



UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934

For the year ended December 31, 2002  
or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission file number: 000-27927



**Charter Communications, Inc.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of incorporation or organization)

**48-1857213**

(I.R.S. Employer Identification Number)

**12405 Powerscourt Drive  
St. Louis, Missouri 63131**

**(314) 965-0555**

(Address of principal executive offices including zip code)

(Registrant's telephone number, including area code)

**Securities registered pursuant to section 12(b) of the Act: None**

**Securities registered pursuant to section 12(g) of the Act:**

**Class A Common Stock, \$.001 Par Value**

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by checkmark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes  No

The aggregate market value of the registrant of outstanding Class A Common Stock held by non-affiliates of the registrant at June 28, 2002 was approximately \$1.1 billion, computed based on the closing sale price as quoted on the Nasdaq National Market on that date. For purposes of this calculation only, directors, executive officers and the principal controlling shareholder of the registrant are deemed to be affiliates of the registrant.

There were 294,527,595 shares of Class A Common Stock outstanding as of February 28, 2003. There were 50,000 shares of Class B Common Stock outstanding as of the same date.

**Documents Incorporated By Reference**

The following documents are incorporated into this Report by reference: None

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CODE OF CONDUCT

SUBSIDIARIES OF CHARTER COMMUNICATIONS, INC.

CONSENT OF KPMG LLP

CERTIFICATION

CERTIFICATION

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CHARTER COMMUNICATIONS, INC.  
FORM 10-K — FOR THE YEAR ENDED DECEMBER 31, 2002

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This Annual Report on Form 10-K is for the year ended December 31, 2002. The Securities and Exchange Commission (SEC) allows us to "incorporate by reference" information that we file with the SEC, which means that we can disclose important information to you by referring you directly to those documents. Information incorporated by reference is considered to be part of this Annual Report. In addition, information that we file with the SEC in the future will automatically update and supersede information contained in this Annual Report. In this Annual Report, "we," "us" and "our" refer to Charter Communications, Inc., Charter Communications Holding Company, LLC and their subsidiaries.

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**CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS:**

This Annual Report includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, as amended, regarding, among other things, our plans, strategies and prospects, both business and financial, including, without limitation, the forward-looking statements set forth in the “Focus for 2003” section under Part I, Item 1. “Business” and the “Liquidity and Capital Resources” section under Part II, Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in this Annual Report. 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, including, without limitation, the factors described under “Certain Trends and Uncertainties” under Part II, Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in this Annual Report. Many of the forward-looking statements contained in this Annual Report may be identified by the use of forward-looking words such as “believe,” “expect,” “anticipate,” “should,” “planned,” “will,” “may,” “intend,” “estimated,” and “potential,” among others. Important factors that could cause actual results to differ materially from the forward-looking statements we make in this Annual Report are set forth in this Annual Report and in other reports or documents that we file from time to time with the United States Securities and Exchange Commission, or the SEC, and include, but are not limited to:

- our ability to sustain and grow revenues and cash from operations by offering video and data services and to maintain a stable customer base, particularly in the face of increasingly aggressive competition from other service providers;
- our ability to comply with all covenants in our credit facilities and indentures, 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;
- availability of funds to meet interest payment obligations under our debt and to fund our operations and necessary capital expenditures, either through cash from operations, further borrowings or other sources;
- any adverse consequences arising out of the restatement of our financial statements described herein;
- the results of the pending grand jury investigation by the United States Attorney’s Office for the Eastern District of Missouri, the pending SEC investigation and the putative class action and derivative shareholders litigation against us;
- the cost and availability of funding to refinance the existing debt that becomes due commencing in 2005;
- our ability to achieve free cash flow;
- our ability to obtain programming at reasonable prices;
- general business conditions, economic uncertainty or slowdown and potential international conflict;
- the impact of any armed conflict, including loss of customers in areas with large numbers of military personnel; and
- the effects of governmental regulation on our business.

All forward-looking statements attributable to us or a person acting on our behalf are expressly qualified in their entirety by this cautionary statement. We are under no obligation to update any of the forward looking statements after the date of this Annual Report to conform these statements to actual results or to changes in our expectations.

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## PART I

### Item 1. *Business.*

#### Introduction

Charter Communications, Inc., operating through its subsidiaries, is the third largest operator of cable systems in the United States with approximately 11.9 million homes passed and approximately 6.6 million customer relationships in 40 states. Through our broadband network of coaxial and fiber optic cable, we offer video, data, telephony and other advanced broadband services. We offered high-speed Internet access (data services) to 82% of our homes passed and digital video services to 97% of our homes passed, as of December 31, 2002. We provide telephony service to approximately 22,800 customers in two markets. From these 6.6 million customer relationships, many of whom subscribe to more than one service, we have approximately 10.4 million revenue generating units. Revenue generating units means the sum total of all primary analog video, digital video, high-speed data and telephony customer relationships, not counting additional outlets within one household. See “—Products and Services”.

