined that the Company has one reportable segment, broadband services.

**4. Sale of Assets**

In 2006, the Company signed a definitive agreement to sell certain cable television systems serving a total of approximately 242,600 analog video customers in West Virginia and Virginia to Cebridge Connections, Inc. for a total of approximately \$770 million. During the second quarter of 2006, the Company determined, based on changes in the Company's organizational and cost structure, that its asset groupings for long lived asset accounting purposes are at the level of their individual market areas, which are at a level below the Company's geographic clustering. As a result, the Company has determined that the West Virginia and Virginia cable systems comprise operations and cash flows that for financial reporting purposes meet the criteria for discontinued operations. Accordingly, the results of operations for the West Virginia and Virginia cable systems have been presented as discontinued operations, net of tax for the years ended December 31,

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

2005, 2004 and 2003. Relevant financial information in other footnotes herein have been updated to be consistent with this presentation.

Summarized consolidated financial information for the years ended December 31, 2005, 2004 and 2003 for the West Virginia and Virginia cable systems is as follows:

	Year Ended December 31,		
	2005	2004	2003
Revenues	\$ 221	\$ 217	\$ 203
Income (loss) before minority interest, income taxes and cumulative effect of accounting change	\$ 39	\$ (104)	\$ 32

In 2005, the Company closed the sale of certain cable systems in Texas, West Virginia and Nebraska, representing a total of approximately 33,000 analog video customers. During the year ended December 31, 2005, those cable systems met the criteria for assets held for sale under SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. As such, the assets were written down to fair value less estimated costs to sell resulting in asset impairment charges during the year ended December 31, 2005 of approximately \$39 million.

In 2004, the Company closed the sale of certain cable systems in Florida, Pennsylvania, Maryland, Delaware, New York and West Virginia to Atlantic Broadband Finance, LLC. These transactions resulted in a \$106 million gain recorded as a gain on sale of assets in the Company's consolidated statements of operations. The total net proceeds from the sale of all of these systems were approximately \$735 million. The proceeds were used to repay a portion of amounts outstanding under the Company's revolving credit facility.

#### 5. Allowance for Doubtful Accounts

Activity in the allowance for doubtful accounts is summarized as follows for the years presented:

	Year Ended December 31,		
	2005	2004	2003
Balance, beginning of year	\$ 15	\$ 17	\$ 19
Charged to expense	76	92	79
Uncollected balances written off, net of recoveries	(74)	(94)	(81)
Balance, end of year	<u>\$ 17</u>	<u>\$ 15</u>	<u>\$ 17</u>

#### 6. Property, Plant and Equipment

Property, plant and equipment consists of the following as of December 31, 2005 and 2004:

	2005	2004
Cable distribution systems	\$ 7,035	\$ 6,555
Customer equipment and installations	3,934	3,497
Vehicles and equipment	462	419
Buildings and leasehold improvements	525	518
Furniture, fixtures and equipment	556	263
	<u>12,512</u>	<u>11,252</u>
Less: accumulated depreciation	<u>(6,712)</u>	<u>(5,142)</u>
	<u>\$ 5,800</u>	<u>\$ 6,110</u>

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The Company periodically evaluates the estimated useful lives used to depreciate its assets and the estimated amount of assets that will be abandoned or have minimal use in the future. A significant change in assumptions about the extent or timing of future asset retirements, or in the Company's use of new technology and upgrade programs, could materially affect future depreciation expense. Depreciation expense for each of the years ended December 31, 2005, 2004 and 2003 was \$1.4 billion.

**7. Franchises and Goodwill**

Franchise rights represent the value attributed to agreements with local authorities that allow access to homes in cable service areas acquired through the purchase of cable systems. Management estimates the fair value of franchise rights at the date of acquisition and determines if the franchise has a finite life or an indefinite-life as defined by SFAS No. 142, *Goodwill and Other Intangible Assets*. Franchises that qualify for indefinite-life treatment under SFAS No. 142 are tested for impairment annually each October 1 based on valuations, or more frequently as warranted by events or changes in circumstances. Such test resulted in a total franchise impairment of approximately \$3.3 billion during the third quarter of 2004. The 2003 and 2005 annual impairment tests resulted in no impairment. Franchises are aggregated into essentially inseparable asset groups to conduct the valuations. The asset groups generally represent geographic clustering of the Company's cable systems into groups by which such systems are managed. Management believes such grouping represents the highest and best use of those assets.

The Company's valuations, which are based on the present value of projected after tax cash flows, result in a value of property, plant and equipment, franchises, customer relationships and its total entity value. The value of goodwill is the difference between the total entity value and amounts assigned to the other assets.

Franchises, for valuation purposes, are defined as the future economic benefits of the right to solicit and service potential customers (customer marketing rights), and the right to deploy and market new services such as interactivity and telephone to the potential customers (service marketing rights). Fair value is determined based on estimated discounted future cash flows using assumptions consistent with internal forecasts. The franchise after-tax cash flow is calculated as the after-tax cash flow generated by the potential customers obtained and the new services added to those customers in future periods. The sum of the present value of the franchises' after-tax cash flow in years 1 through 10 and the continuing value of the after-tax cash flow beyond year 10 yields the fair value of the franchise.

The Company follows the guidance of Emerging Issues Task Force ("EITF") Issue 02-17, *Recognition of Customer Relationship Intangible Assets Acquired in a Business Combination*, in valuing customer relationships. Customer relationships, for valuation purposes, represent the value of the business relationship with existing customers and are calculated by projecting future after-tax cash flows from these customers including the right to deploy and market additional services such as interactivity and telephone to these customers. The present value of these after-tax cash flows yields the fair value of the customer relationships. Substantially all acquisitions occurred prior to January 1, 2002. The Company did not record any value associated with the customer relationship intangibles related to those acquisitions. For acquisitions subsequent to January 1, 2002 the Company did assign a value to the customer relationship intangible, which is amortized over its estimated useful life.

In September 2004, the SEC staff issued EITF Topic D-108 which requires the direct method of separately valuing all intangible assets and does not permit goodwill to be included in franchise assets. The Company adopted Topic D-108 in its impairment assessment as of September 30, 2004 that resulted in a total franchise impairment of approximately \$3.3 billion. The Company recorded a cumulative effect of accounting change of \$840 million (approximately \$875 million before tax effects of \$16 million and minority interest effects of \$19 million) for the year ended December 31, 2004 representing the portion of the Company's total franchise impairment attributable to no longer including goodwill with franchise assets. The remaining \$2.4 billion of the total franchise impairment was attributable to the use of lower projected growth

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rates and the resulting revised estimates of future cash flows in the Company's valuation, and was recorded as impairment of franchises in the Company's accompanying consolidated statements of operations for the year ended December 31, 2004. Sustained analog video customer losses by the Company in the third quarter of 2004 primarily as a result of increased competition from direct broadcast satellite providers and decreased growth rates in the Company's high-speed Internet customers in the third quarter of 2004, in part, as a result of increased competition from digital subscriber line service providers led to the lower projected growth rates and the revised estimates of future cash flows from those used at October 1, 2003.

As of December 31, 2005 and 2004, indefinite-lived and finite-lived intangible assets are presented in the following table:

	December 31,					
	2005			2004		
	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Net Carrying Amount</u>	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Net Carrying Amount</u>
<b>Indefinite-lived intangible assets:</b>						
Franchises with indefinite lives	\$ 9,806	\$ —	\$ 9,806	\$ 9,845	\$ —	\$ 9,845
Goodwill	52	—	52	52	—	52
	<u>\$ 9,858</u>	<u>\$ —</u>	<u>\$ 9,858</u>	<u>\$ 9,897</u>	<u>\$ —</u>	<u>\$ 9,897</u>
<b>Finite-lived intangible assets:</b>						
Franchises with finite lives	<u>\$ 27</u>	<u>\$ 7</u>	<u>\$ 20</u>	<u>\$ 37</u>	<u>\$ 4</u>	<u>\$ 33</u>

For the years ended December 31, 2005 and 2004, the net carrying amount of indefinite-lived franchises was reduced by \$52 million and \$490 million, respectively, related to the sale of cable systems (see Note 4). Additionally, in 2005 and 2004, approximately \$13 million and \$37 million, respectively, of franchises that were previously classified as finite-lived were reclassified to indefinite-lived, based on the Company's renewal of these franchise assets in 2005 and 2004. Franchise amortization expense for the years ended December 31, 2005, 2004 and 2003 was \$4 million, \$3 million and \$7 million, respectively, which represents the amortization relating to franchises that did not qualify for indefinite-life treatment under SFAS No. 142, including costs associated with franchise renewals. The Company expects that amortization expense on franchise assets will be approximately \$2 million annually for each of the next five years. Actual amortization expense in future periods could differ from these estimates as a result of new intangible asset acquisitions or divestitures, changes in useful lives and other relevant factors.

**8. Accounts Payable and Accrued Expenses**

Accounts payable and accrued expenses consist of the following as of December 31, 2005 and 2004:

	<u>2005</u>	<u>2004</u>
Accounts payable — trade	\$ 102	\$ 140
Accrued capital expenditures	73	60
<b>Accrued expenses:</b>		
Interest	329	310
Programming costs	272	278
Franchise related fees	67	67
Compensation	60	47
Other	193	210
	<u>\$ 1,096</u>	<u>\$ 1,112</u>

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**9. Long-Term Debt**

Long-term debt consists of the following as of December 31, 2005 and 2004:

	2005		2004	
	Principal Amount	Accreted Value	Principal Amount	Accreted Value
<b>Long-Term Debt</b>				
<b>Charter Holdings:</b>				
8.250% senior notes due 2007	\$ 105	\$ 105	\$ 451	\$ 451
8.625% senior notes due 2009	292	292	1,244	1,243
9.920% senior discount notes due 2011	198	198	1,108	1,108
10.000% senior notes due 2009	154	154	640	640
10.250% senior notes due 2010	49	49	318	318
11.750% senior discount notes due 2010	43	43	450	448
10.750% senior notes due 2009	131	131	874	874
11.125% senior notes due 2011	217	217	500	500
13.500% senior discount notes due 2011	94	94	675	589
9.625% senior notes due 2009	107	107	640	638
10.000% senior notes due 2011	137	136	710	708
11.750% senior discount notes due 2011	125	120	939	803
12.125% senior discount notes due 2012	113	100	330	259
<b>CIH:</b>				
11.125% senior notes due 2014	151	151	—	—
9.920% senior discount notes due 2014	471	471	—	—
10.000% senior notes due 2014	299	299	—	—
11.750% senior discount notes due 2014	815	781	—	—
13.500% senior discount notes due 2014	581	578	—	—
12.125% senior discount notes due 2015	217	192	—	—
<b>CCH I:</b>				
11.000% senior notes due 2015	3,525	3,683	—	—
<b>CCH II:</b>				
10.250% senior notes due 2010	1,601	1,601	1,601	1,601
<b>CCO Holdings:</b>				
8 <sup>3</sup> / <sub>4</sub> % senior notes due 2013	800	794	500	500
Senior floating notes due 2010	550	550	550	550
<b>Charter Operating:</b>				
8% senior second-lien notes due 2012	1,100	1,100	1,100	1,100
8 <sup>3</sup> / <sub>8</sub> % senior second-lien notes due 2014	733	733	400	400
<b>Renaissance Media Group LLC:</b>				
10.000% senior discount notes due 2008	114	115	114	116
<b>CC V Holdings, LLC:</b>				
11.875% senior discount notes due 2008	—	—	113	113

**CHARTER COMMUNICATIONS HOLDINGS, LLC AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

	2005		2004	
	Principal Amount	Accreted Value	Principal Amount	Accreted Value
<b>Credit Facilities</b>				
Charter Operating	5,731	5,731	5,515	5,515
	<u>\$ 18,453</u>	<u>\$ 18,525</u>	<u>\$ 18,772</u>	<u>\$ 18,474</u>

The accreted values presented above generally represent the principal amount of the notes less the original issue discount at the time of sale plus the accretion to the balance sheet date except as follows. The accreted value of the CIH notes issued in exchange for Charter Holdings notes and the CCH I notes issued in exchange for the 8.625% Charter Holdings notes due 2009 are recorded at the historical book values of the Charter Holdings notes for financial reporting purposes as opposed to the current accreted value for legal purposes and notes indenture purposes (the amount that is currently payable if the debt becomes immediately due). As of December 31, 2005, the accreted value of the Company's debt for legal purposes and notes indenture purposes is \$18.0 billion.

In January 2006, CCH II and CCH II Capital Corp. issued \$450 million in debt securities, the proceeds of which will be provided, directly or indirectly, to Charter Operating, which will use such funds to reduce borrowings, but not commitments, under the revolving portion of its credit facilities.

In October 2005, CCO Holdings and CCO Holdings Capital Corp., as guarantor thereunder, entered into the Bridge Loan with the Lenders whereby the Lenders committed to make loans to CCO Holdings in an aggregate amount of \$600 million. Upon the issuance of \$450 million of CCH II notes discussed above, the commitment under the bridge loan agreement was reduced to \$435 million. CCO Holdings may draw upon the facility between January 2, 2006 and September 29, 2006 and the loans will mature on the sixth anniversary of the first borrowing under the bridge loan. Each loan will accrue interest at a rate equal to an adjusted LIBOR rate plus a spread. The spread will initially be 450 basis points and will increase (a) by an additional 25 basis points at the end of the six-month period following the date of the first borrowing, (b) by an additional 25 basis points at the end of each of the next two subsequent three month periods and (c) by 62.5 basis points at the end of each of the next two subsequent three-month periods. CCO Holdings will be required to prepay loans from the net proceeds from (i) the issuance of equity or incurrence of debt by Charter and its subsidiaries, with certain exceptions, and (ii) certain asset sales (to the extent not used for other purposes permitted under the bridge loan).

In August 2005, CCO Holdings issued \$300 million in debt securities, the proceeds of which were used for general corporate purposes, including the payment of distributions to its parent companies, including Charter Holdings, to pay interest expense.

***Gain on Extinguishment of Debt***

In September 2005, Charter Holdings and its wholly owned subsidiaries, CCH I and CIH, completed the exchange of approximately \$6.8 billion total principal amount of outstanding debt securities of Charter Holdings in a private placement for new debt securities. Holders of Charter Holdings notes due in 2009 and 2010 exchanged \$3.4 billion principal amount of notes for \$2.9 billion principal amount of new 11% CCH I senior secured notes due 2015. Holders of Charter Holdings notes due 2011 and 2012 exchanged \$845 million principal amount of notes for \$662 million principal amount of 11% CCH I notes due 2015. In addition, holders of Charter Holdings notes due 2011 and 2012 exchanged \$2.5 billion principal amount of notes for \$2.5 billion principal amount of various series of new CIH notes. Each series of new CIH notes has the same interest rate and provisions for payment of cash interest as the series of old Charter Holdings notes for which such CIH notes were exchanged. In addition, the maturities for each series were extended three years. The

**CHARTER COMMUNICATIONS HOLDINGS, LLC AND SUBSIDIARIES**  
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exchanges resulted in a net gain on extinguishment of debt of approximately \$490 million for the year ended December 31, 2005.

In March and June 2005, Charter Operating consummated exchange transactions with a small number of institutional holders of Charter Holdings 8.25% senior notes due 2007 pursuant to which Charter Operating issued, in private placements, approximately \$333 million principal amount of new notes with terms identical to Charter Operating's 8.375% senior second lien notes due 2014 in exchange for approximately \$346 million of the Charter Holdings 8.25% senior notes due 2007. The exchanges resulted in a net gain on extinguishment of debt of approximately \$10 million for the year ended December 31, 2005. The Charter Holdings notes received in the exchange were thereafter distributed to Charter Holdings and cancelled.

In March 2005, Charter Holdings' subsidiary, CC V Holdings, LLC, redeemed all of its 11.875% notes due 2008, at 103.958% of principal amount, plus accrued and unpaid interest to the date of redemption. The total cost of redemption was approximately \$122 million and was funded through borrowings under the Charter Operating credit facilities. The redemption resulted in a loss on extinguishment of debt for the year ended December 31, 2005 of approximately \$5 million. Following such redemption, CC V Holdings, LLC and its subsidiaries (other than non-guarantor subsidiaries) guaranteed the Charter Operating credit facilities and granted a lien on all of their assets as to which a lien can be perfected under the Uniform Commercial Code by the filing of a financing statement.

In April 2004, Charter Holdings' indirect subsidiaries, Charter Operating and Charter Communications Operating Capital Corp., sold \$1.5 billion of senior second-lien notes in a private transaction. Additionally, Charter Operating amended and restated its \$5.1 billion credit facilities, among other things, to defer maturities and increase availability under those facilities to approximately \$6.5 billion, consisting of a \$1.5 billion six-year revolving credit facility, a \$2.0 billion six-year term loan facility and a \$3.0 billion seven-year term loan facility. Charter Operating used the additional borrowings under the amended and restated credit facilities, together with proceeds from the sale of the Charter Operating senior second-lien notes to refinance the credit facilities of its subsidiaries, CC VI Operating Company, LLC ("CC VI Operating"), Falcon Cable Communications, LLC ("Falcon Cable"), and CC VIII Operating, LLC ("CC VIII Operating"), all in concurrent transactions. In addition, Charter Operating was substituted as the lender in place of the banks under those subsidiaries' credit facilities. These transactions resulted in a net loss on extinguishment of debt of \$21 million for the year ended December 31, 2004.

In September 2003, Charter, Charter Holdings and their indirect subsidiary, CCH II purchased, in a non-monetary transaction, a total of approximately \$609 million principal amount of Charter's outstanding convertible senior notes and approximately \$1.3 billion principal amount of the senior notes and senior discount notes issued by Charter Holdings from institutional investors in a small number of privately negotiated transactions. As consideration for these securities, CCH II issued approximately \$1.6 billion principal amount of 10.25% notes due 2010, and realized approximately \$294 million of debt discount. CCH II also issued an additional \$30 million principal amount of 10.25% notes for an equivalent amount of cash and used the proceeds for transaction costs and for general corporate purposes. This transaction resulted in a gain on extinguishment of debt of \$187 million for the year ended December 31, 2003. See discussion of the CCH II notes below for more details.

**March 1999 Charter Holdings Notes.** The March 1999 Charter Holdings notes are general unsecured obligations of Charter Holdings and Charter Communications Capital Corporation ("Charter Capital"). The March 1999 8.250% Charter Holdings notes mature on April 1, 2007, and as of December 31, 2005, there was \$105 million in total principal amount outstanding. The March 1999 8.625% Charter Holdings notes mature on April 1, 2009 and as of December 31, 2005, there was \$292 million in total principal amount outstanding. The March 1999 9.920% Charter Holdings notes mature on April 1, 2011 and as of December 31, 2005, the total principal amount and accreted value outstanding was \$198 million. Cash interest on the March 1999 9.920% Charter Holdings notes began to accrue on April 1, 2004.



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The March 1999 Charter Holdings notes are senior debt obligations of Charter Holdings and Charter Capital. They rank equally with all other current and future unsubordinated obligations of Charter Holdings and Charter Capital. They are structurally subordinated to the obligations of Charter Holdings' subsidiaries, including the CIH notes, the CCH I notes, the CCH II notes, the CCO Holdings notes, the Renaissance notes, the Charter Operating notes and the Charter Operating credit facilities.

Charter Holdings and Charter Capital will not have the right to redeem the March 1999 8.250% Charter Holdings notes prior to their maturity on April 1, 2007. Charter Holdings and Charter Capital may redeem some or all of the March 1999 8.625% Charter Holdings notes and the March 1999 9.920% Charter Holdings notes at any time, in each case, at a premium. The optional redemption price declines to 100% of the principal amount of March 1999 Charter Holdings notes redeemed, plus accrued and unpaid interest, if any, for redemption on or after April 1, 2007.

In the event that a specified change of control event occurs, Charter Holdings and Charter Capital must offer to repurchase any then outstanding March 1999 Charter Holdings notes at 101% of their principal amount or accreted value, as applicable, plus accrued and unpaid interest, if any.

The indentures governing the March 1999 Charter Holdings notes contain restrictive covenants that limit certain transactions or activities by Charter Holdings and its restricted subsidiaries. Substantially all of Charter Holdings' direct and indirect subsidiaries are currently restricted subsidiaries.

**January 2000 Charter Holdings Notes.** The January 2000 Charter Holdings notes are general unsecured obligations of Charter Holdings and Charter Capital. The January 2000 10.00% Charter Holdings notes mature on April 1, 2009, and as of December 31, 2005, there was \$154 million in total principal amount of these notes outstanding. The January 2000 10.25% Charter Holdings notes mature on January 15, 2010 and as of December 31, 2005, there was \$49 million in total principal amount of these notes outstanding. The January 2000 11.75% Charter Holdings notes mature on January 15, 2010 and as of December 31, 2005, the total principal amount and accreted value outstanding of these notes was \$43 million. Cash interest on the January 2000 11.75% Charter Holdings notes began to accrue on January 15, 2005.

The January 2000 Charter Holdings notes are senior debt obligations of Charter Holdings and Charter Capital. They rank equally with all other current and future unsubordinated obligations of Charter Holdings and Charter Capital. They are structurally subordinated to the obligations of Charter Holdings' subsidiaries, including the CIH notes, the CCH I notes, the CCH II notes, the CCO Holdings notes, the Renaissance notes, the Charter Operating notes and the Charter Operating credit facilities.

Charter Holdings and Charter Capital will not have the right to redeem the January 2000 10.00% Charter Holdings notes prior to their maturity on April 1, 2009. Charter Holdings and Charter Capital may redeem some or all of the January 2000 10.25% Charter Holdings notes and the January 2000 11.75% Charter Holdings notes at any time, in each case, at a premium. The optional redemption price declines to 100% of the principal amount of the January 2000 Charter Holdings notes redeemed, plus accrued and unpaid interest, if any, for redemption on or after January 15, 2008.

In the event that a specified change of control event occurs, Charter Holdings and Charter Capital must offer to repurchase any then outstanding January 2000 Charter Holdings notes at 101% of their total principal amount or accreted value, as applicable, plus accrued and unpaid interest, if any.

The indentures governing the January 2000 Charter Holdings notes contain substantially identical events of default, affirmative covenants and negative covenants as those contained in the indentures governing the March 1999 Charter Holdings notes.

**January 2001 Charter Holdings Notes.** The January 2001 Charter Holdings notes are general unsecured obligations of Charter Holdings and Charter Capital. The January 2001 10.750% Charter Holdings notes mature on October 1, 2009, and as of December 31, 2005, there was \$131 million in total principal amount of

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these notes outstanding. The January 2001 11.125% Charter Holdings notes mature on January 15, 2011 and as of December 31, 2005, there was \$217 million in total principal amount outstanding. The January 2001 13.500% Charter Holdings notes mature on January 15, 2011 and as of December 31, 2005 the total principal amount and accreted value outstanding of these notes was \$94 million. Cash interest on the January 2001 13.500% Charter Holdings notes began to accrue on January 15, 2006.

The January 2001 Charter Holdings notes are senior debt obligations of Charter Holdings and Charter Capital. They rank equally with all other current and future unsubordinated obligations of Charter Holdings and Charter Capital. They are structurally subordinated to the obligations of Charter Holdings' subsidiaries, including the CIH notes, the CCH I notes, the CCH II notes, the CCO Holdings notes, the Renaissance notes, the Charter Operating notes and the Charter Operating credit facilities.

Charter Holdings and Charter Capital will not have the right to redeem the January 2001 10.750% Charter Holdings notes prior to their maturity date on October 1, 2009. Charter Holdings and Charter Capital may redeem some or all of the January 2001 11.125% Charter Holdings notes and the January 2001 13.500% Charter Holdings notes at any time, in each case, at a premium. The optional redemption price declines to 100% of the principal amount of the January 2001 Charter Holdings notes redeemed, plus accrued and unpaid interest, if any, for redemption on or after January 15, 2009.

In the event that a specified change of control event occurs, Charter Holdings and Charter Capital must offer to repurchase any then outstanding January 2001 Charter Holdings notes at 101% of their total principal amount or accreted value, as applicable, plus accrued and unpaid interest, if any.

The indentures governing the January 2001 Charter Holdings notes contain substantially identical events of default, affirmative covenants and negative covenants as those contained in the indentures governing the March 1999 and January 2000 Charter Holdings notes.

**May 2001 Charter Holdings Notes.** The May 2001 Charter Holdings notes are general unsecured obligations of Charter Holdings and Charter Capital. The May 2001 9.625% Charter Holdings notes mature on November 15, 2009, and as of December 31, 2005, combined with the January 2002 additional bond issue, there was \$107 million in total principal amount outstanding. The May 2001 10.000% Charter Holdings notes mature on May 15, 2011 and as of December 31, 2005, combined with the January 2002 additional bond issue, there was \$137 million in total principal amount outstanding and the total accreted value of the 10.000% notes was approximately \$136 million. The May 2001 11.750% Charter Holdings notes mature on May 15, 2011 and as of December 31, 2005, the total principal amount outstanding was \$125 million and the total accreted value of the 11.750% notes was approximately \$120 million. Cash interest on the May 2001 11.750% Charter Holdings notes will not accrue prior to May 15, 2006.

The May 2001 Charter Holdings notes are senior debt obligations of Charter Holdings and Charter Capital. They rank equally with all other current and future unsubordinated obligations of Charter Holdings and Charter Capital. They are structurally subordinated to the obligations of Charter Holdings' subsidiaries, including the CIH notes, the CCH I notes, the CCH II notes, the CCO Holdings notes, the Renaissance notes, the Charter Operating notes and the Charter Operating credit facilities.

Charter Holdings and Charter Capital will not have the right to redeem the May 2001 9.625% Charter Holdings notes prior to their maturity on November 15, 2009. On or after May 15, 2006, Charter Holdings and Charter Capital may redeem some or all of the May 2001 10.000% Charter Holdings notes and the May 2001 11.750% Charter Holdings notes at any time, in each case, at a premium. The optional redemption price declines to 100% of the principal amount of the May 2001 Charter Holdings notes redeemed, plus accrued and unpaid interest, if any, for redemption on or after May 15, 2009.

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In the event that a specified change of control event occurs, Charter Holdings and Charter Capital must offer to repurchase any then outstanding May 2001 Charter Holdings notes at 101% of their total principal amount or accreted value, as applicable, plus accrued and unpaid interest, if any.

The indentures governing the May 2001 Charter Holdings notes contain substantially identical events of default, affirmative covenants and negative covenants as those contained in the indentures governing the March 1999, January 2000 and January 2001 Charter Holdings notes.

**January 2002 Charter Holdings Notes.** The January 2002 Charter Holdings notes are general unsecured obligations of Charter Holdings and Charter Capital.

The January 2002 12.125% senior discount notes mature on January 15, 2012, and as of December 31, 2005, the total principal amount outstanding was \$113 million and the total accreted value of these notes was approximately \$100 million. Cash interest on the January 2002 12.125% Charter Holdings notes will not accrue prior to January 15, 2007.

The January 2002 Charter Holdings notes are senior debt obligations of Charter Holdings and Charter Capital. They rank equally with the current and future unsecured and unsubordinated debt of Charter Holdings. They are structurally subordinated to the obligations of Charter Holdings' subsidiaries, including the CIH notes, the CCH I notes, the CCH II notes, the CCO Holdings notes, the Renaissance notes, the Charter Operating notes and the Charter Operating credit facilities.

The Charter Holdings 12.125% senior discount notes are redeemable at the option of the issuers at amounts decreasing from 106.063% to 100% of accreted value beginning January 15, 2007.

In the event that a specified change of control event occurs, Charter Holdings and Charter Capital must offer to repurchase any then outstanding January 2002 Charter Holdings notes at 101% of their total principal amount or accreted value, as applicable, plus accrued and unpaid interest, if any.

The indentures governing the January 2002 Charter Holdings notes contain substantially identical events of default, affirmative covenants and negative covenants as those contained in the indentures governing the March 1999, January 2000, January 2001 and May 2001 Charter Holdings notes.

**CCH I Holdings, LLC Notes.** In September 2005, CIH and CCH I Holdings Capital Corp. jointly issued \$2.5 billion total principal amount of 9.920% to 13.500% senior accreting notes due 2014 and 2015 in exchange for an aggregate amount of \$2.4 billion of Charter Holdings notes due 2011 and 2012, spread over six series of notes and with varying interest rates. The notes are guaranteed by Charter Holdings. As of December 31, 2005, there was \$2.5 billion in total principal amount and accreted value outstanding and \$2.1 billion in accreted value for legal purposes and notes indentures purposes. Interest on the CIH notes is payable semi-annually in arrears as follows:

	Semi-Annual Interest Payment Dates	Start Date for Interest Payment on Discount Notes	Maturity Date
11.125% senior notes due 2014	1/15 & 7/15		1/15/14
9.920% senior discount notes due 2014	4/1 & 10/1		4/1/14
10.000% senior notes due 2014	5/15 & 11/15		5/15/14
11.750% senior discount notes due 2014	5/15 & 11/15	11/15/06	5/15/14
13.500% senior discount notes due 2014	1/15 & 7/15	7/15/06	1/15/14
12.125% senior discount notes due 2015	1/15 & 7/15	7/15/07	1/15/15

The CIH notes are senior debt obligations of CIH and CCH I Holdings Capital Corp. They rank equally with all other current and future unsecured, unsubordinated obligations of CIH and CCH I Holdings Capital

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Corp. The CIH notes are structurally subordinated to all obligations of subsidiaries of CIH, including the CCH I notes, the CCH II notes, the CCO Holdings notes, the Renaissance notes, the Charter Operating notes and the Charter Operating credit facilities.

The CIH notes may not be redeemed at the option of the issuers until September 30, 2007. On or after such date, the CIH notes may be redeemed at any time, in each case at a premium. The optional redemption price declines to 100% of the respective series' principal amount, plus accrued and unpaid interest, on or after varying dates in 2009 and 2010.

In the event that a specified change of control event happens, CIH and CCH I Holdings Capital Corp. must offer to repurchase any outstanding notes at a price equal to the sum of the accreted value of the notes plus accrued and unpaid interest plus a premium that varies over time.

**CCH I, LLC Notes.** In September 2005, CCH I and CCH I Capital Corp. jointly issued \$3.5 billion total principal amount of 11.000% senior secured notes due October 2015 in exchange for an aggregate amount of \$4.2 billion of certain Charter Holdings notes. The notes are guaranteed by Charter Holdings and are secured by a pledge of 100% of the equity interest of CCH I's wholly owned direct subsidiary, CCH II. Such pledge is subject to significant limitations as described in the related pledge agreement. Interest on the CCH I notes accrues at 11% per annum and is payable semi-annually in arrears on each April 1 and October 1, commencing on April 1, 2006. As of December 31, 2005, there was \$3.5 billion in total principal amount outstanding, \$3.7 billion in accreted value outstanding and \$3.5 billion in accreted value for legal purposes and notes indentures purposes.

The CCH I notes are senior debt obligations of CCH I and CCH I Capital Corp. To the extent of the value of the collateral, they rank senior to all of CCH I's future unsecured senior indebtedness. The CCH I notes are structurally subordinated to all obligations of subsidiaries of CCH I, including the CCH II notes, CCO Holdings notes, the Renaissance notes, the Charter Operating notes and the Charter Operating credit facilities.

CCH I and CCH I Capital Corp. may, prior to October 1, 2008 in the event of a qualified equity offering providing sufficient proceeds, redeem up to 35% of the aggregate principal amount of the CCH I notes at a redemption price of 111% of the principal amount plus accrued and unpaid interest. Aside from this provision, CCH I and CCH I Capital Corp. may not redeem at their option any of the notes prior to October 1, 2010. On or after October 1, 2010, CCH I and CCH I Capital Corp. may redeem, in whole or in part, CCH I notes at anytime, in each case at a premium. The optional redemption price declines to 100% of the principal amount, plus accrued and unpaid interest, on or after October 1, 2013.

If a change of control occurs, each holder of the CCH I notes will have the right to require the repurchase of all or any part of that holder's CCH I notes at 101% of the principal amount plus accrued and unpaid interest.

**CCH II Notes.** In September 2003, CCH II and CCH II Capital Corp. jointly issued \$1.6 billion total principal amount of 10.25% senior notes due 2010 and in January 2006, they issued an additional \$450 million principal amount of these notes. The CCH II notes are general unsecured obligations of CCH II and CCH II Capital Corp. They rank equally with all other current or future unsubordinated obligations of CCH II and CCH II Capital Corp. The CCH II notes are structurally subordinated to all obligations of subsidiaries of CCH II, including the CCO Holdings notes, the Renaissance notes, the Charter Operating notes and the Charter Operating credit facilities.

Interest on the CCH II notes accrues at 10.25% per annum and is payable semi-annually in arrears on each March 15 and September 15.

At any time prior to September 15, 2006, in the event of a qualified equity offering providing sufficient proceeds, the issuers of the CCH II notes may redeem up to 35% of the total principal amount of the CCH II

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notes on a pro rata basis at a redemption price equal to 110.25% of the principal amount of CCH II notes redeemed, plus any accrued and unpaid interest.

On or after September 15, 2008, the issuers of the CCH II notes may redeem all or a part of the notes at a redemption price that declines ratably from the initial redemption price of 105.125% to a redemption price on or after September 15, 2009 of 100.0% of the principal amount of the CCH II notes redeemed, plus, in each case, any accrued and unpaid interest.

In the event of specified change of control events, CCH II must offer to purchase the outstanding CCH II notes from the holders at a purchase price equal to 101% of the total principal amount of the notes, plus any accrued and unpaid interest.

The indenture governing the CCH II notes contains restrictive covenants that limit certain transactions or activities by CCH II and its restricted subsidiaries. Substantially all of CCH II's direct and indirect subsidiaries are currently restricted subsidiaries.

***CCO Holdings Notes.***

***8<sup>3</sup>/<sub>4</sub>% Senior Notes due 2013***

In November 2003 and August 2005, CCO Holdings and CCO Holdings Capital Corp. jointly issued \$500 million and \$300 million, respectively, total principal amount of 8<sup>3</sup>/<sub>4</sub>% senior notes due 2013. The CCO Holdings notes are general unsecured obligations of CCO Holdings and CCO Holdings Capital Corp. They rank equally with all other current or future unsubordinated obligations of CCO Holdings and CCO Holdings Capital Corp. The CCO Holdings notes are structurally subordinated to all obligations of CCO Holdings' subsidiaries, including the Renaissance notes, the Charter Operating notes and the Charter Operating credit facilities. As of December 31, 2005, there was \$800 million in total principal amount outstanding and \$794 million in accreted value outstanding.

Interest on the CCO Holdings senior notes accrues at 8<sup>3</sup>/<sub>4</sub>% per year and is payable semi-annually in arrears on each May 15 and November 15.

At any time prior to November 15, 2006, the issuers of the CCO Holdings senior notes may redeem up to 35% of the total principal amount of the CCO Holdings senior notes to the extent of public equity proceeds they have received on a pro rata basis at a redemption price equal to 108.75% of the principal amount of CCO Holdings senior notes redeemed, plus any accrued and unpaid interest.

On or after November 15, 2008, the issuers of the CCO Holdings senior notes may redeem all or a part of the notes at a redemption price that declines ratably from the initial redemption price of 104.375% to a redemption price on or after November 15, 2011 of 100.0% of the principal amount of the CCO Holdings senior notes redeemed, plus, in each case, any accrued and unpaid interest.

In the event of specified change of control events, CCO Holdings must offer to purchase the outstanding CCO Holdings senior notes from the holders at a purchase price equal to 101% of the total principal amount of the notes, plus any accrued and unpaid interest.

***Senior Floating Rate Notes Due 2010***

In December 2004, CCO Holdings and CCO Holdings Capital Corp. jointly issued \$550 million total principal amount of senior floating rate notes due 2010. The CCO Holdings notes are general unsecured obligations of CCO Holdings and CCO Holdings Capital Corp. They rank equally with all other current or future unsubordinated obligations of CCO Holdings and CCO Holdings Capital Corp. The CCO Holdings notes are structurally subordinated to all obligations of CCO Holdings' subsidiaries, including the Renaissance notes, the Charter Operating notes and the Charter Operating credit facilities.

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Interest on the CCO Holdings senior floating rate notes accrues at the LIBOR rate (4.53% and 2.56% as of December 31, 2005 and 2004, respectively) plus 4.125% annually, from the date interest was most recently paid. Interest is reset and payable quarterly in arrears on each March 15, June 15, September 15 and December 15.

At any time prior to December 15, 2006, the issuers of the senior floating rate notes may redeem up to 35% of the notes in an amount not to exceed the amount of proceeds of one or more public equity offerings at a redemption price equal to 100% of the principal amount, plus a premium equal to the interest rate per annum applicable to the notes on the date notice of redemption is given, plus accrued and unpaid interest, if any, to the redemption date, provided that at least 65% of the original aggregate principal amount of the notes issued remains outstanding after the redemption.

The issuers of the senior floating rate notes may redeem the notes in whole or in part at the issuers' option from December 15, 2006 until December 14, 2007 for 102% of the principal amount, from December 15, 2007 until December 14, 2008 for 101% of the principal amount and from and after December 15, 2008, at par, in each case, plus accrued and unpaid interest.

The indentures governing the CCO Holdings senior notes contain restrictive covenants that limit certain transactions or activities by CCO Holdings and its restricted subsidiaries. Substantially all of CCO Holdings' direct and indirect subsidiaries are currently restricted subsidiaries.

In the event of specified change of control events, CCO Holdings must offer to purchase the outstanding CCO Holdings senior notes from the holders at a purchase price equal to 101% of the total principal amount of the notes, plus any accrued and unpaid interest.

**Charter Operating Notes.** On April 27, 2004, Charter Operating and Charter Communications Operating Capital Corp. jointly issued \$1.1 billion of 8% senior second-lien notes due 2012 and \$400 million of 8<sup>3</sup>/<sub>8</sub>% senior second-lien notes due 2014, for total gross proceeds of \$1.5 billion. In March and June 2005, Charter Operating consummated exchange transactions with a small number of institutional holders of Charter Holdings 8.25% senior notes due 2007 pursuant to which Charter Operating issued, in private placement transactions, approximately \$333 million principal amount of its 8<sup>3</sup>/<sub>8</sub>% senior second-lien notes due 2014 in exchange for approximately \$346 million of the Charter Holdings 8.25% senior notes due 2007. Interest on the Charter Operating notes is payable semi-annually in arrears on each April 30 and October 30.

The Charter Operating notes were sold in a private transaction that was not subject to the registration requirements of the Securities Act of 1933. The Charter Operating notes are not expected to have the benefit of any exchange or other registration rights, except in specified limited circumstances. On the issue date of the Charter Operating notes, because of restrictions contained in the Charter Holdings indentures, there were no Charter Operating note guarantees, even though Charter Operating's immediate parent, CCO Holdings, and certain of the Company's subsidiaries were obligors and/or guarantors under the Charter Operating credit facilities. Upon the occurrence of the guarantee and pledge date (generally, the fifth business day after the Charter Holdings leverage ratio was certified to be below 8.75 to 1.0), CCO Holdings and those subsidiaries of Charter Operating that were then guarantors of, or otherwise obligors with respect to, indebtedness under the Charter Operating credit facilities and related obligations were required to guarantee the Charter Operating notes. The note guarantee of each such guarantor is:

- a senior obligation of such guarantor;
- structurally senior to the outstanding CCO Holdings notes (except in the case of CCO Holdings' note guarantee, which is structurally *pari passu* with such senior notes), the outstanding CCH II notes, the outstanding CCH I notes, the outstanding CIH notes, the outstanding Charter Holdings notes and the outstanding Charter convertible senior notes (but subject to provisions in the Charter Operating

**CHARTER COMMUNICATIONS HOLDINGS, LLC AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

indenture that permit interest and, subject to meeting the 4.25 to 1.0 leverage ratio test, principal payments to be made thereon); and

- senior in right of payment to any future subordinated indebtedness of such guarantor.

As a result of the above leverage ratio test being met, CCO Holdings and certain of its subsidiaries provided the additional guarantees described above during the first quarter of 2005.

All the subsidiaries of Charter Operating (except CCO NR Sub, LLC, and certain other subsidiaries that are not deemed material and are designated as nonrecourse subsidiaries under the Charter Operating credit facilities) are restricted subsidiaries of Charter Operating under the Charter Operating notes. Unrestricted subsidiaries generally will not be subject to the restrictive covenants in the Charter Operating indenture.

In the event of specified change of control events, Charter Operating must offer to purchase the Charter Operating notes at a purchase price equal to 101% of the total principal amount of the Charter Operating notes repurchased plus any accrued and unpaid interest thereon.

The indenture governing the Charter Operating senior notes contains restrictive covenants that limit certain transactions or activities by Charter Operating and its restricted subsidiaries. Substantially all of Charter Operating's direct and indirect subsidiaries are currently restricted subsidiaries.

**Renaissance Notes.** In connection with the acquisition of Renaissance in April 1999, the Company assumed \$163 million principal amount at maturity of 10.000% senior discount notes due 2008 of which \$49 million was repurchased in May 1999. The Renaissance notes bear interest, payable semi-annually, on April 15 and October 15. The Renaissance notes are due on April 15, 2008. As of December 31, 2005, there was \$114 million in total principal amount outstanding and \$115 million in accreted value outstanding.

**CC V Holdings Notes.** These notes were redeemed on March 14, 2005 and are therefore no longer outstanding.

**High-Yield Restrictive Covenants; Limitation on Indebtedness.** The indentures governing the notes of the Company's subsidiaries contain certain covenants that restrict the ability of Charter Holdings, Charter Capital, CIH, CIH, Capital Corp., CCH I, CCH I Capital Corp., CCH II, CCH II Capital Corp., CCO Holdings, CCO Holdings Capital Corp., Charter Operating, Charter Communications Operating Capital Corp., Renaissance Media Group, and all of their restricted subsidiaries to:

- incur additional debt;
- pay dividends on equity or repurchase equity;
- make investments;
- sell all or substantially all of their assets or merge with or into other companies;
- sell assets;
- enter into sale-leasebacks;
- in the case of restricted subsidiaries, create or permit to exist dividend or payment restrictions with respect to the bond issuers, guarantee their parent companies debt, or issue specified equity interests;
- engage in certain transactions with affiliates; and
- grant liens.

**CHARTER COMMUNICATIONS HOLDINGS, LLC AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

***Charter Operating Credit Facilities***

The Charter Operating credit facilities were amended and restated concurrently with the sale of \$1.5 billion senior second-lien notes in April 2004, among other things, to defer maturities and increase availability under these facilities and to enable Charter Operating to acquire the interests of the lenders under the CC VI Operating, CC VIII Operating and Falcon credit facilities, thereby consolidating all credit facilities under one amended and restated Charter Operating credit agreement.

The Charter Operating credit facilities provide borrowing availability of up to \$6.5 billion as follows:

• two term facilities:

(i) a Term A facility with a total principal amount of \$2.0 billion, of which 12.5% matures in 2007, 30% matures in 2008, 37.5% matures in 2009 and 20% matures in 2010; and

(ii) a Term B facility with a total principal amount of \$3.0 billion, which shall be repayable in 27 equal quarterly installments aggregating in each loan year to 1% of the original amount of the Term B facility, with the remaining balance due at final maturity in 2011; and

• a revolving credit facility, in a total amount of \$1.5 billion, with a maturity date in 2010.

Amounts outstanding under the Charter Operating credit facilities bear interest, at Charter Operating's election, at a base rate or the Eurodollar rate (4.06% to 4.50% as of December 31, 2005 and 2.07% to 2.28% as of December 31, 2004), as defined, plus a margin for Eurodollar loans of up to 3.00% for the Term A facility and revolving credit facility, and up to 3.25% for the Term B facility, and for base rate loans of up to 2.00% for the Term A facility and revolving credit facility, and up to 2.25% for the Term B facility. A quarterly commitment fee of up to .75% is payable on the average daily unborrowed balance of the revolving credit facilities.

The obligations of our subsidiaries under the Charter Operating credit facilities (the "Obligations") are guaranteed by Charter Operating's immediate parent company, CCO Holdings, and the subsidiaries of Charter Operating, except for immaterial subsidiaries and subsidiaries precluded from guaranteeing by reason of the provisions of other indebtedness to which they are subject (the "non-guarantor subsidiaries," primarily Renaissance and its subsidiaries). The Obligations are also secured by (i) a lien on all of the assets of Charter Operating and its subsidiaries (other than assets of the non-guarantor subsidiaries), to the extent such lien can be perfected under the Uniform Commercial Code by the filing of a financing statement, and (ii) a pledge by CCO Holdings of the equity interests owned by it in Charter Operating or any of Charter Operating's subsidiaries, as well as intercompany obligations owing to it by any of such entities.

Upon the Charter Holdings Leverage Ratio (as defined in the indenture governing the Charter Holdings senior notes and senior discount notes) being under 8.75 to 1.0, the Charter Operating credit facilities required that the 11.875% notes due 2008 issued by CC V Holdings, LLC be redeemed. Because such Leverage Ratio was determined to be under 8.75 to 1.0, CC V Holdings, LLC redeemed such notes in March 2005, and CC V Holdings, LLC and its subsidiaries (other than non-guarantor subsidiaries) became guarantors of the Obligations and have granted a lien on all of their assets as to which a lien can be perfected under the Uniform Commercial Code by the filing of a financing statement.

As of December 31, 2005, outstanding borrowings under the Charter Operating credit facilities were approximately \$5.7 billion and the unused total potential availability was approximately \$553 million, none of which was limited by covenant restrictions.

***Charter Operating Credit Facilities — Restrictive Covenants***

The Charter Operating credit facilities contain representations and warranties, and affirmative and negative covenants customary for financings of this type. The financial covenants measure performance



**CHARTER COMMUNICATIONS HOLDINGS, LLC AND SUBSIDIARIES**  
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against standards set for leverage, debt service coverage, and interest coverage, tested as of the end of each quarter. The maximum allowable leverage ratio is 4.25 to 1.0 until maturity, tested as of the end of each quarter beginning September 30, 2004. Additionally, the Charter Operating credit facilities contain provisions requiring mandatory loan prepayments under specific circumstances, including when significant amounts of assets are sold and the proceeds are not reinvested in assets useful in the business of the borrower within a specified period, and upon the incurrence of certain indebtedness when the ratio of senior first lien debt to operating cash flow is greater than 2.0 to 1.0.

The Charter Operating credit facilities permit Charter Operating and its subsidiaries to make distributions to pay interest on the Charter Operating senior second-lien notes, the CIH notes, the CCH I notes, the CCH II senior notes, the CCO Holdings senior notes, the Charter convertible senior notes, the CCHC notes and the Charter Holdings senior notes, provided that, among other things, no default has occurred and is continuing under the Charter Operating credit facilities. Conditions to future borrowings include absence of a default or an event of default under the Charter Operating credit facilities and the continued accuracy in all material respects of the representations and warranties, including the absence since December 31, 2003 of any event, development or circumstance that has had or could reasonably be expected to have a material adverse effect on our business.

The events of default under the Charter Operating credit facilities include, among other things:

- the failure to make payments when due or within the applicable grace period,
- the failure to comply with specified covenants, including but not limited to a covenant to deliver audited financial statements with an unqualified opinion from our independent auditors,
- the failure to pay or the occurrence of events that cause or permit the acceleration of other indebtedness owing by CCO Holdings, Charter Operating or Charter Operating's subsidiaries in amounts in excess of \$50 million in aggregate principal amount,
- the failure to pay or the occurrence of events that result in the acceleration of other indebtedness owing by certain of CCO Holdings' direct and indirect parent companies in amounts in excess of \$200 million in aggregate principal amount,
- Paul Allen and/or certain of his family members and/or their exclusively owned entities (collectively, the "Paul Allen Group") ceasing to have the power, directly or indirectly, to vote at least 35% of the ordinary voting power of Charter Operating,
- the consummation of any transaction resulting in any person or group (other than the Paul Allen Group) having power, directly or indirectly, to vote more than 35% of the ordinary voting power of Charter Operating, unless the Paul Allen Group holds a greater share of ordinary voting power of Charter Operating,
- certain of Charter Operating's indirect or direct parent companies having indebtedness in excess of \$500 million aggregate principal amount which remains undefeased three months prior to the final maturity of such indebtedness, and
- Charter Operating ceasing to be a wholly-owned direct subsidiary of CCO Holdings, except in certain very limited circumstances.

***CCO Holdings Bridge Loan***

In October 2005, CCO Holdings and CCO Holdings Capital Corp., as guarantor thereunder, entered into the Bridge Loan) with JPMorgan Chase Bank, N.A., Credit Suisse, Cayman Islands Branch and Deutsche Bank AG Cayman Islands Branch (the "Lenders") whereby the Lenders committed to make loans to CCO Holdings in an aggregate amount of \$600 million. In January 2006, upon the issuance of \$450 million of

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CCH II notes discussed above, the commitment under the bridge loan agreement was reduced to \$435 million. CCO Holdings may draw upon the facility between January 2, 2006 and September 29, 2006 and the loans will mature on the sixth anniversary of the first borrowing under the Bridge Loan.

Beginning on the first anniversary of the first date that CCO Holdings borrows under the Bridge Loan and at any time thereafter, any Lender will have the option to receive “exchange notes” (the terms of which are described below, the “Exchange Notes”) in exchange for any loan that has not been repaid by that date. Upon the earlier of (x) the date that at least a majority of all loans that have been outstanding have been exchanged for Exchange Notes and (y) the date that is 18 months after the first date that CCO Holdings borrows under the Bridge Loan, the remainder of loans will be automatically exchanged for Exchange Notes.