At December 31, 2002, our investment in cable properties, long-term debt, accumulated deficit and total shareholders’ equity was \$21.4 billion, \$18.7 billion, \$4.6 billion and \$41 million, respectively. Our debt-to-equity ratio and working capital deficit were 455 to 1 and \$772 million at December 31, 2002, respectively. For the year ended December 31, 2002, our revenues, net loss and loss per common share were approximately \$4.6 billion, \$2.5 billion and \$8.55, respectively. We have had a history of net losses and expect to continue to report net losses for the foreseeable future. The principal reasons for our prior net losses include our depreciation and amortization expenses, impairment charges on franchises and interest costs on borrowed money, which increased in the aggregate \$3.6 billion and \$555 million, respectively for the year ended December 31, 2002 as compared to December 31, 2001 and for the year ended December 31, 2001 as compared to December 31, 2000. A non-cash impairment charge of \$4.6 billion was recognized in the fourth quarter of 2002. See “Item 6. Selected Financial Data,” “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” and Note 8 to our consolidated financial statements contained in “Item 8. Financial Statements and Supplementary Data” for greater detail.

Charter Communications, Inc. was organized as a Delaware corporation in 1999 and conducted an initial public offering of its Class A common stock in November 1999. Certain of our subsidiaries commenced operations under the “Charter Communications” name in 1994, and our growth to date has been primarily due to acquisitions and business combinations, most notably acquisitions completed from 1999 through 2001, pursuant to which we acquired an aggregate of approximately 5.5 million customer relationships. We do not expect to make any significant acquisitions in the foreseeable future, but plan to evaluate opportunities to consolidate our operations geographically through exchanges of cable systems with other cable operators, as they arise. We may also sell certain assets from time to time. Charter Communications, Inc. is a holding company whose primary asset is a controlling equity interest in Charter Communications Holding Company, LLC, an indirect owner of cable systems. Paul G. Allen controls us with an as-converted common equity interest of 56.8% and a beneficial voting control interest of 92.6%. Our principal executive offices are located at Charter Plaza, 12405 Powerscourt Drive, St. Louis, Missouri 63131. Our telephone number is (314) 965-0555. We have a website accessible at <http://www.charter.com>. Since January 1, 2002, our annual reports, quarterly reports and current reports on Form 8-K, and all amendments thereto, have been made available on our website as soon as reasonably practicable after they have been filed. The information posted on our website is not incorporated into this Annual Report.

#### Restatement of Prior Results

On November 19, 2002, we announced that we had determined that additional franchise costs and deferred income tax liability should have been recorded relating to the differences between the financial statement and tax basis of assets we acquired in connection with certain cable businesses acquired throughout 1999 and 2000. As a result of this restatement, we engaged KPMG LLP to perform new audits as of and for the years ended December 31, 2001 and 2000 because our former accountants, Arthur Andersen LLP, were no longer available to provide an opinion as to restated financial statements.

In connection with the audits mentioned above and discussions with the staff of the Securities and Exchange Commission in connection with their review of our periodic filings, we concluded that it was appropriate to make certain adjustments to previously reported results. Among other things, adjustments were made to previous interpretations and applications of generally accepted accounting principles consistently followed by us since 2000 and throughout the restatement period. Although we do not anticipate that additional adjustments will be necessary,

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until the Securities and Exchange Commission review process has been completed, it is possible that additional adjustments may be required.

These adjustments reduced previously reported revenue for the first three quarters of 2002 by \$38 million, and for the years ended December 31, 2001 and 2000 by \$146 million and \$108 million, respectively. Such adjustments represent approximately 1%, 4% and 3% of previously reported revenues for the respective periods in 2002, 2001 and 2000. Our previously reported consolidated net loss increased by \$26 million for the first three quarters of 2002 and decreased by \$11 million for the year ended December 31, 2001. Our previously reported net loss increased by \$29 million for the year ended December 31, 2000, primarily due to adjustments related to the original accounting for acquisitions and elements of our rebuild and upgrade activities.

All comparisons and references in this Form 10-K to results for fiscal years 2001 and 2000 are to the restated results. See “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations—Restatement of Prior Results” and Note 3 to our consolidated financial statements contained in “Item 8. Financial Statements and Supplementary Data” for a more detailed discussion of the restatement.