As conditions to each draw, (i) there shall be no default under the Bridge Loan, (ii) all the representations and warranties under the bridge loan shall be true and correct in all material respects and (iii) all conditions to borrowing under the Charter Operating credit facilities (with certain exceptions) shall be satisfied.

The aggregate unused commitment will be reduced by 100% of the net proceeds from certain asset sales, to the extent such net proceeds have not been used to prepay loans or Exchange Notes. However, asset sales that generate net proceeds of less than \$75 million will not be subject to such commitment reduction obligation, unless the aggregate net proceeds from such asset sales exceed \$200 million, in which case the aggregate unused commitment will be reduced by the amount of such excess.

CCO Holdings will be required to prepay loans (and redeem or offer to repurchase Exchange Notes, if issued) from the net proceeds from (i) the issuance of equity or incurrence of debt by Charter and its subsidiaries, with certain exceptions, and (ii) certain asset sales (to the extent not used for purposes permitted under the bridge loan).

The covenants and events of default applicable to CCO Holdings under the Bridge Loan are similar to the covenants and events of default in the indenture for the senior secured notes of CCH I.

The Exchange Notes will mature on the sixth anniversary of the first borrowing under the Bridge Loan. The Exchange Notes will bear interest at a rate equal to the rate that would have been borne by the loans. The same mandatory redemption provisions will apply to the Exchange Notes as applied to the loans, except that CCO Holdings will be required to make an offer to redeem upon the occurrence of a change of control at 101% of principal amount plus accrued and unpaid interest.

The Exchange Notes will, if held by a person other than an initial lender or an affiliate thereof, be (a) non-callable for the first three years after the first borrowing date and (b) thereafter, callable at par plus accrued interest plus a premium equal to 50% of the coupon in effect on the first anniversary of the first borrowing date, which premium shall decline to 25% of such coupon in the fourth year and to zero thereafter. Otherwise, the Exchange Notes will be callable at any time at 100% of the amount thereof plus accrued and unpaid interest.

**CHARTER COMMUNICATIONS HOLDINGS, LLC AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

Based upon outstanding indebtedness as of December 31, 2005, the amortization of term loans, scheduled reductions in available borrowings of the revolving credit facilities, and the maturity dates for all senior and subordinated notes and debentures, total future principal payments on the total borrowings under all debt agreements as of December 31, 2005, are as follows:

Year	Amount
2006	\$ 30
2007	385
2008	744
2009	1,463
2010	3,455
Thereafter	12,376
	<u>\$ 18,453</u>

For the amounts of debt scheduled to mature during 2006, it is management's intent to fund the repayments from borrowings on the Company's revolving credit facility. The accompanying consolidated balance sheet reflects this intent by presenting all debt balances as long-term while the table above reflects actual debt maturities as of the stated date.

#### **10. Minority Interest**

Minority interest on the Company's consolidated balance sheets as of December 31, 2005 and 2004 primarily represents preferred membership interests in CC VIII, LLC ("CC VIII"), an indirect subsidiary of Charter Holdings, of \$622 million and \$656 million, respectively. As more fully described in Note 21, this preferred interest arises from approximately \$630 million of preferred membership units issued by CC VIII in connection with an acquisition in February 2000 and was the subject of a dispute between Charter and Mr. Allen, Charter's Chairman and controlling shareholder that was settled October 31, 2005. In conjunction with the settlement of this dispute and the related change in ownership interest, approximately 18.6% of CC VIII's income or losses are allocated to minority interest in the Company's consolidated statements of operations, including amounts estimated in prior years and the 2% accretion of the preferred membership interests.

#### **11. Comprehensive Loss**

Certain marketable equity securities are classified as available-for-sale and reported at market value with unrealized gains and losses recorded as accumulated other comprehensive loss on the accompanying consolidated balance sheets. Additionally, the Company reports changes in the fair value of interest rate agreements designated as hedging the variability of cash flows associated with floating-rate debt obligations, that meet the effectiveness criteria of SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, in accumulated other comprehensive loss. Comprehensive loss for the years ended December 31, 2005, 2004 and 2003 was \$789 million, \$4.4 billion and \$722 million, respectively.

#### **12. Accounting for Derivative Instruments and Hedging Activities**

The Company uses interest rate risk management derivative instruments, such as interest rate swap agreements and interest rate collar agreements (collectively referred to herein as interest rate agreements) to manage its interest costs. The Company's policy is to manage interest costs using a mix of fixed and variable rate debt. Using interest rate swap agreements, the Company has agreed to exchange, at specified intervals through 2007, the difference between fixed and variable interest amounts calculated by reference to an agreed-upon notional principal amount. Interest rate collar agreements are used to limit the Company's exposure to and benefits from interest rate fluctuations on variable rate debt to within a certain range of rates.

**CHARTER COMMUNICATIONS HOLDINGS, LLC AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

The Company does not hold or issue derivative instruments for trading purposes. The Company does, however, have certain interest rate derivative instruments that have been designated as cash flow hedging instruments. Such instruments effectively convert variable interest payments on certain debt instruments into fixed payments. For qualifying hedges, SFAS No. 133 allows derivative gains and losses to offset related results on hedged items in the consolidated statement of operations. The Company has formally documented, designated and assessed the effectiveness of transactions that receive hedge accounting. For the years ended December 31, 2005, 2004 and 2003, net gain on derivative instruments and hedging activities includes gains of \$3 million, \$4 million and \$8 million, respectively, which represent cash flow hedge ineffectiveness on interest rate hedge agreements arising from differences between the critical terms of the agreements and the related hedged obligations. Changes in the fair value of interest rate agreements designated as hedging instruments of the variability of cash flows associated with floating-rate debt obligations that meet the effectiveness criteria SFAS No. 133 are reported in accumulated other comprehensive loss. For the years ended December 31, 2005, 2004 and 2003, a gain of \$16 million, \$42 million and \$48 million, respectively, related to derivative instruments designated as cash flow hedges, was recorded in accumulated other comprehensive loss. The amounts are subsequently reclassified into interest expense as a yield adjustment in the same period in which the related interest on the floating-rate debt obligations affects earnings (losses).

Certain interest rate derivative instruments are not designated as hedges as they do not meet the effectiveness criteria specified by SFAS No. 133. However, management believes such instruments are closely correlated with the respective debt, thus managing associated risk. Interest rate derivative instruments not designated as hedges are marked to fair value, with the impact recorded as gain (loss) on derivative instruments and hedging activities in the Company's consolidated statement of operations. For the years ended December 31, 2005, 2004 and 2003, net gain on derivative instruments and hedging activities includes gains of \$47 million, \$65 million and \$57 million, respectively, for interest rate derivative instruments not designated as hedges.

As of December 31, 2005, 2004 and 2003, the Company had outstanding \$1.8 billion, \$2.7 billion and \$3.0 billion and \$20 million, \$20 million and \$520 million, respectively, in notional amounts of interest rate swaps and collars, respectively. The notional amounts of interest rate instruments do not represent amounts exchanged by the parties and, thus, are not a measure of exposure to credit loss. The amounts exchanged are determined by reference to the notional amount and the other terms of the contracts.

### **13. Fair Value of Financial Instruments**

The Company has estimated the fair value of its financial instruments as of December 31, 2005 and 2004 using available market information or other appropriate valuation methodologies. Considerable judgment, however, is required in interpreting market data to develop the estimates of fair value. Accordingly, the estimates presented in the accompanying consolidated financial statements are not necessarily indicative of the amounts the Company would realize in a current market exchange.

The carrying amounts of cash, receivables, payables and other current assets and liabilities approximate fair value because of the short maturity of those instruments. The Company is exposed to market price risk volatility with respect to investments in publicly traded and privately held entities.

The fair value of interest rate agreements represents the estimated amount the Company would receive or pay upon termination of the agreements. Management believes that the sellers of the interest rate agreements will be able to meet their obligations under the agreements. In addition, some of the interest rate agreements are with certain of the participating banks under the Company's credit facilities, thereby reducing the exposure to credit loss. The Company has policies regarding the financial stability and credit standing of major counterparties. Nonperformance by the counterparties is not anticipated nor would it have a material adverse effect on the Company's consolidated financial condition or results of operations.

**CHARTER COMMUNICATIONS HOLDINGS, LLC AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

The estimated fair value of the Company's notes and interest rate agreements at December 31, 2005 and 2004 are based on quoted market prices, and the fair value of the credit facilities is based on dealer quotations.

A summary of the carrying value and fair value of the Company's debt and related interest rate agreements at December 31, 2005 and 2004 is as follows:

	2005		2004	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Debt</b>				
Charter Holdings debt	\$ 1,746	\$ 1,145	\$ 8,579	\$ 7,669
CIH debt	2,472	1,469	—	—
CCH I debt	3,683	2,959	—	—
CCH II debt	1,601	1,592	1,601	1,698
CCO Holdings debt	1,344	1,299	1,050	1,064
Charter Operating debt	1,833	1,821	1,500	1,563
Credit facilities	5,731	5,719	5,515	5,502
Other	115	114	229	236
<b>Interest Rate Agreements</b>				
Assets (Liabilities)				
Swaps	(4)	(4)	(69)	(69)
Collars	—	—	(1)	(1)

The weighted average interest pay rate for the Company's interest rate swap agreements was 9.51% and 8.07% at December 31, 2005 and 2004, respectively.

**14. Revenues**

Revenues consist of the following for the years presented:

	Year Ended December 31,		
	2005	2004	2003
Video	\$ 3,248	\$ 3,217	\$ 3,306
High-speed Internet	875	712	535
Telephone	36	18	14
Advertising sales	284	279	254
Commercial	266	227	196
Other	324	307	311
	<u>\$ 5,033</u>	<u>\$ 4,760</u>	<u>\$ 4,616</u>

**CHARTER COMMUNICATIONS HOLDINGS, LLC AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**15. Operating Expenses**

Operating expenses consist of the following for the years presented:

	<u>Year Ended December 31,</u>		
	<u>2005</u>	<u>2004</u>	<u>2003</u>
Programming	\$ 1,359	\$ 1,264	\$ 1,195
Service	748	638	595
Advertising sales	96	92	83
	<u>\$ 2,203</u>	<u>\$ 1,994</u>	<u>\$ 1,873</u>

**16. Selling, General and Administrative Expenses**

Selling, general and administrative expenses consist of the following for the years presented:

	<u>Year Ended December 31,</u>		
	<u>2005</u>	<u>2004</u>	<u>2003</u>
General and administrative	\$ 856	\$ 815	\$ 802
Marketing	142	119	103
	<u>\$ 998</u>	<u>\$ 934</u>	<u>\$ 905</u>

Components of selling expense are included in general and administrative and marketing expense.

**17. Stock Compensation Plans**

Charter grants stock options, restricted stock and other incentive compensation pursuant to the 2001 Stock Incentive Plan of Charter (the "2001 Plan"). Prior to 2001, options were granted under the 1999 Option Plan of Charter Holdco (the "1999 Plan").

The 1999 Plan provided for the grant of options to purchase membership units in Charter Holdco to current and prospective employees and consultants of Charter Holdco and its affiliates and current and prospective non-employee directors of Charter. Options granted generally vest over five years from the grant date, with 25% vesting 15 months after the anniversary of the grant date and ratably thereafter. Options not exercised accumulate and are exercisable, in whole or in part, in any subsequent period, but not later than 10 years from the date of grant. Membership units received upon exercise of the options are automatically exchanged into Class A common stock of Charter on a one-for-one basis.

The 2001 Plan provides for the grant of non-qualified stock options, stock appreciation rights, dividend equivalent rights, performance units and performance shares, share awards, phantom stock and/or shares of restricted stock (not to exceed 20,000,000), as each term is defined in the 2001 Plan. Employees, officers, consultants and directors of the Company and its subsidiaries and affiliates are eligible to receive grants under the 2001 Plan. Options granted generally vest over four years from the grant date, with 25% vesting on the anniversary of the grant date and ratably thereafter. Generally, options expire 10 years from the grant date.

The 2001 Plan allows for the issuance of up to a total of 90,000,000 shares of Charter Class A common stock (or units convertible into Charter Class A common stock). The total shares available reflect a July 2003 amendment to the 2001 Plan approved by the board of directors and the shareholders of Charter to increase available shares by 30,000,000 shares. In 2001, any shares covered by options that terminated under the 1999 Plan were transferred to the 2001 Plan, and no new options can be granted under the 1999 Plan.

In the years ended December 31, 2005, 2004 and 2003, certain directors were awarded a total of 492,225, 182,932 and 80,603 shares, respectively, of restricted Charter Class A common stock of which 44,121 shares

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had been cancelled as of December 31, 2005. The shares vest one year from the date of grant. In 2005, 2004 and 2003, in connection with new employment agreements, certain officers were awarded 2,987,500, 50,000 and 50,000 shares, respectively, of restricted Charter Class A common stock of which 68,750 shares had been cancelled as of December 31, 2005. The shares vest annually over a one to three-year period beginning from the date of grant. As of December 31, 2005, deferred compensation remaining to be recognized in future period totaled \$2 million.

A summary of the activity for Charter's stock options, excluding granted shares of restricted Charter Class A common stock, for the years ended December 31, 2005, 2004 and 2003, is as follows (amounts in thousands, except per share data):

	2005		2004		2003	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Options outstanding, beginning of period	24,835	\$ 6.57	47,882	\$ 12.48	53,632	\$ 14.22
Granted	10,810	1.36	9,405	4.88	7,983	3.53
Exercised	(17)	1.11	(839)	2.02	(165)	3.96
Cancelled	(6,501)	7.40	(31,613)	15.16	(13,568)	14.10
Options outstanding, end of period	29,127	\$ 4.47	24,835	\$ 6.57	47,882	\$ 12.48
Weighted average remaining contractual life	8 years		8 years		8 years	
Options exercisable, end of period	9,999	\$ 7.80	7,731	\$ 10.77	22,861	\$ 16.36
Weighted average fair value of options granted	\$ 0.65		\$ 3.71		\$ 2.71	

The following table summarizes information about stock options outstanding and exercisable as of December 31, 2005:

Range of Exercise Prices	Options Outstanding			Options Exercisable		
	Number Outstanding (In thousands)	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable (In thousands)	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price
\$ 1.11 - \$ 1.60	12,565	9 years	\$ 1.39	1,297	9 years	\$ 1.49
\$ 2.85 - \$ 4.56	5,906	7 years	3.40	3,028	7 years	3.33
\$ 5.06 - \$ 5.17	6,970	8 years	5.15	2,187	8 years	5.13
\$ 9.13 - \$13.68	1,712	6 years	10.96	1,513	6 years	11.10
\$13.96 - \$23.09	1,974	4 years	19.24	1,974	4 years	19.24

On January 1, 2003, the Company adopted the fair value measurement provisions of SFAS No. 123, under which the Company recognizes compensation expense of a stock-based award to an employee over the vesting period based on the fair value of the award on the grant date. Adoption of these provisions resulted in utilizing a preferable accounting method as the consolidated financial statements present the estimated fair value of stock-based compensation in expense consistently with other forms of compensation and other expense associated with goods and services received for equity instruments. In accordance with SFAS No. 123, the fair value method will be applied only to awards granted or modified after January 1, 2003,

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whereas awards granted prior to such date will continue to be accounted for under APB No. 25, unless they are modified or settled in cash. The ongoing effect on consolidated results of operations or financial condition will be dependent upon future stock based compensation awards granted. The Company recorded \$14 million, \$31 million and \$4 million of option compensation expense for the years ended December 31, 2005, 2004 and 2003, respectively.

In January 2004, Charter began an option exchange program in which the Company offered its employees the right to exchange all stock options (vested and unvested) under the 1999 Charter Communications Option Plan and 2001 Stock Incentive Plan that had an exercise price over \$10 per share for shares of restricted Charter Class A common stock or, in some instances, cash. Based on a sliding exchange ratio, which varied depending on the exercise price of an employees outstanding options, if an employee would have received more than 400 shares of restricted stock in exchange for tendered options, Charter issued that employee shares of restricted stock in the exchange. If, based on the exchange ratios, an employee would have received 400 or fewer shares of restricted stock in exchange for tendered options, Charter instead paid the employee cash in an amount equal to the number of shares the employee would have received multiplied by \$5.00. The offer applied to options (vested and unvested) to purchase a total of 22,929,573 shares of Charter Class A common stock, or approximately 48% of Charter's 47,882,365 total options issued and outstanding as of December 31, 2003. Participation by employees was voluntary. Those members of Charter's board of directors who were not also employees of the Company or any of its subsidiaries were not eligible to participate in the exchange offer.

In the closing of the exchange offer on February 20, 2004, Charter accepted for cancellation eligible options to purchase approximately 18,137,664 shares of its Class A common stock. In exchange, Charter granted 1,966,686 shares of restricted stock, including 460,777 performance shares to eligible employees of the rank of senior vice president and above, and paid a total cash amount of approximately \$4 million (which amount includes applicable withholding taxes) to those employees who received cash rather than shares of restricted stock. The restricted stock was granted on February 25, 2004. Employees tendered approximately 79% of the options eligible to be exchanged under the program.

The cost to the Company of the stock option exchange program was approximately \$10 million, with a 2004 cash compensation expense of approximately \$4 million and a non-cash compensation expense of approximately \$6 million to be expensed ratably over the three-year vesting period of the restricted stock in the exchange.

In January 2004, the Compensation and Benefits Committee of the board of directors of Charter approved Charter's Long-Term Incentive Program ("LTIP"), which is a program administered under the 2001 Stock Incentive Plan. Under the LTIP, employees of Charter and its subsidiaries whose pay classifications exceed a certain level are eligible to receive stock options, and more senior level employees are eligible to receive stock options and performance shares. The stock options vest 25% on each of the first four anniversaries of the date of grant. The performance shares vest on the third anniversary of the grant date and shares of Charter Class A common stock are issued, conditional upon Charter's performance against financial performance measures established by Charter's management and approved by its board of directors as of the time of the award. Charter granted 3.2 million and 6.9 million shares in 2005 and 2004, respectively, under this program and recognized expense of \$1 million and \$8 million in the first three quarters of 2005 and 2004, respectively. However, in the fourth quarter of 2005 and 2004, the Company reversed the entire \$1 million and \$8 million, respectively, of expense based on the Company's assessment of the probability of achieving the financial performance measures established by Charter and required to be met for the performance shares to vest. In February 2006, Charter's Compensation and Benefits Committee approved a modification to the financial performance measures required to be met for the 2005 performance shares to vest after which management believes that a approximately 2.5 million of the performance shares are likely to vest. As such, expense of approximately \$3 million will be amortized over the remaining two year service period.



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**18. Hurricane Asset Retirement Loss**

Certain of the Company's cable systems in Louisiana suffered significant plant damage as a result of hurricanes Katrina and Rita in September 2005. As a result, the Company wrote off \$19 million of its plants' net book value in the third quarter of 2005.

**19. Special Charges**

In the fourth quarter of 2002, the Company began a workforce reduction program and consolidation of its operations from three divisions and ten regions into five operating divisions, eliminating redundant practices and streamlining its management structure. The Company has recorded special charges as a result of reducing its workforce, executive severance and consolidating administrative offices in 2003, 2004 and 2005. The activity associated with this initiative is summarized in the table below.

	<u>Severance/ Leases</u>	<u>Litigation</u>	<u>Other</u>	<u>Total Special Charge</u>
Balance at December 31, 2002	\$ 31			
Special Charges	26	\$ —	\$ (5)	\$ 21
Payments	<u>(43)</u>			
Balance at December 31, 2003	14			
Special Charges	12	\$ 92	\$ —	\$ 104
Payments	<u>(20)</u>			
Balance at December 31, 2004	6			
Special Charges	6	\$ 1	\$ —	\$ 7
Payments	<u>(8)</u>			
Balance at December 31, 2005	<u>\$ 4</u>			

For the year ended December 31, 2003, the severance and lease costs were offset by a \$5 million settlement from the Internet service provider Excite@Home related to the conversion of high-speed Internet customers to Charter Pipeline service in 2001. For the year ended December 31, 2004, special charges include approximately \$85 million, as part of a settlement of the consolidated federal class action and federal derivative action lawsuits and approximately \$10 million of litigation costs related to the settlement of a 2004 national class action suit (see Note 22). For the year ended December 31, 2004, special charges were offset by \$3 million received from a third party in settlement of a legal dispute. For the year ended December 31, 2005, special charges also include approximately \$1 million related to various legal settlements.

**20. Income Taxes**

Charter Holdings is a single member limited liability company not subject to income tax. Charter Holdings holds all operations through indirect subsidiaries. The majority of these indirect subsidiaries are limited liability companies that are also not subject to income tax. However, certain of Charter Holdings' indirect subsidiaries are corporations that are subject to income tax.

For the years ended December 31, 2005 and 2003, the Company recorded income tax expense related to increases in deferred tax liabilities and current federal and state income taxes primarily related to differences in accounting for franchises at our indirect corporate subsidiaries. For the year ended December 31, 2004, the Company recorded income tax benefit for its indirect corporate subsidiaries primarily related to differences between book and tax accounting for franchises, primarily resulting from the impairment recorded during 2004.

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Current and deferred income tax (expense) benefit is as follows:

	December 31,		
	2005	2004	2003
Current expense:			
Federal income taxes	\$ (2)	\$ (2)	\$ (1)
State income taxes	(4)	(4)	(1)
Current income tax expense	(6)	(6)	(2)
Deferred benefit (expense):			
Federal income taxes	(3)	50	(10)
State income taxes	—	7	(1)
Deferred income tax benefit (expense)	(3)	57	(11)
Total income benefit (expense)	<u>\$ (9)</u>	<u>\$ 51</u>	<u>\$ (13)</u>

The Company recorded the portion of the income tax benefit associated with the adoption of EITF Topic D-108 as a \$16 million reduction of the cumulative effect of accounting change on the accompanying statement of operations for the year ended December 31, 2004.

The Company's effective tax rate differs from that derived by applying the applicable federal income tax rate of 35%, and average state income tax rate of 5% for the years ended December 31, 2005, 2004 and 2003 as follows:

	December 31,		
	2005	2004	2003
Statutory federal income taxes	\$ 279	\$ 1,258	\$ 265
State income taxes, net of federal benefit	40	180	38
Losses allocated to limited liability companies not subject to income taxes	(348)	(1,367)	(290)
Valuation allowance used (provided)	20	(20)	(26)
Income tax benefit (expense)	(9)	51	(13)
Less: cumulative effect of accounting change	—	(16)	—
Income tax benefit (expense)	<u>\$ (9)</u>	<u>\$ 35</u>	<u>\$ (13)</u>

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The tax effects of these temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2005 and 2004 for the indirect corporate subsidiaries of the Company which are included in long-term liabilities are presented below.

	<u>December 31,</u>	
	<u>2005</u>	<u>2004</u>
Deferred tax assets:		
Net operating loss carryforward	\$ 80	\$ 95
Other	6	8
Total gross deferred tax assets	86	103
Less: valuation allowance	(51)	(71)
Net deferred tax assets	<u>\$ 35</u>	<u>\$ 32</u>
Deferred tax liabilities:		
Property, plant & equipment	\$ (41)	\$ (39)
Franchises	(207)	(201)
Gross deferred tax liabilities	(248)	(240)
Net deferred tax liabilities	<u>\$ (213)</u>	<u>\$ (208)</u>

As of December 31, 2005 and 2004, the Company has deferred tax assets of \$86 million and \$103 million, respectively, which primarily relate to net operating loss carryforwards of certain of its indirect corporate subsidiaries. These net operating loss carryforwards (generally expiring in years 2006 through 2025), are subject to certain return limitations. Valuation allowances of \$51 million and \$71 million exist with respect to these carryforwards as of December 31, 2005 and 2004, respectively.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will be realized. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. Management believes that the deferred tax assets will be realized prior to the expiration of the tax net operating loss carryforwards in 2006 through 2025, except for those tax net operating loss carryforwards that may be subject to certain limitations. Because of the uncertainty associated in realizing the deferred tax assets associated with the potentially limited tax net operating loss carryforwards, valuation allowances have been established except for deferred tax assets available to offset deferred tax liabilities.

Charter Holdco is currently under examination by the Internal Revenue Service for the tax years ending December 31, 2002 and 2003. The results of the Company (excluding the Company's indirect corporate subsidiaries) for these years are subject to this examination. Management does not expect the results of this examination to have a material adverse effect on the Company's consolidated financial condition or results of operations.

## **21. Related Party Transactions**

The following sets forth certain transactions in which the Company and the directors, executive officers and affiliates of the Company are involved. Unless otherwise disclosed, management believes that each of the transactions described below was on terms no less favorable to the Company than could have been obtained from independent third parties.

Charter is a party to management arrangements with Charter Holdco and certain of its subsidiaries. Under these agreements, Charter provides management services for the cable systems owned or operated by its subsidiaries. The management services include such services as centralized customer billing services, data

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processing and related support, benefits administration and coordination of insurance coverage and self-insurance programs for medical, dental and workers' compensation claims. Costs associated with providing these services are billed and charged directly to the Company's operating subsidiaries and are included within operating costs in the accompanying consolidated statements of operations. Such costs totaled \$205 million, \$195 million and \$203 million for the years ended December 31, 2005, 2004 and 2003, respectively. All other costs incurred on the behalf of Charter's operating subsidiaries are considered a part of the management fee and are recorded as a component of selling, general and administrative expense, in the accompanying consolidated financial statements. For the years ended December 31, 2005, 2004 and 2003, the management fee charged to the Company's operating subsidiaries approximated the expenses incurred by Charter Holdco and Charter on behalf of the Company's operating subsidiaries. The Company's credit facilities prohibit payments of management fees in excess of 3.5% of revenues until repayment of the outstanding indebtedness. In the event any portion of the management fee due and payable is not paid, it is deferred by Charter and accrued as a liability of such subsidiaries. Any deferred amount of the management fee will bear interest at the rate of 10% per year, compounded annually, from the date it was due and payable until the date it is paid.

Mr. Allen, the controlling shareholder of Charter, and a number of his affiliates have interests in various entities that provide services or programming to Charter's subsidiaries. Given the diverse nature of Mr. Allen's investment activities and interests, and to avoid the possibility of future disputes as to potential business, Charter and Charter Holdco, under the terms of their respective organizational documents, may not, and may not allow their subsidiaries to engage in any business transaction outside the cable transmission business except for certain existing approved investments. Charter, Charter Holdco or any of their subsidiaries may not pursue, or allow their subsidiaries to pursue, a business transaction outside of this scope, unless Mr. Allen consents to Charter or its subsidiaries engaging in the business transaction. The cable transmission business means the business of transmitting video, audio, including telephone, and data over cable systems owned, operated or managed by Charter, Charter Holdco or any of their subsidiaries from time to time.

Mr. Allen or his affiliates own or have owned equity interests or warrants to purchase equity interests in various entities with which the Company does business or which provides it with products, services or programming. Among these entities are TechTV L.L.C. ("TechTV"), Oxygen Media Corporation ("Oxygen Media"), Digeo, Inc., Click2learn, Inc., Trail Blazer Inc., Action Sports Cable Network ("Action Sports") and Microsoft Corporation. In May 2004, TechTV was sold to an unrelated third party. Mr. Allen owns 100% of the equity of Vulcan Ventures Incorporated ("Vulcan Ventures") and Vulcan Inc. and is the president of Vulcan Ventures. Ms. Jo Allen Patton is a director and the President and Chief Executive Officer of Vulcan Inc. and is a director and Vice President of Vulcan Ventures. Mr. Lance Conn is Executive Vice President of Vulcan Inc. and Vulcan Ventures. Mr. Savoy was a vice president and a director of Vulcan Ventures until his resignation in September 2003 and he resigned as a director of Charter in April 2004. The various cable, media, Internet and telephone companies in which Mr. Allen has invested may mutually benefit one another. The Company can give no assurance, nor should you expect, that any of these business relationships will be successful, that the Company will realize any benefits from these relationships or that the Company will enter into any business relationships in the future with Mr. Allen's affiliated companies.

Mr. Allen and his affiliates have made, and in the future likely will make, numerous investments outside of the Company and its business. The Company cannot assure that, in the event that the Company or any of its subsidiaries enter into transactions in the future with any affiliate of Mr. Allen, such transactions will be on terms as favorable to the Company as terms it might have obtained from an unrelated third party. Also, conflicts could arise with respect to the allocation of corporate opportunities between the Company and Mr. Allen and his affiliates. The Company has not instituted any formal plan or arrangement to address potential conflicts of interest.

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The Company received or receives programming for broadcast via its cable systems from TechTV (now G4), Oxygen Media and Trail Blazers Inc. The Company pays a fee for the programming service generally based on the number of customers receiving the service. Such fees for the years ended December 31, 2005, 2004 and 2003 were each less than 1% of total operating expenses.

*Tech TV.* The Company received from TechTV programming for distribution via its cable system pursuant to an affiliation agreement. The affiliation agreement provided, among other things, that TechTV must offer Charter certain terms and conditions that are no less favorable in the affiliation agreement than are given to any other distributor that serves the same number of or fewer TechTV viewing customers. Additionally, pursuant to the affiliation agreement, the Company was entitled to incentive payments for channel launches through December 31, 2003.

In March 2004, Charter Holdco entered into agreements with Vulcan Programming and TechTV, which provide for (i) Charter Holdco and TechTV to amend the affiliation agreement which, among other things, revises the description of the TechTV network content, provides for Charter Holdco to waive certain claims against TechTV relating to alleged breaches of the affiliation agreement and provides for TechTV to make payment of outstanding launch receivables due to Charter Holdco under the affiliation agreement, (ii) Vulcan Programming to pay approximately \$10 million and purchase over a 24-month period, at fair market rates, \$2 million of advertising time across various cable networks on Charter cable systems in consideration of the agreements, obligations, releases and waivers under the agreements and in settlement of the aforementioned claims and (iii) TechTV to be a provider of content relating to technology and video gaming for Charter's interactive television platforms through December 31, 2006 (exclusive for the first year). For the years ended December 31, 2005 and 2004, the Company recognized approximately \$1 million and \$5 million, respectively, of the Vulcan Programming payment as an offset to programming expense.

*Oxygen.* Oxygen Media LLC ("Oxygen") provides programming content aimed at the female audience for distribution over cable systems and satellite. On July 22, 2002, Charter Holdco entered into a carriage agreement with Oxygen whereby the Company agreed to carry programming content from Oxygen. Under the carriage agreement, the Company currently makes Oxygen programming available to approximately 5 million of its video customers. In August 2004, Charter Holdco and Oxygen entered into agreements that amended and renewed the carriage agreement. The amendment to the carriage agreement (a) revised the number of the Company's customers to which Oxygen programming must be carried and for which the Company must pay, (b) released Charter Holdco from any claims related to the failure to achieve distribution benchmarks under the carriage agreement, (c) required Oxygen to make payment on outstanding receivables for launch incentives due to the Company under the carriage agreement; and (d) requires that Oxygen provide its programming content to the Company on economic terms no less favorable than Oxygen provides to any other cable or satellite operator having fewer subscribers than the Company. The renewal of the carriage agreement (a) extends the period that the Company will carry Oxygen programming to its customers through January 31, 2008, and (b) requires license fees to be paid based on customers receiving Oxygen programming, rather than for specific customer benchmarks. For the years ended December 31, 2005, 2004 and 2003, the Company paid Oxygen approximately \$9 million, \$13 million and \$9 million, respectively. In addition, Oxygen pays the Company launch incentives for customers launched after the first year of the term of the carriage agreement up to a total of \$4 million. The Company recorded approximately \$0.1 million related to these launch incentives as a reduction of programming expense for the year ended December 31, 2005 and \$1 million for each of the years ended December 31, 2004 and 2003, respectively.

In August 2004, Charter Holdco and Oxygen also amended the equity issuance agreement to provide for the issuance of 1 million shares of Oxygen Preferred Stock with a liquidation preference of \$33.10 per share plus accrued dividends to Charter Holdco on February 1, 2005 in place of the \$34 million of unregistered shares of Oxygen Media common stock required under the original equity issuance agreement. Oxygen Media delivered these shares in March 2005. The preferred stock is convertible into common stock after

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December 31, 2007 at a conversion ratio, the numerator of which is the liquidation preference and the denominator which is the fair market value per share of Oxygen Media common stock on the conversion date.

The Company recognized the guaranteed value of the investment over the life of the carriage agreement as a reduction of programming expense. For the years ended December 31, 2005, 2004 and 2003, the Company recorded approximately \$2 million, \$13 million, and \$9 million, respectively, as a reduction of programming expense. The carrying value of the Company's investment in Oxygen was approximately \$33 million and \$32 million as of December 31, 2005 and 2004, respectively.

*Digeo, Inc.* In March 2001, Charter Communications Ventures, LLC ("Charter Ventures") and Vulcan Ventures formed DBroadband Holdings, LLC for the sole purpose of purchasing equity interests in Digeo. In connection with the execution of the broadband carriage agreement, DBroadband Holdings, LLC purchased an equity interest in Digeo funded by contributions from Vulcan Ventures. The equity interest is subject to a priority return of capital to Vulcan Ventures up to the amount contributed by Vulcan Ventures on Charter Ventures' behalf. After Vulcan Ventures recovers its amount contributed and any cumulative loss allocations, Charter Ventures has a 100% profit interest in DBroadband Holdings, LLC. Charter Ventures is not required to make any capital contributions, including capital calls to Digeo. DBroadband Holdings, LLC is therefore not included in the Company's consolidated financial statements. Pursuant to an amended version of this arrangement, in 2003, Vulcan Ventures contributed a total of \$29 million to Digeo, \$7 million of which was contributed on Charter Ventures' behalf, subject to Vulcan Ventures' aforementioned priority return. Since the formation of DBroadband Holdings, LLC, Vulcan Ventures has contributed approximately \$56 million on Charter Ventures' behalf.

On September 27, 2001, Charter and Digeo Interactive amended the broadband carriage agreement. According to the amendment, Digeo Interactive would provide to Charter the content for enhanced "Wink" interactive television services, known as Charter Interactive Channels ("i-channels"). In order to provide the i-channels, Digeo Interactive sublicensed certain Wink technologies to Charter. Charter is entitled to share in the revenues generated by the i-channels. Currently, the Company's digital video customers who receive i-channels receive the service at no additional charge.

On September 28, 2002, Charter entered into a second amendment to its broadband carriage agreement with Digeo Interactive. This amendment superseded the amendment of September 27, 2001. It provided for the development by Digeo Interactive of future features to be included in the Basic i-TV service to be provided by Digeo and for Digeo's development of an interactive "toolkit" to enable Charter to develop interactive local content. Furthermore, Charter could request that Digeo Interactive manage local content for a fee. The amendment provided for Charter to pay for development of the Basic i-TV service as well as license fees for customers who would receive the service, and for Charter and Digeo to split certain revenues earned from the service. The Company paid Digeo Interactive approximately \$3 million, \$3 million and \$4 million for the years ended December 31, 2005, 2004 and 2003, respectively, for customized development of the i-channels and the local content tool kit. This amendment expired pursuant to its terms on December 31, 2003. Digeo Interactive is continuing to provide the Basic i-TV service on a month-to-month basis.

On June 30, 2003, Charter Holdco entered into an agreement with Motorola, Inc. for the purchase of 100,000 digital video recorder ("DVR") units. The software for these DVR units is being supplied by Digeo Interactive, LLC under a license agreement entered into in April 2004. Under the license agreement Digeo Interactive granted to Charter Holdco the right to use Digeo's proprietary software for the number of DVR units that Charter deployed from a maximum of 10 headends through year-end 2004. This maximum number of headends restriction was expanded and eventually eliminated through successive agreement amendments and the date for entering into license agreements for units deployed was extended. The license granted for each unit deployed under the agreement is valid for five years. In addition, Charter will pay certain other fees including a per-headend license fee and maintenance fees. Maximum license and

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maintenance fees during the term of the agreement are expected to be approximately \$7 million. The agreement provides that Charter is entitled to receive contract terms, considered on the whole, and license fees, considered apart from other contract terms, no less favorable than those accorded to any other Digeo customer. The Company paid approximately \$1 million in license and maintenance fees in 2005.

In April 2004, the Company launched DVR service using units containing the Digeo software in its Rochester, Minnesota market using a broadband media center that is an integrated set-top terminal with a cable converter, DVR hard drive and connectivity to other consumer electronics devices (such as stereos, MP3 players, and digital cameras).

In May 2004, Charter Holdco entered into a binding term sheet with Digeo Interactive for the development, testing and purchase of 70,000 Digeo PowerKey DVR units. The term sheet provided that the parties would proceed in good faith to negotiate, prior to year-end 2004, definitive agreements for the development, testing and purchase of the DVR units and that the parties would enter into a license agreement for Digeo's proprietary software on terms substantially similar to the terms of the license agreement described above. In November 2004, Charter Holdco and Digeo Interactive executed the license agreement and in December 2004, the parties executed the purchase agreement, each on terms substantially similar to the binding term sheet. Product development and testing has been completed. Total purchase price and license and maintenance fees during the term of the definitive agreements are expected to be approximately \$41 million. The definitive agreements are terminable at no penalty to Charter in certain circumstances. The Company paid approximately \$10 million and \$1 million for the years ended December 31, 2005 and 2004, respectively, in capital purchases under this agreement.

*CC VIII.* As part of the acquisition of the cable systems owned by Bresnan Communications Company Limited Partnership in February 2000, CC VIII, LLC, Charter Holding's indirect limited liability company subsidiary, issued, after adjustments, 24,273,943 Class A preferred membership units (collectively, the "CC VIII interest") with a value and an initial capital account of approximately \$630 million to certain sellers affiliated with AT&T Broadband, subsequently owned by Comcast Corporation (the "Comcast sellers"). Mr. Allen granted the Comcast sellers the right to sell to him the CC VIII interest for approximately \$630 million plus 4.5% interest annually from February 2000 (the "Comcast put right"). In April 2002, the Comcast sellers exercised the Comcast put right in full, and this transaction was consummated on June 6, 2003. Accordingly, Mr. Allen became the holder of the CC VIII interest, indirectly through an affiliate. In the event of a liquidation of CC VIII, Mr. Allen would be entitled to a priority distribution with respect to a 2% priority return (which will continue to accrete). Any remaining distributions in liquidation would be distributed to CC V Holdings, LLC and Mr. Allen in proportion to CC V Holdings, LLC's capital account and Mr. Allen's capital account (which will equal the initial capital account of the Comcast sellers of approximately \$630 million, increased or decreased by Mr. Allen's pro rata share of CC VIII's profits or losses (as computed for capital account purposes) after June 6, 2003).

An issue arose as to whether the documentation for the Bresnan transaction was correct and complete with regard to the ultimate ownership of the CC VIII interest following consummation of the Comcast put right. Thereafter, the board of directors of Charter formed a Special Committee of independent directors to investigate the matter and take any other appropriate action on behalf of Charter with respect to this matter. After conducting an investigation of the relevant facts and circumstances, the Special Committee determined that a "scrivener's error" had occurred in February 2000 in connection with the preparation of the last-minute revisions to the Bresnan transaction documents and that, as a result, Charter should seek the reformation of the Charter Holdco limited liability company agreement, or alternative relief, in order to restore and ensure the obligation that the CC VIII interest be automatically exchanged for Charter Holdco units. The Special Committee further determined that, as part of such contract reformation or alternative relief, Mr. Allen should be required to contribute the CC VIII interest to Charter Holdco in exchange for 24,273,943 Charter Holdco membership units. The Special Committee also recommended to the board of

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directors of Charter that, to the extent the contract reformation is achieved, the board of directors should consider whether the CC VIII interest should ultimately be held by Charter Holdco or Charter Holdings or another entity owned directly or indirectly by them.

Mr. Allen disagreed with the Special Committee's determinations described above and so notified the Special Committee. Mr. Allen contended that the transaction was accurately reflected in the transaction documentation and contemporaneous and subsequent company public disclosures. The Special Committee and Mr. Allen determined to utilize the Delaware Court of Chancery's program for mediation of complex business disputes in an effort to resolve the CC VIII interest dispute.

As of October 31, 2005, Mr. Allen, the Special Committee, Charter, Charter Holdco and certain of their affiliates, agreed to settle the dispute, and execute certain permanent and irrevocable releases pursuant to the Settlement Agreement and Mutual Release agreement dated October 31, 2005 (the "Settlement"). Pursuant to the Settlement, Charter Investment, Inc. ("CII") has retained 30% of its CC VIII interest (the "Remaining Interests"). The Remaining Interests are subject to certain drag along, tag along and transfer restrictions as detailed in the revised CC VIII Limited Liability Company Agreement. CII transferred the other 70% of the CC VIII interest directly and indirectly, through Charter Holdco, to a newly formed entity, CCHC (a direct subsidiary of Charter Holdco and the direct parent of Charter Holdings). Of the 70% of the CC VIII preferred interests, 7.4% has been transferred by CII to CCHC for a subordinated exchangeable note with an initial accreted value of \$48 million, accreting at 14%, compounded quarterly, with a 15-year maturity (the "Note"). The remaining 62.6% has been transferred by CII to Charter Holdco, in accordance with the terms of the settlement for no additional monetary consideration. Charter Holdco contributed the 62.6% interest to CCHC.

As part of the Settlement, CC VIII issued approximately 49 million additional Class B units to CC V in consideration for prior capital contributions to CC VIII by CC V, with respect to transactions that were unrelated to the dispute in connection with CII's membership units in CC VIII. As a result, Mr. Allen's pro rata share of the profits and losses of CC VIII attributable to the Remaining Interests is approximately 5.6%.

The Note is exchangeable, at CII's option, at any time, for Charter Holdco Class A Common units at a rate equal to the then accreted value, divided by \$2.00 (the "Exchange Rate"). Customary anti-dilution protections have been provided that could cause future changes to the Exchange Rate. Additionally, the Charter Holdco Class A Common units received will be exchangeable by the holder into Charter common stock in accordance with existing agreements between CII, Charter and certain other parties signatory thereto. Beginning February 28, 2009, if the closing price of Charter common stock is at or above the Exchange Rate for a certain period of time as specified in the Exchange Agreement, Charter Holdco may require the exchange of the Note for Charter Holdco Class A Common units at the Exchange Rate.

CCHC has the right to redeem the Note under certain circumstances, for cash in an amount equal to the then accreted value, such amount, if redeemed prior to February 28, 2009, would also include a make whole up to the accreted value through February 28, 2009. CCHC must redeem the Note at its maturity for cash in an amount equal to the initial stated value plus the accreted return through maturity.

Charter's Board of Directors has determined that the transferred CC VIII interests remain at CCHC.

*Helicon.* In 1999, the Company purchased the Helicon cable systems. As part of that purchase, Mr. Allen entered into a put agreement with a certain seller of the Helicon cable systems that received a portion of the purchase price in the form of a preferred membership interest in Charter Helicon, LLC with a redemption price of \$25 million plus accrued interest. Under the Helicon put agreement, such holder had the right to sell any or all of the interest to Mr. Allen prior to its mandatory redemption in cash on July 30, 2009. On August 31, 2005, 40% of the preferred membership interest was put to Mr. Allen. The remaining 60% of the preferred interest in Charter Helicon, LLC remained subject to the put to Mr. Allen. Such preferred



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interest was recorded in other long-term liabilities. On October 6, 2005, Charter Helicon, LLC redeemed all of the preferred membership interest for the redemption price of \$25 million plus accrued interest.

Certain related parties, including members of Charter's board of directors and officers, hold interests in the Company's senior notes and discount notes of approximately \$60 million of face value at December 31, 2005.

## 22. Commitments and Contingencies

### *Commitments*

The following table summarizes the Company's payment obligations as of December 31, 2005 for its contractual obligations.

	<u>Total</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>Thereafter</u>
<b>Contractual Obligations</b>							
Operating and Capital Lease Obligations(1)	\$ 94	\$ 20	\$ 15	\$ 12	\$ 10	\$ 13	\$ 24
Programming Minimum Commitments(2)	1,253	342	372	306	233	—	—
Other(3)	301	146	49	21	21	21	43
<b>Total</b>	<u>\$1,648</u>	<u>\$508</u>	<u>\$436</u>	<u>\$339</u>	<u>\$264</u>	<u>\$ 34</u>	<u>\$ 67</u>

- (1) The Company leases certain facilities and equipment under noncancelable operating leases. Leases and rental costs charged to expense for the years ended December 31, 2005, 2004 and 2003, were \$22 million, \$22 million and \$29 million, respectively.
- (2) The Company pays programming fees under multi-year contracts ranging from three to ten years typically based on a flat fee per customer, which may be fixed for the term or may in some cases, escalate over the term. Programming costs included in the accompanying statement of operations were \$1.4 billion, \$1.3 billion and \$1.2 billion for the years ended December 31, 2005, 2004 and 2003, respectively. Certain of the Company's programming agreements are based on a flat fee per month or have guaranteed minimum payments. The table sets forth the aggregate guaranteed minimum commitments under the Company's programming contracts.
- (3) "Other" represents other guaranteed minimum commitments, which consist primarily of commitments to the Company's billing services vendors.

The following items are not included in the contractual obligation table due to various factors discussed below. However, the Company incurs these costs as part of its operations:

- The Company also rents utility poles used in its operations. Generally, pole rentals are cancelable on short notice, but the Company anticipates that such rentals will recur. Rent expense incurred for pole rental attachments from continuing operations for the years ended December 31, 2005, 2004 and 2003, was \$44 million, \$42 million and \$38 million, respectively.
- The Company pays franchise fees under multi-year franchise agreements based on a percentage of revenues earned from video service per year. The Company also pays other franchise related costs, such as public education grants under multi-year agreements. Franchise fees and other franchise-related costs from continuing operations included in the accompanying statement of operations were \$165 million, \$159 million and \$157 million for the years ended December 31, 2005, 2004 and 2003, respectively.

**CHARTER COMMUNICATIONS HOLDINGS, LLC AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

- The Company also has \$165 million in letters of credit, primarily to its various worker's compensation, property casualty and general liability carriers as collateral for reimbursement of claims. These letters of credit reduce the amount the Company may borrow under its credit facilities.

***Litigation***

***Securities Class Actions and Derivative Suits***

In 2002 and 2003, Charter had a series of lawsuits filed against Charter and certain of its former and present officers and directors (collectively the "Actions"). In general, the lawsuits alleged that Charter utilized misleading accounting practices and failed to disclose these accounting practices and/or issued false and misleading financial statements and press releases concerning Charter's operations and prospects.

Charter and the individual defendants entered into a Memorandum of Understanding on August 5, 2004 setting forth agreements in principle regarding settlement of the Actions. Charter and various other defendants in those actions subsequently entered into Stipulations of Settlement dated as of January 24, 2005, setting forth a settlement of the Actions in a manner consistent with the terms of the Memorandum of Understanding. On June 30, 2005, the Court issued its final approval of the settlements. At the end of September 2005, after the period for appeals of the settlements expired, Stipulations of Dismissal were filed with the Eighth Circuit Court of Appeals resulting in the dismissal of the two appeals with prejudice. Procedurally therefore, the settlements are final.

As amended, the Stipulations of Settlement provided that, in exchange for a release of all claims by plaintiffs against Charter and its former and present officers and directors named in the Actions, Charter would pay to the plaintiffs a combination of cash and equity collectively valued at \$144 million, which was to include the fees and expenses of plaintiffs' counsel. Of this amount, \$64 million was to be paid in cash (by Charter's insurance carriers) and the \$80 million balance was to be paid in shares of Charter Class A common stock having an aggregate value of \$40 million and ten-year warrants to purchase shares of Charter Class A common stock having an aggregate warrant value of \$40 million, with such values in each case being determined pursuant to formulas set forth in the Stipulations of Settlement. However, Charter had the right, in its sole discretion, to substitute cash for some or all of the aforementioned securities on a dollar for dollar basis. Pursuant to that right, Charter elected to fund the \$80 million obligation with 13.4 million shares of Charter Class A common stock (having an aggregate value of approximately \$15 million pursuant to the formula set forth in the Stipulations of Settlement) with the remaining balance (less an agreed upon \$2 million discount in respect of that portion allocable to plaintiffs' attorneys' fees) to be paid in cash. In addition, Charter had agreed to issue additional shares of its Class A common stock to its insurance carrier having an aggregate value of \$5 million; however, by agreement with its carrier, Charter paid \$4.5 million in cash in lieu of issuing such shares. As a result in 2004, the Company recorded an \$85 million special charge on its consolidated statement of operations. Charter delivered the settlement consideration to the claims administrator on July 8, 2005, and it was held in escrow pending resolution of the appeals. Those appeals are now resolved.

In October 2001 and 2002, two class action lawsuits were filed against Charter alleging that Charter Holdco improperly charged them a wire maintenance fee without request or permission. They also claimed that Charter Holdco improperly required them to rent analog and/or digital set-top terminals even though their television sets were "cable ready." In April 2004, the parties participated in a mediation which resulted in settlement of the lawsuits. As a result of the settlement, we recorded a special charge of \$9 million in our consolidated statement of operations in 2004. In December 2004 the court entered a written order formally approving that settlement.

Furthermore, the Company is also party to, other lawsuits and claims that arose in the ordinary course of conducting its business. In the opinion of management, after taking into account recorded liabilities, the

**CHARTER COMMUNICATIONS HOLDINGS, LLC AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

outcome of these other lawsuits and claims are not expected to have a material adverse effect on the Company's consolidated financial condition, results of operations or its liquidity.

***Regulation in the Cable Industry***

The operation of a cable system is extensively regulated by the Federal Communications Commission ("FCC"), some state governments and most local governments. The FCC has the authority to enforce its regulations through the imposition of substantial fines, the issuance of cease and desist orders and/or the imposition of other administrative sanctions, such as the revocation of FCC licenses needed to operate certain transmission facilities used in connection with cable operations. The 1996 Telecom Act altered the regulatory structure governing the nation's communications providers. It removed barriers to competition in both the cable television market and the local telephone market. Among other things, it reduced the scope of cable rate regulation and encouraged additional competition in the video programming industry by allowing local telephone companies to provide video programming in their own telephone service areas.

Future legislative and regulatory changes could adversely affect the Company's operations, including, without limitation, additional regulatory requirements the Company may be required to comply with as it offers new services such as telephone.

**23. Employee Benefit Plan**

The Company's employees may participate in the Charter Communications, Inc. 401(k) Plan. Employees that qualify for participation can contribute up to 50% of their salary, on a pre-tax basis, subject to a maximum contribution limit as determined by the Internal Revenue Service. The Company matches 50% of the first 5% of participant contributions. The Company made contributions to the 401(k) plan totaling \$6 million, \$7 million and \$7 million for the years ended December 31, 2005, 2004 and 2003, respectively.

**24. Recently Issued Accounting Standards**

In November 2004, the FASB issued SFAS No. 153, *Exchanges of Non-monetary Assets — An Amendment of APB No. 29*. This statement eliminates the exception to fair value for exchanges of similar productive assets and replaces it with a general exception for exchange transactions that do not have commercial substance — that is, transactions that are not expected to result in significant changes in the cash flows of the reporting entity. The Company adopted this pronouncement effective April 1, 2005. The exchange transaction discussed in Note 3 was accounted for under this standard.

In December 2004, the FASB issued the revised SFAS No. 123, *Share — Based Payment*, which addresses the accounting for share-based payment transactions in which a company receives employee services in exchange for (a) equity instruments of that company or (b) liabilities that are based on the fair value of the company's equity instruments or that may be settled by the issuance of such equity instruments. This statement will be effective for the Company beginning January 1, 2006. Because the Company adopted the fair value recognition provisions of SFAS No. 123 on January 1, 2003, the Company does not expect this revised standard to have a material impact on its financial statements.

In March 2005, the FASB issued FIN No. 47, *Accounting for Conditional Asset Retirement Obligations*. This interpretation clarifies that the term "conditional asset retirement obligation" as used in FASB Statement No. 143, *Accounting for Asset Retirement Obligations*, refers to a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the entity. This pronouncement is effective for fiscal years ending after December 15, 2005. The adoption of this interpretation did not have a material impact on the Company's financial statements.

**CHARTER COMMUNICATIONS HOLDINGS, LLC AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

Charter does not believe that any other recently issued, but not yet effective accounting pronouncements, if adopted, would have a material effect on the Company's accompanying financial statements.

**25. Parent Company Only Financial Statements**

As the result of limitations on, and prohibitions of, distributions, substantially all of the net assets of the consolidated subsidiaries are restricted from distribution to Charter Holdings, the parent company. The following condensed parent-only financial statements of Charter Holdings account for the investment in its subsidiaries under the equity method of accounting. The financial statements should be read in conjunction with the consolidated financial statements of the Company and notes thereto.

**Charter Communications Holdings, LLC (Parent Company Only)**  
**Condensed Balance Sheet**

	December 31,	
	2005	2004
<b>ASSETS</b>		
Accounts receivable	\$ —	\$ 11
Receivables from related party	24	11
Investment in subsidiaries	—	4,913
Other assets	14	94
Total assets	<u>\$ 38</u>	<u>\$ 5,029</u>
<b>LIABILITIES AND MEMBER'S DEFICIT</b>		
Current liabilities	\$ 42	\$ 163
Long-term debt	1,746	8,579
Losses in excess of investment	2,812	—
Member's deficit	(4,562)	(3,713)
Total liabilities and member's deficit	<u>\$ 38</u>	<u>\$ 5,029</u>

**Condensed Statement of Operations**

	Year Ended December 31,		
	2005	2004	2003
Interest expense	\$ (711)	\$ (892)	\$ (941)
Gain on extinguishment of debt	520	—	187
Equity in losses of subsidiaries	(615)	(3,506)	(15)
Other, net	—	(1)	(1)
Net loss	<u>\$ (806)</u>	<u>\$ (4,399)</u>	<u>\$ (770)</u>

**CHARTER COMMUNICATIONS HOLDINGS, LLC AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**Condensed Statements of Cash Flows**

	Year Ended December 31,		
	2005	2004	2003
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net loss	\$ (806)	\$ (4,399)	\$ (770)
Noncash interest expense	179	288	372
Equity in losses of subsidiaries	615	3,506	15
Gain on extinguishment of debt	(521)	—	(187)
Other, net	—	2	—
Changes in operating assets and liabilities	(111)	25	(5)
Net cash flows from operating activities	(644)	(578)	(575)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Purchases of investments	—	—	(8)
Investment in subsidiaries	—	—	(10)
Repayment on loans to subsidiaries	—	—	59
Net cash flows from investing activities	—	—	41
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Distributions from subsidiaries	644	578	561
Distributions to parent companies	—	—	(27)
Net cash flows from financing activities	644	578	534
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>

**26. Consolidating Schedules**

In September 2006, Charter Holdings and its wholly owned subsidiaries, CCH I and CCH II, completed the exchange of approximately \$797 million in total principal amount of outstanding debt securities of Charter Holdings in a private placement for new debt securities (the "Private Exchange"). Holders of Charter Holdings notes due in 2009-2010 tendered \$308 million of notes for \$250 million of new 10.25% CCH II notes due 2013 and \$37 million of new 11% CCH I notes due 2015. Holders of Charter Holdings notes due 2011-2012 tendered \$490 million of notes for \$425 million of CCH I notes due 2015. Also in September 2006, CCHC and CCH II completed the exchange of \$450 million aggregate principal amount of Charter's outstanding 5.875% senior convertible notes due 2009 for \$188 million in cash, 45 million shares of Charter's Class A common stock, and \$146.2 million aggregate principal amount of CCH II's 10.25% Senior Notes due 2010.

As part of the Private Exchange, CCHC contributed its 70% interest in the Class A preferred equity interests of CC VIII to CCH I. The contribution of the CC VIII interest will be accounted for as a transaction among entities under common control, and accordingly financial statements of CCH prepared subsequent to the contribution will reflect the contribution as if it had occurred on the date of the Settlement (as discussed in Note 21).

As discussed in Note 2, in September 2005, Charter Holdings' subsidiaries, CIH and CCH I, issued \$6.1 billion principal amount of new debt securities in exchange for \$6.8 billion principal amount of old Charter Holdings notes.

**CHARTER COMMUNICATIONS HOLDINGS, LLC AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

The CCH II notes and CCH I notes issued as part of the September 2006 exchange offer described above, and the CIH notes and CCH I notes issued as part of the September 2005 exchange offer described above, are obligations of CIH, CCH I and CCH II, however, they are also jointly and severally and fully and unconditionally guaranteed on an unsecured senior basis by Charter Holdings. The accompanying condensed consolidating financial information has been prepared and presented pursuant to SEC Regulation S-X Rule 3-10, *Financial Statements of Guarantors and Affiliates Whose Securities Collateralize an Issue Registered or Being Registered*. This information is not intended to present the financial position, results of operations and cash flows of the individual companies or groups of companies in accordance with generally accepted accounting principles.

In 2005 and 2003, respectively, Charter Holdings entered into a series of transactions and contributions which had the effect of creating CIH, CCH I and CCH II as intermediate holding companies. The creation of these holding companies has each been accounted for as reorganizations of entities under common control. Accordingly, the accompanying financial schedules present the historical financial condition and results of operations of CIH and CCH I as if the respective entities existed for all periods presented. Condensed consolidating financial statements as of December 31, 2005 and 2004 and for the years ended December 31, 2005, 2004 and 2003 follow.

**CHARTER COMMUNICATIONS HOLDINGS, LLC AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**Charter Holdings**  
**Condensed Consolidating Balance Sheet**  
**As of December 31, 2005**

	Charter Holdings	CIH	CCH I	CCH II	All Other Subsidiaries	Eliminations	Charter Holdings Consolidated
<b>ASSETS</b>							
<b>CURRENT ASSETS:</b>							
Cash and cash equivalents	\$ —	\$ 3	\$ 8	\$ —	\$ 3	\$ —	\$ 14
Accounts receivable, net	—	—	—	—	212	—	212
Receivables from related party	24	—	—	—	—	(24)	—
Prepaid expenses and other current assets	—	—	—	—	22	—	22
Total current assets	<u>24</u>	<u>3</u>	<u>8</u>	<u>—</u>	<u>237</u>	<u>(24)</u>	<u>248</u>
<b>INVESTMENT IN CABLE PROPERTIES:</b>							
Property, plant and equipment, net	—	—	—	—	5,800	—	5,800
Franchises, net	—	—	—	—	9,826	—	9,826
Total investment in cable properties, net	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>15,626</u>	<u>—</u>	<u>15,626</u>
INVESTMENT IN SUBSIDIARIES	<u>—</u>	<u>—</u>	<u>3,402</u>	<u>5,044</u>	<u>—</u>	<u>(8,446)</u>	<u>—</u>
OTHER NONCURRENT ASSETS	<u>14</u>	<u>21</u>	<u>45</u>	<u>14</u>	<u>224</u>	<u>—</u>	<u>318</u>
Total assets	<u>\$ 38</u>	<u>\$ 24</u>	<u>\$ 3,455</u>	<u>\$ 5,058</u>	<u>\$ 16,087</u>	<u>\$ (8,470)</u>	<u>\$ 16,192</u>
<b>LIABILITIES AND MEMBER'S EQUITY (DEFICIT)</b>							
<b>CURRENT LIABILITIES:</b>							
Accounts payable and accrued expenses	\$ 42	\$ 24	\$ 107	\$ 48	\$ 875	\$ —	\$ 1,096
Payables to related party	—	2	3	7	95	(24)	83
Total current liabilities	<u>42</u>	<u>26</u>	<u>110</u>	<u>55</u>	<u>970</u>	<u>(24)</u>	<u>1,179</u>
LONG-TERM DEBT	<u>1,746</u>	<u>2,472</u>	<u>3,683</u>	<u>1,601</u>	<u>9,023</u>	<u>—</u>	<u>18,525</u>
LOANS PAYABLE — RELATED PARTY	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>22</u>	<u>—</u>	<u>22</u>
DEFERRED MANAGEMENT FEES — RELATED PARTY	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>14</u>	<u>—</u>	<u>14</u>
OTHER LONG-TERM LIABILITIES	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>392</u>	<u>—</u>	<u>392</u>
LOSSES IN EXCESS OF INVESTMENT	<u>2,812</u>	<u>338</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(3,150)</u>	<u>—</u>
MINORITY INTEREST	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>622</u>	<u>—</u>	<u>622</u>
<b>MEMBER'S EQUITY (DEFICIT):</b>							
Member's equity (deficit)	(4,562)	(2,812)	(338)	3,402	5,042	(5,296)	(4,564)
Accumulated other comprehensive income	—	—	—	—	2	—	2
Total member's equity (deficit)	<u>(4,562)</u>	<u>(2,812)</u>	<u>(338)</u>	<u>3,402</u>	<u>5,044</u>	<u>(5,296)</u>	<u>(4,562)</u>
Total liabilities and member's equity (deficit)	<u>\$ 38</u>	<u>\$ 24</u>	<u>\$ 3,455</u>	<u>\$ 5,058</u>	<u>\$ 16,087</u>	<u>\$ (8,470)</u>	<u>\$ 16,192</u>

**CHARTER COMMUNICATIONS HOLDINGS, LLC AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**Charter Holdings**  
**Condensed Consolidating Balance Sheet**  
**As of December 31, 2004**

	<u>Charter Holdings</u>	<u>CIH</u>	<u>CCH I</u>	<u>CCH II</u>	<u>All Other Subsidiaries</u>	<u>Eliminations</u>	<u>Charter Holdings Consolidated</u>
<b>ASSETS</b>							
<b>CURRENT ASSETS:</b>							
Cash and cash equivalents	\$ —	\$ —	\$ —	\$ —	\$ 546	\$ —	\$ 546
Accounts receivable, net	11	—	—	—	175	—	186
Receivables from related party	11	—	—	—	—	(11)	—
Prepaid expenses and other current assets	—	—	—	—	20	—	20
Total current assets	<u>22</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>741</u>	<u>(11)</u>	<u>752</u>
<b>INVESTMENT IN CABLE PROPERTIES:</b>							
Property, plant and equipment, net	—	—	—	—	6,110	—	6,110
Franchises, net	—	—	—	—	9,878	—	9,878
Total investment in cable properties, net	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>15,988</u>	<u>—</u>	<u>15,988</u>
INVESTMENT IN SUBSIDIARIES	<u>4,913</u>	<u>4,913</u>	<u>4,913</u>	<u>6,553</u>	<u>—</u>	<u>(21,292)</u>	<u>—</u>
OTHER NONCURRENT ASSETS	<u>94</u>	<u>—</u>	<u>—</u>	<u>15</u>	<u>235</u>	<u>—</u>	<u>344</u>
Total assets	<u>\$ 5,029</u>	<u>\$ 4,913</u>	<u>\$ 4,913</u>	<u>\$ 6,568</u>	<u>\$ 16,964</u>	<u>\$ (21,303)</u>	<u>\$ 17,084</u>
<b>LIABILITIES AND MEMBER'S EQUITY (DEFICIT)</b>							
<b>CURRENT LIABILITIES:</b>							
Accounts payable and accrued expenses	\$ 163	\$ —	\$ —	\$ 48	\$ 901	\$ —	\$ 1,112
Payables to related party	—	—	—	6	24	(11)	19
Total current liabilities	<u>163</u>	<u>—</u>	<u>—</u>	<u>54</u>	<u>925</u>	<u>(11)</u>	<u>1,131</u>
LONG-TERM DEBT	<u>8,579</u>	<u>—</u>	<u>—</u>	<u>1,601</u>	<u>8,294</u>	<u>—</u>	<u>18,474</u>
LOANS PAYABLE — RELATED PARTY	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>29</u>	<u>—</u>	<u>29</u>
DEFERRED MANAGEMENT FEES — RELATED PARTY	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>14</u>	<u>—</u>	<u>14</u>
OTHER LONG-TERM LIABILITIES	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>493</u>	<u>—</u>	<u>493</u>
MINORITY INTEREST	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>656</u>	<u>—</u>	<u>656</u>
<b>MEMBER'S EQUITY (DEFICIT):</b>							
Member's equity (deficit)	(3,713)	4,913	4,913	4,913	6,568	(21,292)	(3,698)
Accumulated other comprehensive loss	—	—	—	—	(15)	—	(15)
Total member's equity (deficit)	<u>(3,713)</u>	<u>4,913</u>	<u>4,913</u>	<u>4,913</u>	<u>6,553</u>	<u>(21,292)</u>	<u>(3,713)</u>
Total liabilities and member's equity (deficit)	<u>\$ 5,029</u>	<u>\$ 4,913</u>	<u>\$ 4,913</u>	<u>\$ 6,568</u>	<u>\$ 16,964</u>	<u>\$ (21,303)</u>	<u>\$ 17,084</u>



**CHARTER COMMUNICATIONS HOLDINGS, LLC AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**Charter Holdings**  
**Condensed Consolidating Statement of Operations**  
**For the year ended December 31, 2005**

	<u>Charter Holdings</u>	<u>CIH</u>	<u>CCH I</u>	<u>CCH II</u>	<u>All Other Subsidiaries</u>	<u>Eliminations</u>	<u>Charter Holdings Consolidated</u>
REVENUES	\$ —	\$ —	\$ —	\$ —	\$ 5,033	\$ —	\$ 5,033
<b>COSTS AND EXPENSES:</b>							
Operating (excluding depreciation and amortization)	—	—	—	—	2,203	—	2,203
Selling, general and administrative	—	—	—	—	998	—	998
Depreciation and amortization	—	—	—	—	1,443	—	1,443
Asset impairment charges	—	—	—	—	39	—	39
Loss on sale of assets	—	—	—	—	6	—	6
Option compensation expense, net	—	—	—	—	14	—	14
Hurricane asset retirement loss	—	—	—	—	19	—	19
Special charges, net	—	—	—	—	7	—	7
	—	—	—	—	4,729	—	4,729
Operating income from continuing operations	—	—	—	—	304	—	304
<b>OTHER INCOME AND EXPENSES:</b>							
Interest expense, net	(711)	(72)	(98)	(167)	(691)	—	(1,739)
Gain on derivative instruments and hedging activities, net	—	—	—	—	50	—	50
Gain (loss) on extinguishment of debt	520	(8)	(12)	—	(6)	—	494
Other, net	—	—	—	—	22	—	22
Equity in income (losses) of subsidiaries	(615)	(535)	(425)	(258)	—	1,833	—
	(806)	(615)	(535)	(425)	(625)	1,833	(1,173)
Loss from continuing operations before minority interest and income taxes	(806)	(615)	(535)	(425)	(321)	1,833	(869)
<b>MINORITY INTEREST</b>	—	—	—	—	33	—	33
Loss from continuing operations before income taxes	(806)	(615)	(535)	(425)	(288)	1,833	(836)
<b>INCOME TAX EXPENSE</b>	—	—	—	—	(9)	—	(9)
Loss from continuing operations	(806)	(615)	(535)	(425)	(297)	1,833	(845)
<b>INCOME FROM DISCONTINUED OPERATIONS, NET OF TAX</b>	—	—	—	—	39	—	39
Net loss	<u>\$ (806)</u>	<u>\$ (615)</u>	<u>\$ (535)</u>	<u>\$ (425)</u>	<u>\$ (258)</u>	<u>\$ 1,833</u>	<u>\$ (806)</u>

**CHARTER COMMUNICATIONS HOLDINGS, LLC AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**Charter Holdings**  
**Condensed Consolidating Statement of Operations**  
**For the year ended December 31, 2004**

	<u>Charter Holdings</u>	<u>CIH</u>	<u>CCH I</u>	<u>CCH II</u>	<u>All Other Subsidiaries</u>	<u>Eliminations</u>	<u>Charter Holdings Consolidated</u>
REVENUES	\$ —	\$ —	\$ —	\$ —	\$ 4,760	\$ —	\$ 4,760
<b>COSTS AND EXPENSES:</b>							
Operating (excluding depreciation and amortization)	—	—	—	—	1,994	—	1,994
Selling, general and administrative	—	—	—	—	934	—	934
Depreciation and amortization	—	—	—	—	1,433	—	1,433
Impairment of franchises	—	—	—	—	2,297	—	2,297
Gain on sale of assets	—	—	—	—	(86)	—	(86)
Option compensation expense, net	—	—	—	—	31	—	31
Special charges, net	—	—	—	—	104	—	104
Unfavorable contracts and other settlements	—	—	—	—	(5)	—	(5)
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>6,702</u>	<u>—</u>	<u>6,702</u>
Operating loss from continuing operations	—	—	—	—	(1,942)	—	(1,942)
<b>OTHER INCOME AND EXPENSES:</b>							
Interest expense, net	(892)	—	—	(166)	(560)	—	(1,618)
Gain on derivative instruments and hedging activities, net	—	—	—	—	69	—	69
Loss on extinguishment of debt	—	—	—	—	(21)	—	(21)
Other, net	(1)	—	—	—	3	—	2
Equity in income (losses) of subsidiaries	(3,506)	(3,506)	(3,506)	(3,340)	—	13,858	—
	<u>(4,399)</u>	<u>(3,506)</u>	<u>(3,506)</u>	<u>(3,506)</u>	<u>(509)</u>	<u>13,858</u>	<u>(1,568)</u>
Loss before minority interest, income taxes and cumulative effect of accounting change	(4,399)	(3,506)	(3,506)	(3,506)	(2,451)	13,858	(3,510)
<b>MINORITY INTEREST</b>							
Loss from continuing operations before income taxes and cumulative effect of accounting change	(4,399)	(3,506)	(3,506)	(3,506)	(2,431)	13,858	(3,490)
<b>INCOME TAX BENEFIT</b>							
Loss from continuing operations before cumulative effect of accounting change	(4,399)	(3,506)	(3,506)	(3,506)	(2,396)	13,858	(3,455)
<b>LOSS FROM DISCONTINUED OPERATIONS, NET OF TAX</b>							
Loss before cumulative effect of accounting change	(4,399)	(3,506)	(3,506)	(3,506)	(2,500)	13,858	(3,559)
<b>CUMULATIVE EFFECT OF ACCOUNTING CHANGE, NET OF TAX</b>							
Net loss	<u>\$ (4,399)</u>	<u>\$ (3,506)</u>	<u>\$ (3,506)</u>	<u>\$ (3,506)</u>	<u>\$ (3,340)</u>	<u>\$ 13,858</u>	<u>\$ (4,399)</u>

**CHARTER COMMUNICATIONS HOLDINGS, LLC AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**Charter Holdings**  
**Condensed Consolidating Statement of Operations**  
**For the year ended December 31, 2003**

	<u>Charter Holdings</u>	<u>CIH</u>	<u>CCH I</u>	<u>CCH II</u>	<u>All Other Subsidiaries</u>	<u>Eliminations</u>	<u>Charter Holdings Consolidated</u>
REVENUES	\$ —	\$ —	\$ —	\$ —	\$ 4,616	\$ —	\$ 4,616
COSTS AND EXPENSES:							
Operating (excluding depreciation and amortization)	—	—	—	—	1,873	—	1,873
Selling, general and administrative	—	—	—	—	905	—	905
Depreciation and amortization	—	—	—	—	1,396	—	1,396
Loss on sale of assets	—	—	—	—	5	—	5
Option compensation expense, net	—	—	—	—	4	—	4
Special charges, net	—	—	—	—	21	—	21
Unfavorable contracts and other settlements	—	—	—	—	(72)	—	(72)
	—	—	—	—	4,132	—	4,132
Operating income from continuing operations	—	—	—	—	484	—	484
OTHER INCOME AND EXPENSES:							
Interest expense, net	(941)	—	—	(45)	(500)	—	(1,486)
Gain on derivative instruments and hedging activities, net	—	—	—	—	65	—	65
Gain on extinguishment of debt	187	—	—	—	—	—	187
Other, net	(1)	—	—	—	(9)	—	(10)
Equity in income (losses) of subsidiaries	(15)	(15)	(15)	30	—	15	—
	(770)	(15)	(15)	(15)	(444)	15	(1,244)
Loss from continuing operations before minority interest and income taxes	(770)	(15)	(15)	(15)	40	15	(760)
MINORITY INTEREST							
Loss from continuing operations before income taxes	(770)	(15)	(15)	(15)	11	15	(789)
INCOME TAX EXPENSE							
Loss from continuing operations	(770)	(15)	(15)	(15)	(2)	15	(802)
INCOME FROM DISCONTINUED OPERATIONS, NET OF TAX							
	—	—	—	—	32	—	32
Net loss	<u>\$ (770)</u>	<u>\$ (15)</u>	<u>\$ (15)</u>	<u>\$ (15)</u>	<u>\$ 30</u>	<u>\$ 15</u>	<u>\$ (770)</u>

**CHARTER COMMUNICATIONS HOLDINGS, LLC AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**Charter Holdings**  
**Condensed Consolidating Statement of Cash Flows**  
**For the year ended December 31, 2005**

	<u>Charter Holdings</u>	<u>CIH</u>	<u>CCH I</u>	<u>CCH II</u>	<u>All Other Subsidiaries</u>	<u>Eliminations</u>	<u>Charter Holdings Consolidated</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>							
Net loss	\$ (806)	\$ (615)	\$ (535)	\$ (425)	\$ (258)	\$ 1,833	\$ (806)
Adjustments to reconcile net loss to net cash flows from operating activities:							
Minority interest	—	—	—	—	(33)	—	(33)
Depreciation and amortization	—	—	—	—	1,499	—	1,499
Asset impairment charges	—	—	—	—	39	—	39
Loss on sale of assets, net	—	—	—	—	6	—	6
Option compensation expense, net	—	—	—	—	14	—	14
Hurricane asset retirement loss	—	—	—	—	19	—	19
Noncash interest expense	179	49	(2)	2	29	—	257
Gain on derivative instruments and hedging activities, net	—	—	—	—	(50)	—	(50)
(Gain) loss on extinguishment of debt	(521)	8	12	—	—	—	(501)
Equity in losses of subsidiaries	615	535	425	258	—	(1,833)	—
Deferred income taxes	—	—	—	—	3	—	3
Other, net	—	—	—	—	(22)	—	(22)
Changes in operating assets and liabilities, net of effects from acquisitions and dispositions:							
Accounts receivable	10	—	—	—	(41)	—	(31)
Prepaid expenses and other assets	1	—	—	—	(7)	—	(6)
Accounts payable, accrued expenses and other	(110)	25	107	—	(66)	—	(44)
Receivables from and payables to related party, including deferred management fees	(12)	2	3	—	(83)	—	(90)
Net cash flows from operating activities	<u>(644)</u>	<u>4</u>	<u>10</u>	<u>(165)</u>	<u>1,049</u>	<u>—</u>	<u>254</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>							
Purchases of property, plant and equipment	—	—	—	—	(1,088)	—	(1,088)
Change in accrued expenses related to capital expenditures	—	—	—	—	13	—	13
Proceeds from sale of assets	—	—	—	—	44	—	44
Purchases of investments	—	—	—	—	(1)	—	(1)
Investment in subsidiaries	—	—	—	—	16	—	16
Other, net	—	—	—	—	(2)	—	(2)
Net cash flows from investing activities	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(1,018)</u>	<u>—</u>	<u>(1,018)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>							
Borrowings of long-term debt	—	—	—	—	1,207	—	1,207
Borrowings from related parties	—	—	—	—	140	—	140
Repayments of long-term debt	—	—	—	—	(1,107)	—	(1,107)
Repayments to parent companies	—	—	—	—	(147)	—	(147)
Proceeds from issuance of debt	—	—	—	—	294	—	294
Payments for debt issuance costs	—	(8)	(51)	—	(11)	—	(70)
Redemption of preferred interest	—	—	—	—	(25)	—	(25)
Distributions	644	7	49	165	(925)	—	(60)
Net cash flows from financing activities	<u>644</u>	<u>(1)</u>	<u>(2)</u>	<u>165</u>	<u>(574)</u>	<u>—</u>	<u>232</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>							
	—	3	8	—	(543)	—	(532)
CASH AND CASH EQUIVALENTS, beginning of period	—	—	—	—	546	—	546
CASH AND CASH EQUIVALENTS, end of period	<u>\$ —</u>	<u>\$ 3</u>	<u>\$ 8</u>	<u>\$ —</u>	<u>\$ 3</u>	<u>\$ —</u>	<u>\$ 14</u>

**CHARTER COMMUNICATIONS HOLDINGS, LLC AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**Charter Holdings**  
**Condensed Consolidating Statement of Cash Flows**  
**For the year ended December 31, 2004**

	<u>Charter Holdings</u>	<u>CIH</u>	<u>CCH I</u>	<u>CCH II</u>	<u>All Other Subsidiaries</u>	<u>Eliminations</u>	<u>Charter Holdings Consolidated</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>							
Net loss	\$ (4,399)	\$ (3,506)	\$ (3,506)	\$ (3,506)	\$ (3,340)	\$ 13,858	\$ (4,399)
Adjustments to reconcile net loss to net cash flows from operating activities:							
Minority interest	—	—	—	—	(20)	—	(20)
Depreciation and amortization	—	—	—	—	1,495	—	1,495
Impairment of franchises	—	—	—	—	2,433	—	2,433
Gain on sale of assets	—	—	—	—	(86)	—	(86)
Option compensation expense, net	—	—	—	—	27	—	27
Special charges, net	—	—	—	—	85	—	85
Unfavorable contracts and other settlements	—	—	—	—	(5)	—	(5)
Noncash interest expense	288	—	—	2	25	—	315
Gain on derivative instruments and hedging activities, net	—	—	—	—	(69)	—	(69)
Equity in losses of subsidiaries	3,506	3,506	3,506	3,340	—	(13,858)	—
Loss on extinguishment of debt	—	—	—	—	18	—	18
Deferred income taxes	—	—	—	—	(42)	—	(42)
Cumulative effect of accounting change, net	—	—	—	—	840	—	840
Other, net	2	—	—	—	(5)	—	(3)
Changes in operating assets and liabilities, net of effects from acquisitions and dispositions:							
Accounts receivable	1	—	—	—	(4)	—	(3)
Prepaid expenses and other assets	—	—	—	—	(4)	—	(4)
Accounts payable, accrued expenses and other	20	—	—	3	(106)	—	(83)
Receivables from and payables to related party, including deferred management fees	4	—	—	3	(75)	—	(68)
Net cash flows from operating activities	<u>(578)</u>	<u>—</u>	<u>—</u>	<u>(158)</u>	<u>1,167</u>	<u>—</u>	<u>431</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>							
Purchases of property, plant and equipment	—	—	—	—	(893)	—	(893)
Change in accrued expenses related to capital expenditures	—	—	—	—	(33)	—	(33)
Proceeds from sale of systems	—	—	—	—	744	—	744
Purchases of investments	—	—	—	—	(6)	—	(6)
Other, net	—	—	—	—	(3)	—	(3)
Net cash flows from investing activities	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(191)</u>	<u>—</u>	<u>(191)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>							
Borrowings of long-term debt	—	—	—	—	3,147	—	3,147
Repayments of long-term debt	—	—	—	1	(4,861)	—	(4,860)
Repayments to parent companies	—	—	—	—	(8)	—	(8)
Proceeds from issuance of long-term debt	—	—	—	—	2,050	—	2,050
Payments for debt issuance costs	—	—	—	(3)	(105)	—	(108)
Distributions	578	—	—	160	(738)	—	—
Net cash flows from financing activities	<u>578</u>	<u>—</u>	<u>—</u>	<u>158</u>	<u>(515)</u>	<u>—</u>	<u>221</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>461</b>	<b>—</b>	<b>461</b>
CASH AND CASH EQUIVALENTS, beginning of period	—	—	—	—	85	—	85
CASH AND CASH EQUIVALENTS, end of period	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 546</u>	<u>\$ —</u>	<u>\$ 546</u>

**CHARTER COMMUNICATIONS HOLDINGS, LLC AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**Charter Holdings**  
**Condensed Consolidating Statement of Cash Flows**  
**For the year ended December 31, 2003**

	Charter Holdings	CIH	CCH I	CCH II	All Other Subsidiaries	Eliminations	Charter Holdings Consolidated
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>							
Net loss	\$ (770)	\$ (15)	\$ (15)	\$ (15)	\$ 30	\$ 15	\$ (770)
Adjustments to reconcile net loss to net cash flows from operating activities:							
Minority interest	—	—	—	—	29	—	29
Depreciation and amortization	—	—	—	—	1,453	—	1,453
Loss on sale of assets	—	—	—	—	5	—	5
Option compensation expense, net	—	—	—	—	4	—	4
Unfavorable contracts and other settlements	—	—	—	—	(72)	—	(72)
Noncash interest expense	372	—	—	—	38	—	410
Gain on derivative instruments and hedging activities, net	—	—	—	—	(65)	—	(65)
Equity in losses of subsidiaries	15	15	15	(30)	—	(15)	—
Gain on extinguishment of debt	(187)	—	—	—	—	—	(187)
Deferred income taxes	—	—	—	—	13	—	13
Changes in operating assets and liabilities, net of effects from acquisitions and dispositions:							
Accounts receivable	(7)	—	—	—	69	—	62
Prepaid expenses and other assets	1	—	—	2	10	—	13
Accounts payable, accrued expenses and other	(6)	—	—	45	(148)	—	(109)
Receivables from and payables to related party, including deferred management fees	7	—	—	3	(50)	—	(40)
Net cash flows from operating activities	<u>(575)</u>	<u>—</u>	<u>—</u>	<u>5</u>	<u>1,316</u>	<u>—</u>	<u>746</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>							
Purchases of property, plant and equipment	—	—	—	—	(804)	—	(804)
Change in accrued expenses related to capital expenditures	—	—	—	—	(41)	—	(41)
Proceeds from sale of systems	—	—	—	—	91	—	91
Purchases of investments	(8)	—	—	—	—	—	(8)
Investment in subsidiaries	(10)	—	—	—	—	10	—
Repayment on loans to subsidiaries	59	—	—	—	—	(59)	—
Other, net	—	—	—	—	(3)	—	(3)
Net cash flows from investing activities	<u>41</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(757)</u>	<u>(49)</u>	<u>(765)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>							
Borrowings of long-term debt	—	—	—	—	739	—	739
Repayments of long-term debt	—	—	—	—	(1,368)	(1)	(1,369)
Repayments to parent companies	—	—	—	—	(96)	60	(36)
Proceeds from issuance of long-term debt	—	—	—	29	500	—	529
Payments for debt issuance costs	—	—	—	(18)	(24)	—	(42)
Distributions	534	—	—	(16)	(535)	(10)	(27)
Net cash flows from financing activities	<u>534</u>	<u>—</u>	<u>—</u>	<u>(5)</u>	<u>(784)</u>	<u>49</u>	<u>(206)</u>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(225)</u>	<u>—</u>	<u>(225)</u>
CASH AND CASH EQUIVALENTS, beginning of period	—	—	—	—	310	—	310
CASH AND CASH EQUIVALENTS, end of period	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 85</u>	<u>\$ —</u>	<u>\$ 85</u>

**CHARTER COMMUNICATIONS HOLDINGS, LLC AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

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**27. Subsequent Events**

In February 2006, the Company signed two separate definitive agreements to sell certain cable television systems serving a total of approximately 316,000 analog video customers in West Virginia, Virginia, Illinois and Kentucky for a total of approximately \$896 million. The closings of these transactions are expected to occur in the third quarter of 2006. Under the terms of the Bridge Loan, bridge availability will be reduced by the proceeds of asset sales. The Company expects to use the net proceeds from the asset sales to repay (but not reduce permanently) amounts outstanding under the Company's revolving credit facility and that the asset sale proceeds, along with other existing sources of funds, will provide additional liquidity supplementing the Company's cash availability in 2006 and beyond.

## CHARTER COMMUNICATIONS HOLDINGS, LLC AND SUBSIDIARIES

## CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in Millions)

	June 30, 2006 (Unaudited)	December 31, 2005
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 48	\$ 14
Accounts receivable, less allowance for doubtful accounts of \$19 and \$17, respectively	178	212
Prepaid expenses and other current assets	20	22
Assets held for sale	768	—
Total current assets	<u>1,014</u>	<u>248</u>
<b>INVESTMENT IN CABLE PROPERTIES:</b>		
Property, plant and equipment, net of accumulated depreciation of \$7,014 and \$6,712, respectively	5,354	5,800
Franchises, net	9,280	9,826
Total investment in cable properties, net	<u>14,634</u>	<u>15,626</u>
<b>OTHER NONCURRENT ASSETS</b>		
	294	318
Total assets	<u>\$ 15,942</u>	<u>\$ 16,192</u>
<b>3 LIABILITIES AND MEMBER'S DEFICIT</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable and accrued expenses	\$ 1,129	\$ 1,096
Payables to related party	90	83
Liabilities held for sale	20	—
Total current liabilities	<u>1,239</u>	<u>1,179</u>
<b>LONG-TERM DEBT</b>		
	19,012	18,525
<b>LOANS PAYABLE — RELATED PARTY</b>		
	3	22
<b>DEFERRED MANAGEMENT FEES — RELATED PARTY</b>		
	14	14
<b>OTHER LONG-TERM LIABILITIES</b>		
	359	392
<b>MINORITY INTEREST</b>		
	631	622
<b>MEMBER'S DEFICIT:</b>		
Member's deficit	(5,318)	(4,564)
Accumulated other comprehensive income	2	2
Total member's deficit	<u>(5,316)</u>	<u>(4,562)</u>
Total liabilities and member's deficit	<u>\$ 15,942</u>	<u>\$ 16,192</u>



**CHARTER COMMUNICATIONS HOLDINGS, LLC AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
**(Dollars in Millions)**  
**Unaudited**

	<u>Three Months</u> <u>Ended June 30,</u>		<u>Six Months</u> <u>Ended June 30,</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
<b>REVENUES</b>	<b>\$ 1,383</b>	<b>\$ 1,266</b>	<b>\$ 2,703</b>	<b>\$ 2,481</b>
<b>COSTS AND EXPENSES:</b>				
Operating (excluding depreciation and amortization)	611	546	1,215	1,081
Selling, general and administrative	279	250	551	483
Depreciation and amortization	340	364	690	730
Asset impairment charges	—	8	99	39
Other operating (income) expenses, net	7	(2)	10	6
	<u>1,237</u>	<u>1,166</u>	<u>2,565</u>	<u>2,339</u>
Operating income from continuing operations	<u>146</u>	<u>100</u>	<u>138</u>	<u>142</u>
<b>OTHER INCOME AND (EXPENSES):</b>				
Interest expense, net	(456)	(431)	(907)	(855)
Other income (expenses), net	(26)	14	(19)	45
	<u>(482)</u>	<u>(417)</u>	<u>(926)</u>	<u>(810)</u>
Loss from continuing operations before income taxes	(336)	(317)	(788)	(668)
<b>INCOME TAX EXPENSE</b>	<u>(2)</u>	<u>(2)</u>	<u>(4)</u>	<u>(8)</u>
Loss from continuing operations	(338)	(319)	(792)	(676)
<b>INCOME FROM DISCONTINUED OPERATIONS, NET OF TAX</b>	<u>23</u>	<u>10</u>	<u>38</u>	<u>19</u>
Net loss	<u>\$ (315)</u>	<u>\$ (309)</u>	<u>\$ (754)</u>	<u>\$ (657)</u>

**CHARTER COMMUNICATIONS HOLDINGS, LLC AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(Dollars in Millions)**  
**Unaudited**

	Six Months Ended June 30,	
	2006	2005
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	\$ (754)	\$ (657)
Adjustments to reconcile net loss to net cash flows from operating activities:		
Depreciation and amortization	698	759
Asset impairment charges	99	39
Noncash interest expense	74	128
Deferred income taxes	—	5
Other, net	27	(42)
Changes in operating assets and liabilities, net of effects from acquisitions and dispositions:		
Accounts receivable	29	—
Prepaid expenses and other assets	—	(21)
Accounts payable, accrued expenses and other	28	(19)
Receivables from and payables to related party, including management fees	3	(28)
Net cash flows from operating activities	<u>204</u>	<u>164</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of property, plant and equipment	(539)	(542)
Change in accrued expenses related to capital expenditures	(9)	48
Proceeds from sale of assets	9	8
Purchase of cable system	(42)	—
Proceeds from investments	28	16
Other, net	—	(2)
Net cash flows from investing activities	<u>(553)</u>	<u>(472)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Borrowings of long-term debt	5,830	635
Borrowings from related parties	—	140
Repayments of long-term debt	(5,838)	(819)
Repayments to related parties	(20)	(107)
Proceeds from issuance of debt	440	—
Payments for debt issuance costs	(29)	(3)
Distributions	—	(60)
Net cash flows from financing activities	<u>383</u>	<u>(214)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	34	(522)
CASH AND CASH EQUIVALENTS, beginning of period	14	546
CASH AND CASH EQUIVALENTS, end of period	<u>\$ 48</u>	<u>\$ 24</u>
CASH PAID FOR INTEREST	<u>\$ 765</u>	<u>\$ 707</u>
<b>NONCASH TRANSACTIONS:</b>		
Issuance of debt by Charter Communications Operating, LLC	<u>\$ 37</u>	<u>\$ 333</u>
Retirement of Renaissance Media Group LLC debt	<u>\$ (37)</u>	<u>\$ —</u>
Retirement of Charter Communications Holdings, LLC debt	<u>\$ —</u>	<u>\$ (346)</u>
Transfer of property, plant and equipment from parent company	<u>\$ —</u>	<u>\$ 139</u>

**CHARTER COMMUNICATIONS HOLDINGS, LLC AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**1. Organization and Basis of Presentation**

Charter Communications Holdings, LLC (“Charter Holdings”) is a holding company whose principal assets at June 30, 2006 are the equity interests in its operating subsidiaries. Charter Holdings is a subsidiary of CCHC, LLC (“CCHC”) which is a subsidiary of Charter Communications Holding Company, LLC (“Charter Holdco”), which is a subsidiary of Charter Communications, Inc. (“Charter”). The condensed consolidated financial statements include the accounts of Charter Holdings and all of its subsidiaries where the underlying operations reside, which are collectively referred to herein as the “Company.” All significant intercompany accounts and transactions among consolidated entities have been eliminated. The Company is a broadband communications company operating in the United States. The Company offers its customers traditional cable video programming (analog and digital video) as well as high-speed Internet services and, in some areas, advanced broadband services such as high definition television, video on demand, and telephone. The Company sells its cable video programming, high-speed Internet and advanced broadband services on a subscription basis. The Company also sells local advertising on satellite-delivered networks.

The accompanying condensed consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and the rules and regulations of the Securities and Exchange Commission (the “SEC”). Accordingly, certain information and footnote disclosures typically included in Charter Holdings’ Annual Report on Form 10-K have been condensed or omitted for this quarterly report. The accompanying condensed consolidated financial statements are unaudited and are subject to review by regulatory authorities. However, in the opinion of management, such financial statements include all adjustments, which consist of only normal recurring adjustments, necessary for a fair presentation of the results for the periods presented. Interim results are not necessarily indicative of results for a full year.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Areas involving significant judgments and estimates include capitalization of labor and overhead costs; depreciation and amortization costs; impairments of property, plant and equipment, franchises and goodwill; income taxes; and contingencies. Actual results could differ from those estimates.

***Reclassifications***

Certain 2005 amounts have been reclassified to conform with the 2006 presentation.

**2. Liquidity and Capital Resources**

The Company had net loss of \$315 million and \$309 million for the three months ended June 30, 2006 and 2005, respectively, and \$754 million and \$657 million for the six months ended June 30, 2006 and 2005, respectively. The Company’s net cash flows from operating activities were \$204 million and \$164 million for the six months ended June 30, 2006 and 2005, respectively.

***Recent Financing Transactions***

In January 2006, CCH II, LLC (“CCH II”) and CCH II Capital Corp. issued \$450 million in debt securities, the proceeds of which were provided, directly or indirectly, to Charter Communications Operating, LLC (“Charter Operating”), which used such funds to reduce borrowings, but not commitments, under the revolving portion of its credit facilities.

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In April 2006, Charter Operating completed a \$6.85 billion refinancing of its credit facilities including a new \$350 million revolving/term facility (which converts to a term loan no later than April 2007), a \$5.0 billion term loan due in 2013 and certain amendments to the existing \$1.5 billion revolving credit facility. In addition, the refinancing reduced margins on Eurodollar rate term loans to 2.625% from a weighted average of 3.15% previously and margins on base rate term loans to 1.625% from a weighted average of 2.15% previously. Concurrent with this refinancing, the CCO Holdings, LLC (“CCO Holdings”) bridge loan was terminated.

The Company has a significant level of debt. The Company’s long-term financing as of June 30, 2006 consists of \$5.8 billion of credit facility debt and \$13.2 billion accreted value of high-yield notes. For the remainder of 2006, none of the Company’s debt matures, and in 2007 and 2008, \$130 million and \$50 million mature, respectively. In 2009 and beyond, significant additional amounts will become due under the Company’s remaining long-term debt obligations.

The Company requires significant cash to fund debt service costs, capital expenditures and ongoing operations. The Company has historically funded these requirements through cash flows from operating activities, borrowings under its credit facilities, equity contributions from Charter Holdco, sales of assets, issuances of debt securities and cash on hand. However, the mix of funding sources changes from period to period. For the six months ended June 30, 2006, the Company generated \$204 million of net cash flows from operating activities, after paying cash interest of \$765 million. In addition, the Company used approximately \$539 million for purchases of property, plant and equipment. Finally, the Company had net cash flows from financing activities of \$383 million.

The Company expects that cash on hand, cash flows from operating activities, proceeds from sales of assets, and the amounts available under its credit facilities will be adequate to meet its and its parent companies’ cash needs through 2007. The Company believes that cash flows from operating activities and amounts available under the Company’s credit facilities may not be sufficient to fund the Company’s operations and satisfy its and its parent companies’ interest and principal repayment obligations in 2008 and will not be sufficient to fund such needs in 2009, and beyond. The Company has been advised that Charter continues to work with its financial advisors in its approach to addressing liquidity, debt maturities and its overall balance sheet leverage.

***Debt Covenants***

The Company’s ability to operate depends upon, among other things, its continued access to capital, including credit under the Charter Operating credit facilities. The Charter Operating credit facilities, along with the Company’s indentures, contain certain restrictive covenants, some of which require the Company to maintain specified financial ratios, and meet financial tests and to provide annual audited financial statements with an unqualified opinion from the Company’s independent auditors. As of June 30, 2006, the Company is in compliance with the covenants under its indentures and credit facilities, and the Company expects to remain in compliance with those covenants for the next twelve months. As of June 30, 2006, the Company’s potential availability under its credit facilities totaled approximately \$900 million, none of which was limited by covenant restrictions. In the past, the Company’s actual availability under its credit facilities has been limited by covenant restrictions. There can be no assurance that the Company’s actual availability under its credit facilities will not be limited by covenant restrictions in the future. However, pro forma for the closing of the asset sales on July 1, 2006, and the related application of net proceeds to repay amounts outstanding under the Company’s revolving credit facility, potential availability under the Company’s credit facilities as of June 30, 2006 would have been approximately \$1.7 billion, although actual availability would have been limited to \$1.3 billion because of limits imposed by covenant restrictions. Continued access to the Company’s credit facilities is subject to the Company remaining in compliance with these covenants, including covenants

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tied to the Company's operating performance. If any events of non-compliance occur, funding under the credit facilities may not be available and defaults on some or potentially all of the Company's debt obligations could occur. An event of default under any of the Company's debt instruments could result in the acceleration of its payment obligations under that debt and, under certain circumstances, in cross-defaults under its other debt obligations, which could have a material adverse effect on the Company's consolidated financial condition and results of operations.

***Parent Company Debt Obligations***

Any financial or liquidity problems of the Company's parent companies could cause serious disruption to the Company's business and have a material adverse effect on the Company's business and results of operations.

Charter's ability to make interest payments on its convertible senior notes, and, in 2009, to repay the outstanding principal of its convertible senior notes of \$863 million, will depend on its ability to raise additional capital and/or on receipt of payments or distributions from Charter Holdco and its subsidiaries. As of June 30, 2006, Charter Holdco was owed \$3 million in intercompany loans from its subsidiaries, which were available to pay interest and principal on Charter's convertible senior notes. In addition, Charter has \$74 million of U.S. government securities pledged as security for the next three scheduled semi-annual interest payments on Charter's 5.875% convertible senior notes.

Distributions by Charter's subsidiaries to a parent company (including Charter, Charter Holdco, CCHC and Charter Holdings) for payment of principal on parent company notes are restricted under the indentures governing the CIH notes, CCH I notes, CCH II notes, CCO Holdings notes, and Charter Operating notes unless there is no default under the applicable indenture, each applicable subsidiary's leverage ratio test is met at the time of such distribution and, in the case of Charter's convertible senior notes, other specified tests are met. For the quarter ended June 30, 2006, there was no default under any of these indentures and each such subsidiary met its applicable leverage ratio tests based on June 30, 2006 financial results. Such distributions would be restricted, however, if any such subsidiary fails to meet these tests at such time. In the past, certain subsidiaries have from time to time failed to meet their leverage ratio test. There can be no assurance that they will satisfy these tests at the time of such distribution. Distributions by Charter Operating for payment of principal on parent company notes are further restricted by the covenants in the credit facilities.

Distributions by CIH, CCH I, CCH II, CCO Holdings and Charter Operating to a parent company for payment of parent company interest are permitted if there is no default under the aforementioned indentures. However, distributions for payment of interest on Charter's convertible senior notes are further limited to when each applicable subsidiary's leverage ratio test is met and other specified tests are met. There can be no assurance that the subsidiary will satisfy these tests at the time of such distribution.

***Specific Limitations***

The indentures governing the Charter Holdings notes permit Charter Holdings to make distributions to Charter Holdco for payment of interest or principal on Charter's convertible senior notes, only if, after giving effect to the distribution, Charter Holdings can incur additional debt under the leverage ratio of 8.75 to 1.0, there is no default under Charter Holdings' indentures, and other specified tests are met. For the quarter ended June 30, 2006, there was no default under Charter Holdings' indentures and Charter Holdings met its leverage ratio test based on June 30, 2006 financial results. Such distributions would be restricted, however, if Charter Holdings fails to meet these tests at such time. In the past, Charter Holdings has from time to time failed to meet this leverage ratio test. There can be no assurance that Charter Holdings will satisfy these tests at the time of such distribution. During periods in which distributions are restricted, the indentures governing

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the Charter Holdings notes permit Charter Holdings and its subsidiaries to make specified investments (that are not restricted payments) in Charter Holdco or Charter up to an amount determined by a formula, as long as there is no default under the indentures.

### 3. Sale of Assets

In 2006, the Company signed three separate definitive agreements to sell certain cable television systems serving a total of approximately 356,000 analog video customers in 1) West Virginia and Virginia to Cebridge Connections, Inc. (the “Cebridge Transaction”); 2) Illinois and Kentucky to Telecommunications Management, LLC, doing business as New Wave Communications (the “New Wave Transaction”) and 3) Nevada, Colorado, New Mexico and Utah to Orange Broadband Holding Company, LLC (the “Orange Transaction”) for a total of approximately \$971 million. These cable systems met the criteria for assets held for sale. As such, the assets were written down to fair value less estimated costs to sell resulting in asset impairment charges during the six months ended June 30, 2006 of approximately \$99 million related to the New Wave Transaction and the Orange Transaction. In the third quarter of 2006, the Company expects to record a gain of approximately \$200 million on the Cebridge Transaction. In addition, assets and liabilities to be sold have been presented as held for sale. Assets held for sale on the Company’s balance sheet as of June 30, 2006 included current assets of approximately \$6 million, property, plant and equipment of approximately \$319 million and franchises of approximately \$443 million. Liabilities held for sale on the Company’s balance sheet as of June 30, 2006 included current liabilities of approximately \$7 million and other long-term liabilities of approximately \$13 million.

During the second quarter of 2006, the Company determined, based on changes in the Company’s organizational and cost structure, that its asset groupings for long lived asset accounting purposes are at the level of their individual market areas, which are at a level below the Company’s geographic clustering. As a result, the Company has determined that the West Virginia and Virginia cable systems comprise operations and cash flows that for financial reporting purposes meet the criteria for discontinued operations. Accordingly, the results of operations for the West Virginia and Virginia cable systems have been presented as discontinued operations, net of tax for the three and six months ended June 30, 2006 and all prior periods presented herein have been reclassified to conform to the current presentation.

Summarized consolidated financial information for the three and six months ended June 30, 2006 and 2005 for the West Virginia and Virginia cable systems is as follows:

	<u>Three Months</u> <u>Ended June 30,</u>		<u>Six Months</u> <u>Ended June 30,</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Revenues	\$ 55	\$ 57	\$ 109	\$ 113
Income (loss) before income taxes	\$ 23	\$ 10	\$ 38	\$ 19

In July 2006, the Company closed the Cebridge Transaction and New Wave Transaction for net proceeds of approximately \$896 million. The Company used the net proceeds from the asset sales to repay (but not reduce permanently) amounts outstanding under the Company’s revolving credit facility. The Orange Transaction is scheduled to close in the third quarter of 2006.

In 2005, the Company closed the sale of certain cable systems in Texas, West Virginia and Nebraska representing a total of approximately 33,000 analog video customers. During the six months ended June 30, 2005, certain of those cable systems met the criteria for assets held for sale. As such, the assets were written down to fair value less estimated costs to sell resulting in asset impairment charges during the three and six months ended June 30, 2005 of approximately \$8 million and \$39 million, respectively.

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**4. Franchises and Goodwill**

Franchise rights represent the value attributed to agreements with local authorities that allow access to homes in cable service areas acquired through the purchase of cable systems. Management estimates the fair value of franchise rights at the date of acquisition and determines if the franchise has a finite life or an indefinite-life as defined by Statement of Financial Accounting Standards (“SFAS”) No. 142, *Goodwill and Other Intangible Assets*. Franchises that qualify for indefinite-life treatment under SFAS No. 142 are tested for impairment annually each October 1 based on valuations, or more frequently as warranted by events or changes in circumstances. Franchises are aggregated into essentially inseparable asset groups to conduct the valuations. The asset groups generally represent geographical clustering of the Company’s cable systems into groups by which such systems are managed. Management believes such grouping represents the highest and best use of those assets.

As of June 30, 2006 and December 31, 2005, indefinite-lived and finite-lived intangible assets are presented in the following table:

	June 30, 2006			December 31, 2005		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
<b>Indefinite-lived intangible assets:</b>						
Franchises with indefinite lives	\$ 9,263	\$ —	\$ 9,263	\$ 9,806	\$ —	\$ 9,806
Goodwill	61	—	61	52	—	52
	<u>\$ 9,324</u>	<u>\$ —</u>	<u>\$ 9,324</u>	<u>\$ 9,858</u>	<u>\$ —</u>	<u>\$ 9,858</u>
<b>Finite-lived intangible assets:</b>						
Franchises with finite lives	\$ 23	\$ 6	\$ 17	\$ 27	\$ 7	\$ 20

For the six months ended June 30, 2006, the net carrying amount of indefinite-lived and finite-lived franchises was reduced by \$441 million and \$2 million, respectively, related to franchises reclassified as assets held for sale. For the six months ended June 30, 2006, franchises with indefinite lives also decreased \$3 million related to a cable asset sale completed in the first quarter of 2006 and \$99 million as a result of the asset impairment charges recorded related to assets held for sale (see Note 3). Franchise amortization expense for the three and six months ended June 30, 2006 was approximately \$1 million and \$1 million, respectively, and \$1 million and \$2 million for the three and six months ended June 30, 2005, respectively, which represents the amortization relating to franchises that did not qualify for indefinite-life treatment under SFAS No. 142, including costs associated with franchise renewals. The Company expects that amortization expense on franchise assets will be approximately \$2 million annually for each of the next five years. Actual amortization expense in future periods could differ from these estimates as a result of new intangible asset acquisitions or divestitures, changes in useful lives and other relevant factors.

For the six months ended June 30, 2006, the net carrying amount of goodwill increased \$9 million as a result of the Company’s purchase of certain cable systems in Minnesota from Seren Innovations, Inc. in January 2006.

**CHARTER COMMUNICATIONS HOLDINGS, LLC AND SUBSIDIARIES**  
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**5. Accounts Payable and Accrued Expenses**

Accounts payable and accrued expenses consist of the following as of June 30, 2006 and December 31, 2005:

	June 30, 2006	December 31, 2005
Accounts payable — trade	\$ 74	\$ 102
Accrued capital expenditures	64	73
Accrued expenses:		
Interest	394	329
Programming costs	297	272
Franchise-related fees	55	67
Compensation	64	60
Other	181	193
	<u>\$ 1,129</u>	<u>\$ 1,096</u>

**6. Long-Term Debt**

Long-term debt consists of the following as of June 30, 2006 and December 31, 2005:

	June 30, 2006		December 31, 2005	
	Principal Amount	Accreted Value	Principal Amount	Accreted Value
<b>Long-Term Debt</b>				
Charter Communications Holdings, LLC:				
8.250% senior notes due 2007	\$ 105	\$ 105	\$ 105	\$ 105
8.625% senior notes due 2009	292	292	292	292
9.920% senior discount notes due 2011	198	198	198	198
10.000% senior notes due 2009	154	154	154	154
10.250% senior notes due 2010	49	49	49	49
11.750% senior discount notes due 2010	43	43	43	43
10.750% senior notes due 2009	131	131	131	131
11.125% senior notes due 2011	217	217	217	217
13.500% senior discount notes due 2011	94	94	94	94
9.625% senior notes due 2009	107	107	107	107
10.000% senior notes due 2011	137	136	137	136
11.750% senior discount notes due 2011	125	125	125	120
12.125% senior discount notes due 2012	113	106	113	100



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	June 30, 2006		December 31, 2005	
	Principal Amount	Accreted Value	Principal Amount	Accreted Value
<b>CCH I Holdings, LLC:</b>				
11.125% senior notes due 2014	151	151	151	151
9.920% senior discount notes due 2014	471	471	471	471
10.000% senior notes due 2014	299	299	299	299
11.750% senior discount notes due 2014	815	815	815	781
13.500% senior discount notes due 2014	581	581	581	578
12.125% senior discount notes due 2015	217	203	217	192
<b>CCH I, LLC:</b>				
11.000% senior notes due 2015	3,525	3,678	3,525	3,683
<b>CCH II, LLC:</b>				
10.250% senior notes due 2010	2,051	2,042	1,601	1,601
<b>CCO Holdings, LLC:</b>				
8 <sup>3</sup> / <sub>4</sub> % senior notes due 2013	800	795	800	794
Senior floating notes due 2010	550	550	550	550
<b>Charter Communications Operating, LLC:</b>				
8% senior second lien notes due 2012	1,100	1,100	1,100	1,100
8 <sup>3</sup> / <sub>8</sub> % senior second lien notes due 2014	770	770	733	733
<b>Renaissance Media Group LLC:</b>				
10.000% senior discount notes due 2008	—	—	114	115
<b>Credit Facilities</b>				
Charter Operating	5,800	5,800	5,731	5,731
	<u>\$ 18,895</u>	<u>\$ 19,012</u>	<u>\$ 18,453</u>	<u>\$ 18,525</u>

The accreted values presented above generally represent the principal amount of the notes less the original issue discount at the time of sale plus the accretion to the balance sheet date except as follows. The accreted value of the CIH notes issued in exchange for Charter Holdings notes and the portion of the CCH I notes issued in 2005 in exchange for the 8.625% Charter Holdings notes due 2009 are recorded at the historical book values of the Charter Holdings notes for financial reporting purposes as opposed to the current accreted value for legal purposes and notes indenture purposes (the amount that is currently payable if the debt becomes immediately due). As of June 30, 2006, the accreted value of the Company's debt for legal purposes and notes indenture purposes is approximately \$18.6 billion.

In January 2006, CCH II and CCH II Capital Corp. issued \$450 million in debt securities, the proceeds of which were provided, directly or indirectly, to Charter Operating, which used such funds to reduce borrowings, but not commitments, under the revolving portion of its credit facilities.

In March 2006, the Company exchanged \$37 million of Renaissance Media Group LLC 10% senior discount notes due 2008 for \$37 million principal amount of new Charter Operating 8<sup>3</sup>/<sub>8</sub>% senior second-lien notes due 2014 issued in a private transaction under Rule 144A. The terms and conditions of the new Charter Operating 8<sup>3</sup>/<sub>8</sub>% senior second-lien notes due 2014 are identical to Charter Operating's currently outstanding 8<sup>3</sup>/<sub>8</sub>% senior second-lien notes due 2014. In June 2006, the Company retired the remaining \$77 million principal amount of Renaissance Media Group LLC's 10% senior discount notes due 2008.

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***Gain (loss) on extinguishment of debt***

In April 2006, Charter Operating completed a \$6.85 billion refinancing of its credit facilities including a new \$350 million revolving/term facility (which converts to a term loan no later than April 2007), a \$5.0 billion term loan due in 2013 and certain amendments to the existing \$1.5 billion revolving credit facility. In addition, the refinancing reduced margins on Eurodollar rate term loans to 2.625% from a weighted average of 3.15% previously and margins on base rate term loans to 1.625% from a weighted average of 2.15% previously. Concurrent with this refinancing, the CCO Holdings bridge loan was terminated. The refinancing resulted in a loss on extinguishment of debt for the three and six months ended June 30, 2006 of approximately \$27 million included in other income (expenses), net on the Company's condensed consolidated statements of operations.

In March and June 2005, Charter Operating consummated exchange transactions with a small number of institutional holders of Charter Holdings 8.25% senior notes due 2007 pursuant to which Charter Operating issued, in private placements, approximately \$333 million principal amount of new notes with terms identical to Charter Operating's 8.375% senior second lien notes due 2014 in exchange for approximately \$346 million of the Charter Holdings 8.25% senior notes due 2007. The exchanges resulted in a loss on extinguishment of debt of approximately \$1 million for the three months ended June 30, 2005 and a gain on extinguishment of debt of approximately \$10 million for the six months ended June 30, 2005 included in other income (expenses), net on the Company's condensed consolidated statements of operations. The Charter Holdings notes received in the exchange were thereafter distributed to Charter Holdings and cancelled.

In March 2005, Charter Holdings' subsidiary, CC V Holdings, LLC, redeemed all of its 11.875% notes due 2008, at 103.958% of principal amount, plus accrued and unpaid interest to the date of redemption. The total cost of redemption was approximately \$122 million and was funded through borrowings under the Charter Operating credit facilities. The redemption resulted in a loss on extinguishment of debt for the six months ended June 30, 2005 of approximately \$5 million included in other income (expenses), net on the Company's condensed consolidated statements of operations. Following such redemption, CC V Holdings, LLC and its subsidiaries (other than non-guarantor subsidiaries) became guarantors under the Charter Operating credit facilities and granted a lien on their assets to the same extent as granted by the other guarantors under the credit facility.

**7. Minority Interest**

Minority interest on the Company's consolidated balance sheets as of June 30, 2006 and December 31, 2005 primarily represents preferred membership interests in CC VIII, LLC ("CC VIII"), an indirect subsidiary of Charter Holdings, of \$631 million and \$622 million, respectively. As more fully described in Note 18, this preferred interest is held by Mr. Allen, Charter's Chairman and controlling shareholder, and CCHC. Minority interest in the accompanying condensed consolidated statements of operations includes the 2% accretion of the preferred membership interests plus approximately 18.6% of CC VIII's income, net of accretion.

**8. Comprehensive Loss**

Certain marketable equity securities are classified as available-for-sale and reported at market value with unrealized gains and losses recorded as accumulated other comprehensive loss on the accompanying condensed consolidated balance sheets. Additionally, the Company reports changes in the fair value of interest rate agreements designated as hedging the variability of cash flows associated with floating-rate debt obligations, that meet the effectiveness criteria of SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, in accumulated other comprehensive loss. Comprehensive loss for the three months

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ended June 30, 2006 and 2005 was \$314 million and \$308 million, respectively, and \$754 million and \$647 million for the six months ended June 30, 2006 and 2005, respectively.

**9. Accounting for Derivative Instruments and Hedging Activities**

The Company uses interest rate risk management derivative instruments, such as interest rate swap agreements and interest rate collar agreements (collectively referred to herein as interest rate agreements) to manage its interest costs. The Company's policy is to manage interest costs using a mix of fixed and variable rate debt. Using interest rate swap agreements, the Company has agreed to exchange, at specified intervals through 2007, the difference between fixed and variable interest amounts calculated by reference to an agreed-upon notional principal amount. Interest rate collar agreements are used to limit the Company's exposure to and benefits from interest rate fluctuations on variable rate debt to within a certain range of rates.

The Company does not hold or issue derivative instruments for trading purposes. The Company does, however, have certain interest rate derivative instruments that have been designated as cash flow hedging instruments. Such instruments effectively convert variable interest payments on certain debt instruments into fixed payments. For qualifying hedges, SFAS No. 133 allows derivative gains and losses to offset related results on hedged items in the consolidated statement of operations. The Company has formally documented, designated and assessed the effectiveness of transactions that receive hedge accounting. For each of the three months ended June 30, 2006 and 2005, other income includes gains of \$0, and for the six months ended June 30, 2006 and 2005, other income includes gains of \$2 million and \$1 million, respectively, which represent cash flow hedge ineffectiveness on interest rate hedge agreements arising from differences between the critical terms of the agreements and the related hedged obligations. Changes in the fair value of interest rate agreements designated as hedging instruments of the variability of cash flows associated with floating-rate debt obligations that meet the effectiveness criteria of SFAS No. 133 are reported in accumulated other comprehensive loss. For the three months ended June 30, 2006 and 2005, a gain of \$1 million and \$0, respectively, and for the six months ended June 30, 2006 and 2005, a gain of \$0 and \$9 million, respectively, related to derivative instruments designated as cash flow hedges, was recorded in accumulated other comprehensive loss. The amounts are subsequently reclassified into interest expense as a yield adjustment in the same period in which the related interest on the floating-rate debt obligations affects earnings (losses).

Certain interest rate derivative instruments are not designated as hedges as they do not meet the effectiveness criteria specified by SFAS No. 133. However, management believes such instruments are closely correlated with the respective debt, thus managing associated risk. Interest rate derivative instruments not designated as hedges are marked to fair value, with the impact recorded as other income in the Company's condensed consolidated statements of operations. For the three months ended June 30, 2006 and 2005, other income includes gains of \$3 million and losses of \$1 million, respectively, and for the six months ended June 30, 2006 and 2005, other income includes gains of \$9 million and \$25 million, respectively, for interest rate derivative instruments not designated as hedges.

As of June 30, 2006 and December 31, 2005, the Company had outstanding \$1.8 billion and \$1.8 billion and \$20 million and \$20 million, respectively, in notional amounts of interest rate swaps and collars, respectively. The notional amounts of interest rate instruments do not represent amounts exchanged by the parties and, thus, are not a measure of exposure to credit loss. The amounts exchanged are determined by reference to the notional amount and the other terms of the contracts.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**  
**(Unaudited)**

**10. Revenues**

Revenues consist of the following for the three and six months ended June 30, 2006 and 2005:

	<u>Three Months</u> <u>Ended June 30,</u>		<u>Six Months</u> <u>Ended June 30,</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Video	\$ 853	\$ 821	\$ 1,684	\$ 1,623
High-speed Internet	261	218	506	425
Telephone	29	8	49	14
Advertising sales	79	73	147	135
Commercial	76	66	149	128
Other	85	80	168	156
	<u>\$ 1,383</u>	<u>\$ 1,266</u>	<u>\$ 2,703</u>	<u>\$ 2,481</u>

**11. Operating Expenses**

Operating expenses consist of the following for the three and six months ended June 30, 2006 and 2005:

	<u>Three Months</u> <u>Ended June 30,</u>		<u>Six Months</u> <u>Ended June 30,</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Programming	\$ 379	\$ 336	\$ 755	\$ 678
Service	205	186	408	356
Advertising sales	27	24	52	47
	<u>\$ 611</u>	<u>\$ 546</u>	<u>\$ 1,215</u>	<u>\$ 1,081</u>

**12. Selling, General and Administrative Expenses**

Selling, general and administrative expenses consist of the following for the three and six months ended June 30, 2006 and 2005:

	<u>Three Months</u> <u>Ended June 30,</u>		<u>Six Months</u> <u>Ended June 30,</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
General and administrative	\$ 236	\$ 220	\$ 471	\$ 418
Marketing	43	30	80	65
	<u>\$ 279</u>	<u>\$ 250</u>	<u>\$ 551</u>	<u>\$ 483</u>

Components of selling expense are included in general and administrative and marketing expense.

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**(Unaudited)**

**13. Other Operating (Income) Expenses, Net**

Other operating (income) expenses, net consist of the following for the three and six months ended June 30, 2006 and 2005:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
Loss on sale of assets, net	\$ —	\$ —	\$ —	\$ 4
Special charges, net	7	(2)	10	2
	<u>\$ 7</u>	<u>\$ (2)</u>	<u>\$ 10</u>	<u>\$ 6</u>

Special charges for the three and six months ended June 30, 2006 primarily represent severance associated with the closing of call centers and divisional restructuring. Special charges for the six months ended June 30, 2005 primarily represent severance costs as a result of reducing workforce, consolidating administrative offices and executive severance.

For the three and six months ended June 30, 2005, special charges were offset by approximately \$2 million related to an agreed upon discount in respect of the portion of settlement consideration payable under the settlement terms of class action lawsuits.

**14. Other Income (Expenses), Net**

Other income (expenses), net consists of the following for the three and six months ended June 30, 2006 and 2005:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
Gain (loss) on derivative instruments and hedging activities, net	\$ 3	\$ (1)	\$ 11	\$ 26
Gain (loss) on extinguishment of debt	(27)	(2)	(27)	4
Minority interest	(6)	(3)	(10)	(6)
Gain on investments	5	20	4	21
Other, net	(1)	—	3	—
	<u>\$ (26)</u>	<u>\$ 14</u>	<u>\$ (19)</u>	<u>\$ 45</u>

Gain on investments for the three and six months ended June 30, 2005 primarily represents a gain realized on an exchange of the Company's interest in an equity investee for an investment in a larger enterprise.

**15. Income Taxes**

Charter Holdings is a single member limited liability company not subject to income tax. Charter Holdings holds all operations through indirect subsidiaries. The majority of these indirect subsidiaries are limited liability companies that are also not subject to income tax. However, certain of Charter Holdings' indirect subsidiaries are corporations that are subject to income tax.

As of June 30, 2006 and December 31, 2005, the Company had net deferred income tax liabilities of approximately \$213 million. The net deferred income tax liabilities relate to certain of the Company's indirect subsidiaries, which file separate income tax returns.

**CHARTER COMMUNICATIONS HOLDINGS, LLC AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**  
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During the three and six months ended June 30, 2006, the Company recorded \$2 million and \$4 million of income tax expense, respectively, and during the three and six months ended June 30, 2005, the Company recorded \$2 million and \$8 million of income tax expense, respectively. The income tax expense is recognized through current federal and state income tax expense as well as increases to the deferred tax liabilities of certain of the Company's indirect corporate subsidiaries.

Charter Holdco is currently under examination by the Internal Revenue Service for the tax years ending December 31, 2002 and 2003. The Company's results (excluding the indirect corporate subsidiaries) for these years are subject to this examination. Management does not expect the results of this examination to have a material adverse effect on the Company's condensed consolidated financial condition or results of operations.

**16. Contingencies**

The Company is a party to lawsuits and claims that arise in the ordinary course of conducting its business. The ultimate outcome of all of these legal matters pending against the Company or its subsidiaries cannot be predicted, and although such lawsuits and claims are not expected individually to have a material adverse effect on the Company's consolidated financial condition, results of operations or liquidity, such lawsuits could have, in the aggregate, a material adverse effect on the Company's consolidated financial condition, results of operations or liquidity.

**17. Stock Compensation Plans**

Charter has stock option plans (the "Plans") which provide for the grant of non-qualified stock options, stock appreciation rights, dividend equivalent rights, performance units and performance shares, share awards, phantom stock and/or shares of restricted stock (not to exceed 20,000,000 shares of Charter Class A common stock), as each term is defined in the Plans. Employees, officers, consultants and directors of Charter and its subsidiaries and affiliates are eligible to receive grants under the Plans. Options granted generally vest over four to five years from the grant date, with 25% generally vesting on the anniversary of the grant date and ratably thereafter. Generally, options expire 10 years from the grant date. The Plans allow for the issuance of up to a total of 90,000,000 shares of Charter Class A common stock (or units convertible into Charter Class A common stock).

The fair value of each option granted is estimated on the date of grant using the Black-Scholes option-pricing model. The following weighted average assumptions were used for grants during the three months ended June 30, 2006 and 2005, respectively: risk-free interest rates of 5.0% and 3.8%; expected volatility of 91.0% and 70.1%; and expected lives of 6.25 years and 4.5 years, respectively. The following weighted average assumptions were used for grants during the six months ended June 30, 2006 and 2005, respectively: risk-free interest rates of 4.6% and 3.8%; expected volatility of 91.6% and 71.3%; and expected lives of 6.25 years and 4.5 years, respectively. The valuations assume no dividends are paid. During the three and six months ended June 30, 2006, Charter granted 0.1 million and 4.9 million stock options, respectively, with a weighted average exercise price of \$1.02 and \$1.07, respectively. As of June 30, 2006, Charter had 28.6 million and 10.7 million options outstanding and exercisable, respectively, with weighted average exercise prices of \$3.97 and \$7.27, respectively, and weighted average remaining contractual lives of 8 years and 6 years, respectively.

On January 1, 2006, the Company adopted revised SFAS No. 123, *Share — Based payment*, which addresses the accounting for share-based payment transactions in which a company receives employee services in exchange for (a) equity instruments of that company or (b) liabilities that are based on the fair value of the company's equity instruments or that may be settled by the issuance of such equity instruments. Because the Company adopted the fair value recognition provisions of SFAS No. 123 on January 1, 2003, the revised standard did not have a material impact on its financial statements. The Company recorded \$3 million and

**CHARTER COMMUNICATIONS HOLDINGS, LLC AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**  
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\$4 million of option compensation expense which is included in general and administrative expense for the three months ended June 30, 2006 and 2005, respectively, and \$7 million and \$8 million for the six months ended June 30, 2006 and 2005, respectively.

In February 2006, the Compensation and Benefits Committee of Charter's Board of Directors approved a modification to the financial performance measures under Charter's Long-Term Incentive Program ("LTIP") required to be met for the performance shares to vest. After the modification, management believes that approximately 2.5 million of the performance shares are likely to vest. As such, expense of approximately \$3 million will be amortized over the remaining two year service period. During the six months ended June 30, 2006, Charter granted an additional 8.0 million performance shares under the LTIP. The impacts of such grant and the modification of the 2005 awards was \$1 million for the six months ended June 30, 2006.

**18. Related Party Transactions**

The following sets forth certain transactions in which the Company and the directors, executive officers and affiliates of the Company are involved. Unless otherwise disclosed, management believes that each of the transactions described below was on terms no less favorable to the Company than could have been obtained from independent third parties.

***CC VIII, LLC***

As part of the acquisition of the cable systems owned by Bresnan Communications Company Limited Partnership in February 2000, CC VIII, LLC, Charter Holdings' indirect limited liability company subsidiary, issued, after adjustments, 24,273,943 Class A preferred membership units (collectively, the "CC VIII interest") with an initial value and an initial capital account of approximately \$630 million to certain sellers affiliated with AT&T Broadband, subsequently owned by Comcast Corporation (the "Comcast sellers"). Mr. Allen granted the Comcast sellers the right to sell to him the CC VIII interest for approximately \$630 million plus 4.5% interest annually from February 2000 (the "Comcast put right"). In April 2002, the Comcast sellers exercised the Comcast put right in full, and this transaction was consummated on June 6, 2003. Accordingly, Mr. Allen became the holder of the CC VIII interest, indirectly through an affiliate. In the event of a liquidation of CC VIII, the owners of the CC VIII interest would be entitled to a priority distribution with respect to a 2% priority return (which will continue to accrete). Any remaining distributions in liquidation would be distributed to CC V Holdings, LLC and the owners of the CC VIII interest in proportion to their capital accounts (which would have equaled the initial capital account of the Comcast sellers of approximately \$630 million, increased or decreased by Mr. Allen's pro rata share of CC VIII's profits or losses (as computed for capital account purposes) after June 6, 2003).

An issue arose as to whether the documentation for the Bresnan transaction was correct and complete with regard to the ultimate ownership of the CC VIII interest following consummation of the Comcast put right. Thereafter, the board of directors of Charter formed a Special Committee of independent directors to investigate the matter and take any other appropriate action on behalf of Charter with respect to this matter. After conducting an investigation of the relevant facts and circumstances, the Special Committee determined that a "scrivener's error" had occurred in February 2000 in connection with the preparation of the last-minute revisions to the Bresnan transaction documents and that, as a result, Charter should seek the reformation of the Charter Holdco limited liability company agreement, or alternative relief, in order to restore and ensure the obligation that the CC VIII interest be automatically exchanged for Charter Holdco units.

As of October 31, 2005, Mr. Allen, the Special Committee, Charter, Charter Holdco and certain of their affiliates, agreed to settle the dispute, and execute certain permanent and irrevocable releases pursuant to the

**CHARTER COMMUNICATIONS HOLDINGS, LLC AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**  
**(Unaudited)**

Settlement Agreement and Mutual Release agreement dated October 31, 2005 (the “Settlement”). Pursuant to the Settlement, Charter Investment, Inc. (“CII”) has retained 30% of its CC VIII interest (the “Remaining Interests”). The Remaining Interests are subject to certain transfer restrictions, including requirements that the Remaining Interests participate in a sale with other holders or that allow other holders to participate in a sale of the Remaining Interests, as detailed in the revised CC VIII Limited Liability Company Agreement. CII transferred the other 70% of the CC VIII interest directly and indirectly, through Charter Holdco, to a newly formed entity, CCHC (a direct subsidiary of Charter Holdco and the direct parent of Charter Holdings). Of the 70% of the CC VIII interest, 7.4% has been transferred by CII to CCHC for a subordinated exchangeable note with an initial accreted value of \$48 million, accreting at 14% per annum, compounded quarterly, with a 15-year maturity (the “Note”). The remaining 62.6% has been transferred by CII to Charter Holdco, in accordance with the terms of the settlement for no additional monetary consideration. Charter Holdco contributed the 62.6% interest to CCHC.

As part of the Settlement, CC VIII issued approximately 49 million additional Class B units to CC V in consideration for prior capital contributions to CC VIII by CC V, with respect to transactions that were unrelated to the dispute in connection with CII’s membership units in CC VIII. As a result, Mr. Allen’s pro rata share of the profits and losses of CC VIII attributable to the Remaining Interests is approximately 5.6%.

The Note is exchangeable, at CII’s option, at any time, for Charter Holdco Class A Common units at a rate equal to the then accreted value, divided by \$2.00 (the “Exchange Rate”). Customary anti-dilution protections have been provided that could cause future changes to the Exchange Rate. Additionally, the Charter Holdco Class A Common units received will be exchangeable by the holder into Charter common stock in accordance with existing agreements between CII, Charter and certain other parties signatory thereto. Beginning February 28, 2009, if the closing price of Charter common stock is at or above the Exchange Rate for a certain period of time as specified in the Exchange Agreement, Charter Holdco may require the exchange of the Note for Charter Holdco Class A Common units at the Exchange Rate.

CCHC has the right to redeem the Note under certain circumstances, for cash in an amount equal to the then accreted value. Such amount, if redeemed prior to February 28, 2009, would also include a make whole provision up to the accreted value through February 28, 2009. CCHC must redeem the Note at its maturity for cash in an amount equal to the initial stated value plus the accreted return through maturity.

Charter’s Board of Directors has determined that the transferred CC VIII interest will remain at CCHC for the present time, but there are currently no contractual or other obligations of CCHC that would prevent the contribution of those assets to a subsidiary of CCHC.

**19. Recently Issued Accounting Standards**

In June 2006, the FASB issued FIN 48, *Accounting for Uncertainty in Income Taxes — an Interpretation of FASB Statement No. 109*, which provides criteria for the recognition, measurement, presentation and disclosure of uncertain tax positions. A tax benefit from an uncertain position may be recognized only if it is “more likely than not” that the position is sustainable based on its technical merits. The Company will adopt FIN 48 effective January 1, 2007. The Company is currently assessing the impact of FIN 48 on its financial statements.

**20. Consolidating Schedules**

In September 2006, Charter Holdings and its wholly owned subsidiaries, CCH I and CCH II, completed the exchange of approximately \$797 million in total principal amount of outstanding debt securities of Charter Holdings in a private placement for new debt securities (the “Private Exchange”). Holders of



**CHARTER COMMUNICATIONS HOLDINGS, LLC AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**  
**(Unaudited)**

Charter Holdings notes due in 2009-2010 tendered \$308 million of notes for \$250 million of new 10.25% CCH II notes due 2013 and \$37 million of new 11% CCH I notes due 2015. Holders of Charter Holdings notes due 2011-2012 tendered \$490 million of notes for \$425 million of CCH I notes due 2015. Also in September 2006, CCHC and CCH II completed the exchange of \$450 million aggregate principal amount of Charter's outstanding 5.875% senior convertible notes due 2009 for \$188 million in cash, 45 million shares of Charter's Class A common stock and \$146.2 million aggregate principal amount of CCH II's 10.25% Senior Notes due 2010.

As part of the Private Exchange, CCHC contributed its 70% interest in the Class A preferred equity interests of CC VIII to CCH I. The contribution of the CC VIII Interest will be accounted for as a transaction among entities under common control, and accordingly financial statements of CCH prepared subsequent to the contribution will reflect the contribution as if it had occurred on the date of the Settlement (as discussed in Note 21).

In September 2005, Charter Holdings' subsidiaries, CIH and CCH I, issued \$6.1 billion principal amount of new debt securities in exchange for \$6.8 billion principal amount of old Charter Holdings notes.

The CCH II notes and CCH I notes issued as part of the September 2006 exchange offer described above, and the CIH notes and CCH I notes issued as part of the September 2005 exchange offer described above, are obligations of CIH, CCH I and CCH II, however, they are also jointly and severally and fully and unconditionally guaranteed on an unsecured senior basis by Charter Holdings. The accompanying condensed consolidating financial information has been prepared and presented pursuant to SEC Regulation S-X Rule 3-10, *Financial Statements of Guarantors and Affiliates Whose Securities Collateralize an Issue Registered or Being Registered*. This information is not intended to present the financial position, results of operations and cash flows of the individual companies or groups of companies in accordance with generally accepted accounting principles.

In 2005 and 2003, respectively, Charter Holdings entered into a series of transactions and contributions which had the effect of creating CIH, CCH I and CCH II as intermediate holding companies. The creation of these holding companies has each been accounted for as reorganizations of entities under common control. Accordingly, the accompanying financial schedules present the historical financial condition and results of operations of CIH and CCH I as if the respective entities existed for all periods presented. Condensed consolidating financial statements as of June 30, 2006 and December 31, 2005 and for the six months ended June 30, 2006 and 2005 follow.

**CHARTER COMMUNICATIONS HOLDINGS, LLC AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**  
**(Unaudited)**

**Charter Holdings**  
**Condensed Consolidating Balance Sheet**  
**As of June 30, 2006**

	<u>Charter Holdings</u>	<u>CIH</u>	<u>CCH I</u>	<u>CCH II</u>	<u>All Other Subsidiaries</u>	<u>Eliminations</u>	<u>Charter Holdings Consolidated</u>
<b>ASSETS</b>							
<b>CURRENT ASSETS:</b>							
Cash and cash equivalents	\$ —	\$ 2	\$ 2	\$ 1	\$ 43	\$ —	\$ 48
Accounts receivable, net	—	—	—	—	178	—	178
Receivables from related party	128	—	—	—	—	(128)	—
Prepaid expenses and other current assets	—	—	—	—	20	—	20
Assets held for sale	—	—	—	—	768	—	768
Total current assets	<u>128</u>	<u>2</u>	<u>2</u>	<u>1</u>	<u>1,009</u>	<u>(128)</u>	<u>1,014</u>
<b>INVESTMENT IN CABLE PROPERTIES:</b>							
Property, plant and equipment, net	—	—	—	—	5,354	—	5,354
Franchises, net	—	—	—	—	9,280	—	9,280
Total investment in cable properties, net	—	—	—	—	14,634	—	14,634
<b>INVESTMENT IN SUBSIDIARIES</b>							
	—	—	2,648	4,535	—	(7,183)	—
<b>OTHER NONCURRENT ASSETS</b>							
	13	21	43	21	196	—	294
Total assets	<u>\$ 141</u>	<u>\$ 23</u>	<u>\$ 2,693</u>	<u>\$ 4,557</u>	<u>\$ 15,839</u>	<u>\$ (7,311)</u>	<u>\$ 15,942</u>
<b>LIABILITIES AND MEMBER'S EQUITY (DEFICIT)</b>							
<b>CURRENT LIABILITIES:</b>							
Accounts payable and accrued expenses	\$ 46	\$ 69	\$ 97	\$ 55	\$ 862	\$ —	\$ 1,129
Payables to related party	—	2	4	8	99	(23)	90
Liabilities held for sale	—	—	—	—	20	—	20
Total current liabilities	<u>46</u>	<u>71</u>	<u>101</u>	<u>63</u>	<u>981</u>	<u>(23)</u>	<u>1,239</u>
<b>LONG-TERM DEBT</b>							
	<u>1,757</u>	<u>2,520</u>	<u>3,678</u>	<u>2,042</u>	<u>9,015</u>	<u>—</u>	<u>19,012</u>
<b>LOANS PAYABLE — RELATED PARTY</b>							
	—	—	—	(196)	304	(105)	3
<b>DEFERRED MANAGEMENT FEES — RELATED PARTY</b>							
	—	—	—	—	14	—	14
<b>OTHER LONG-TERM LIABILITIES</b>							
	—	—	—	—	359	—	359
<b>LOSSES IN EXCESS OF INVESTMENT</b>							
	<u>3,654</u>	<u>1,086</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(4,740)</u>	<u>—</u>
<b>MINORITY INTEREST</b>							
	—	—	—	—	631	—	631
<b>MEMBER'S EQUITY (DEFICIT):</b>							
Member's equity (deficit)	(5,316)	(3,654)	(1,086)	2,648	4,533	(2,443)	(5,318)
Accumulated other comprehensive income	—	—	—	—	2	—	2
Total member's equity (deficit)	<u>(5,316)</u>	<u>(3,654)</u>	<u>(1,086)</u>	<u>2,648</u>	<u>4,535</u>	<u>(2,443)</u>	<u>(5,316)</u>
Total liabilities and member's equity (deficit)	<u>\$ 141</u>	<u>\$ 23</u>	<u>\$ 2,693</u>	<u>\$ 4,557</u>	<u>\$ 15,839</u>	<u>\$ (7,311)</u>	<u>\$ 15,942</u>

**CHARTER COMMUNICATIONS HOLDINGS, LLC AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**  
**(Unaudited)**

**Charter Holdings**  
**Condensed Consolidating Balance Sheet**  
**As of December 31, 2005**

	<u>Charter Holdings</u>	<u>CIH</u>	<u>CCH I</u>	<u>CCH II</u>	<u>All Other Subsidiaries</u>	<u>Eliminations</u>	<u>Charter Holdings Consolidated</u>
<b>ASSETS</b>							
<b>CURRENT ASSETS:</b>							
Cash and cash equivalents	\$ —	\$ 3	\$ 8	\$ —	\$ 3	\$ —	\$ 14
Accounts receivable, net	—	—	—	—	212	—	212
Receivables from related party	24	—	—	—	—	(24)	—
Prepaid expenses and other current assets	—	—	—	—	22	—	22
<b>Total current assets</b>	<b>24</b>	<b>3</b>	<b>8</b>	<b>—</b>	<b>237</b>	<b>(24)</b>	<b>248</b>
<b>INVESTMENT IN CABLE PROPERTIES:</b>							
Property, plant and equipment, net	—	—	—	—	5,800	—	5,800
Franchises, net	—	—	—	—	9,826	—	9,826
<b>Total investment in cable properties, net</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>15,626</b>	<b>—</b>	<b>15,626</b>
<b>INVESTMENT IN SUBSIDIARIES</b>	<b>—</b>	<b>—</b>	<b>3,402</b>	<b>5,044</b>	<b>—</b>	<b>(8,446)</b>	<b>—</b>
<b>OTHER NONCURRENT ASSETS</b>	<b>14</b>	<b>21</b>	<b>45</b>	<b>14</b>	<b>224</b>	<b>—</b>	<b>318</b>
<b>Total assets</b>	<b>\$ 38</b>	<b>\$ 24</b>	<b>\$ 3,455</b>	<b>\$ 5,058</b>	<b>\$ 16,087</b>	<b>\$ (8,470)</b>	<b>\$ 16,192</b>
<b>LIABILITIES AND MEMBER'S EQUITY (DEFICIT)</b>							
<b>CURRENT LIABILITIES:</b>							
Accounts payable and accrued expenses	\$ 42	\$ 24	\$ 107	\$ 48	\$ 875	\$ —	\$ 1,096
Payables to related party	—	2	3	7	95	(24)	83
<b>Total current liabilities</b>	<b>42</b>	<b>26</b>	<b>110</b>	<b>55</b>	<b>970</b>	<b>(24)</b>	<b>1,179</b>
<b>LONG-TERM DEBT</b>	<b>1,746</b>	<b>2,472</b>	<b>3,683</b>	<b>1,601</b>	<b>9,023</b>	<b>—</b>	<b>18,525</b>
<b>LOANS PAYABLE — RELATED PARTY</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>22</b>	<b>—</b>	<b>22</b>
<b>DEFERRED MANAGEMENT FEES — RELATED PARTY</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>14</b>	<b>—</b>	<b>14</b>
<b>OTHER LONG-TERM LIABILITIES</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>392</b>	<b>—</b>	<b>392</b>
<b>LOSSES IN EXCESS OF INVESTMENT</b>	<b>2,812</b>	<b>338</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>(3,150)</b>	<b>—</b>
<b>MINORITY INTEREST</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>622</b>	<b>—</b>	<b>622</b>
<b>MEMBER'S EQUITY (DEFICIT):</b>							
Member's equity (deficit)	(4,562)	(2,812)	(338)	3,402	5,042	(5,296)	(4,564)
Accumulated other comprehensive income	—	—	—	—	2	—	2
<b>Total member's equity (deficit)</b>	<b>(4,562)</b>	<b>(2,812)</b>	<b>(338)</b>	<b>3,402</b>	<b>5,044</b>	<b>(5,296)</b>	<b>(4,562)</b>
<b>Total liabilities and member's equity (deficit)</b>	<b>\$ 38</b>	<b>\$ 24</b>	<b>\$ 3,455</b>	<b>\$ 5,058</b>	<b>\$ 16,087</b>	<b>\$ (8,470)</b>	<b>\$ 16,192</b>

**CHARTER COMMUNICATIONS HOLDINGS, LLC AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**  
**(Unaudited)**

**Charter Holdings**  
**Condensed Consolidating Statement of Operations**  
**For the six months ended June 30, 2006**

	Charter Holdings	CIH	CCH I	CCH II	All Other Subsidiaries	Eliminations	Charter Holdings Consolidated
REVENUES	\$ —	\$ —	\$ —	\$ —	\$ 2,703	\$ —	\$ 2,703
COSTS AND EXPENSES:							
Operating (excluding depreciation and amortization)	—	—	—	—	1,215	—	1,215
Selling, general and administrative	—	—	—	—	551	—	551
Depreciation and amortization	—	—	—	—	690	—	690
Asset impairment charges	—	—	—	—	99	—	99
Other operating expenses, net	—	—	—	—	10	—	10
	—	—	—	—	2,565	—	2,565
Operating income from continuing operations	—	—	—	—	138	—	138
OTHER INCOME AND (EXPENSES):							
Interest expense, net	(88)	(141)	(190)	(98)	(390)	—	(907)
Other expense, net	—	—	—	—	(19)	—	(19)
Equity in losses of subsidiaries	(666)	(525)	(335)	(237)	—	1,763	—
	(754)	(666)	(525)	(335)	(409)	1,763	(926)
Loss from continuing operations before income taxes	(754)	(666)	(525)	(335)	(271)	1,763	(788)
INCOME TAX EXPENSE	—	—	—	—	(4)	—	(4)
Loss from continuing operations	(754)	(666)	(525)	(335)	(275)	1,763	(792)
INCOME FROM DISCONTINUED OPERATIONS, NET OF TAX							
	—	—	—	—	38	—	38
Net loss	\$ (754)	\$ (666)	\$ (525)	\$ (335)	\$ (237)	\$ 1,763	\$ (754)

**CHARTER COMMUNICATIONS HOLDINGS, LLC AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**  
**(Unaudited)**

**Charter Holdings**  
**Condensed Consolidating Statement of Operations**  
**For the six months ended June 30, 2005**

	<u>Charter Holdings</u>	<u>CIH</u>	<u>CCH I</u>	<u>CCH II</u>	<u>All Other Subsidiaries</u>	<u>Eliminations</u>	<u>Charter Holdings Consolidated</u>
REVENUES	\$ —	\$ —	\$ —	\$ —	\$ 2,481	\$ —	\$ 2,481
COSTS AND EXPENSES:							
Operating (excluding depreciation and amortization)	—	—	—	—	1,081	—	1,081
Selling, general and administrative	—	—	—	—	483	—	483
Depreciation and amortization	—	—	—	—	730	—	730
Asset impairment charges	—	—	—	—	39	—	39
Other operating expenses, net	—	—	—	—	6	—	6
	—	—	—	—	2,339	—	2,339
Operating income from continuing operations	—	—	—	—	142	—	142
OTHER INCOME AND (EXPENSES):							
Interest expense, net	(447)	—	—	(84)	(324)	—	(855)
Other income, net	10	—	—	—	35	—	45
Equity in losses of subsidiaries	(220)	(220)	(220)	(136)	—	796	—
	(657)	(220)	(220)	(220)	(289)	796	(810)
Loss from continuing operations before income taxes	(657)	(220)	(220)	(220)	(147)	796	(668)
INCOME TAX EXPENSE	—	—	—	—	(8)	—	(8)
Loss from continuing operations	(657)	(220)	(220)	(220)	(155)	796	(676)
INCOME FROM DISCONTINUED OPERATIONS, NET OF TAX							
	—	—	—	—	19	—	19
Net loss	<u>\$ (657)</u>	<u>\$ (220)</u>	<u>\$ (220)</u>	<u>\$ (220)</u>	<u>\$ (136)</u>	<u>\$ 796</u>	<u>\$ (657)</u>

**CHARTER COMMUNICATIONS HOLDINGS, LLC AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**  
**(Unaudited)**

**Charter Holdings**  
**Condensed Consolidating Statement of Cash Flows**  
**For the six months ended June 30, 2006**

	<u>Charter Holdings</u>	<u>CIH</u>	<u>CCH I</u>	<u>CCH II</u>	<u>All Other Subsidiaries</u>	<u>Eliminations</u>	<u>Charter Holdings Consolidated</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>							
Net loss	\$ (754)	\$ (666)	\$ (525)	\$ (335)	\$ (237)	\$ 1,763	\$ (754)
Adjustments to reconcile net loss to net cash flows from operating activities:							
Depreciation and amortization	—	—	—	—	698	—	698
Asset impairment charges	—	—	—	—	99	—	99
Noncash interest expense	12	49	(3)	2	14	—	74
Equity in losses of subsidiaries	666	525	335	237	—	(1,763)	—
Other, net	—	—	—	—	27	—	27
Changes in operating assets and liabilities, net of effects from acquisitions and dispositions:							
Accounts receivable	—	—	—	—	29	—	29
Accounts payable, accrued expenses and other	4	44	(10)	7	(17)	—	28
Receivables from and payables to related party, including deferred management fees	2	—	—	2	(1)	—	3
Net cash flows from operating activities	<u>(70)</u>	<u>(48)</u>	<u>(203)</u>	<u>(87)</u>	<u>612</u>	<u>—</u>	<u>204</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>							
Purchases of property, plant and equipment	—	—	—	—	(539)	—	(539)
Change in accrued expenses related to capital expenditures	—	—	—	—	(9)	—	(9)
Proceeds from sale of assets	—	—	—	—	9	—	9
Purchase of cable system	—	—	—	—	(42)	—	(42)
Proceeds from investments	—	—	—	—	28	—	28
Net cash flows from investing activities	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(553)</u>	<u>—</u>	<u>(553)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>							
Borrowings of long-term debt	—	—	—	—	5,830	—	5,830
Borrowings from related party	—	—	—	(194)	300	(106)	—
Repayments of long-term debt	—	—	—	—	(5,838)	—	(5,838)
Repayments to related parties	—	—	—	—	(20)	—	(20)
Proceeds from issuance of debt	—	—	—	440	—	—	440
Payments for debt issuance costs	—	—	—	(10)	(19)	—	(29)
Distributions	70	47	197	(148)	(272)	106	—
Net cash flows from financing activities	<u>70</u>	<u>47</u>	<u>197</u>	<u>88</u>	<u>(19)</u>	<u>—</u>	<u>383</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	—	(1)	(6)	1	40	—	34
CASH AND CASH EQUIVALENTS, beginning of period	—	3	8	—	3	—	14
CASH AND CASH EQUIVALENTS, end of period	<u>\$ —</u>	<u>\$ 2</u>	<u>\$ 2</u>	<u>\$ 1</u>	<u>\$ 43</u>	<u>\$ —</u>	<u>\$ 48</u>

**CHARTER COMMUNICATIONS HOLDINGS, LLC AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**  
**(Unaudited)**

**Charter Holdings**  
**Condensed Consolidating Statement of Cash Flows**  
**For the six months ended June 30, 2005**

	<u>Charter Holdings</u>	<u>CIH</u>	<u>CCH I</u>	<u>CCH II</u>	<u>All Other Subsidiaries</u>	<u>Eliminations</u>	<u>Charter Holdings Consolidated</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>							
Net loss	\$ (657)	\$ (220)	\$ (220)	\$ (220)	\$ (136)	\$ 796	\$ (657)
Adjustments to reconcile net loss to net cash flows from operating activities:							
Depreciation and amortization	—	—	—	—	759	—	759
Asset impairment charges	—	—	—	—	39	—	39
Noncash interest expense	114	—	—	1	13	—	128
Deferred income taxes	—	—	—	—	5	—	5
Equity in losses of subsidiaries	220	220	220	136	—	(796)	—
Other, net	(11)	—	—	—	(31)	—	(42)
Changes in operating assets and liabilities, net of effects from acquisitions and dispositions:							
Accounts receivable	10	—	—	—	(10)	—	—
Prepaid expenses and other assets	—	—	—	—	(21)	—	(21)
Accounts payable, accrued expenses and other	27	—	—	—	(46)	—	(19)
Receivables from and payables to related party, including deferred management fees	(8)	—	—	—	(20)	—	(28)
Net cash flows from operating activities	<u>(305)</u>	<u>—</u>	<u>—</u>	<u>(83)</u>	<u>552</u>	<u>—</u>	<u>164</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>							
Purchases of property, plant and equipment	—	—	—	—	(542)	—	(542)
Change in accrued expenses related to capital expenditures	—	—	—	—	48	—	48
Proceeds from sale of assets	—	—	—	—	8	—	8
Proceeds from investments	—	—	—	—	16	—	16
Other, net	—	—	—	—	(2)	—	(2)
Net cash flows from investing activities	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(472)</u>	<u>—</u>	<u>(472)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>							
Borrowings of long-term debt	—	—	—	—	635	—	635
Borrowings from related parties	—	—	—	—	140	—	140
Repayments of long-term debt	—	—	—	—	(819)	—	(819)
Repayments to parent companies	—	—	—	—	(107)	—	(107)
Payments for debt issuance costs	—	—	—	—	(3)	—	(3)
Distributions	307	—	—	83	(450)	—	(60)
Net cash flows from financing activities	<u>307</u>	<u>—</u>	<u>—</u>	<u>83</u>	<u>(604)</u>	<u>—</u>	<u>(214)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>2</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>(524)</b>	<b>—</b>	<b>(522)</b>
CASH AND CASH EQUIVALENTS, beginning of period	—	—	—	—	546	—	546
CASH AND CASH EQUIVALENTS, end of period	<u>\$ 2</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 22</u>	<u>\$ —</u>	<u>\$ 24</u>