### **Certain Significant Developments in 2002 and Early 2003**

In 2002, we continued and substantially completed the upgrade of our cable systems to provide digital video service, higher bandwidth capacity and two-way communication capability, as well as to reduce the number of headend control centers, or “headends”, which have the equipment for receipt of broadcast and satellite signals, transmission of signals to customers and connectivity for data services. In 2002, we invested approximately \$1.1 billion to upgrade our systems. At December 31, 2002, approximately 92% of our customer relationships were served by systems with bandwidth of 550 megahertz or greater and also have the two-way communication capability that is necessary for cable modem high-speed Internet access, most of which has been enabled as shown on page 16. See “-Our Network Technology.”

In 2002, we decided to focus on improving cash flow from operations and overall revenues by bundling our digital and data services in value-priced packages without deep discounting. In prior years we engaged in deep discounting, special price and package offers and extended credit policies to increase basic analog customers, which resulted in an increase in the number of customers in excess of 90 days past due throughout late 2000 and 2001. Throughout 2002, we tightened our credit and collections policy in an effort to reduce our billing costs, unproductive call volume and general operating costs. At December 31, 2002, approximately 0.1% of our customer base was in excess of 90 days past due as compared to approximately 1.2% and 0.6% at December 31, 2001 and 2000, respectively. The increased discipline in our credit and collection policies, coupled with the elimination of deep discounting and targeted, market specific promotions by digital satellite competitors, resulted in a reduction in our number of customer relationships from approximately 6.95 million to approximately 6.63 million over the course of the year. At the same time, our number of revenue generating units increased by approximately 788,600 due to an increase in high-speed data customers of approximately 585,200 and an increase in digital video customers of approximately 538,000. Consequently, our revenues (excluding the increase in revenues attributable to the AT&T Broadband transaction) increased by approximately 15% in 2002. See “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

At December 31, 2002, 97% of our homes passed had access to digital services and the estimated penetration rate (i.e., the percentage of digital enabled estimated homes passed that purchased the service) was 23%. We also offered high-speed data services to approximately 2.3 million additional homes passed in 2002, bringing estimated high-speed data enabled homes passed at December 31, 2002, to approximately 9.8 million, and increased our number of high-speed data services customers during 2002 from approximately 552,900 to approximately 1,138,100, a penetration rate of 12%. In 2002, revenues from digital video services and high-speed data services increased 49% and 119%, respectively. See “-Products and Services” and “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

To finance the upgrade of our systems and our ongoing operations, we issued additional long-term debt in January 2002 for net proceeds of \$873 million. Most of these proceeds were initially used to pay off a portion of the amounts outstanding under our revolving credit facilities so as to increase capacity for subsequent borrowings under the facilities. In January 2002, we also refinanced some of our existing credit facility debt to provide for borrowings of up to \$5.2 billion and to provide for the addition of four term facilities. See “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations – Financing Activities.”

In the fourth quarter of 2002, we commenced a program to improve operating efficiency and reduce labor costs, pursuant to which we are consolidating our three divisions and ten operating regions into five divisions and have eliminated certain layers of our management structure. In December 2002, we also announced the commencement

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of a workforce reduction program intended to reduce our operating costs. This resulted in a special charge of \$31 million in the fourth quarter of 2002. As of March 31, 2003, we have reduced our employee count from approximately 18,600 to approximately 16,900, with further reductions anticipated. See “- Management of our Systems” and “- Employees.”

Commencing in July 2002, a number of Federal class action lawsuits and state derivative actions were filed against us, our directors and certain of our former and current officers. These lawsuits allege, among other things, misleading accounting practices, overstatement of the number of customers, and breach of fiduciary duty in connection therewith. Since then, we have become the subject of investigations by the United States Attorney’s Office of the Eastern District of Missouri and, more recently, the Division of Enforcement of the Securities and Exchange Commission in connection with generally comparable subjects. We are cooperating with the investigations. See “Item 3. Legal Proceedings.”

Effective April 14, 2003, we entered into a commitment letter with Vulcan Inc., which is an affiliate of Paul Allen, pursuant to which Vulcan Inc. agreed to lend, or cause an affiliate to lend, initially to Charter Communications VII, LLC an aggregate amount of up to \$300 million, which amount includes a subfacility of up to \$100 million for the issuance of letters of credit. See “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources – Funding Commitment of Vulcan Inc.”

### **Focus for 2003**

We expect that our financial focus for 2003 will be to improve revenues and reduce losses from operations with a goal of achieving free cash flow (i.e., meaning that revenues would exceed the sum of all operating expenses, capital expenditures, and cash interest expense).

To achieve these goals, we expect that our operational focus will be to:

- reduce analog customer losses;
- increase revenue by adjusting retail rates of service packages;
- increase revenue through continued sale of digital services and high-speed data products;
- decrease customer turnover by emphasizing the sale of bundled services;
- decrease programming costs by offering customers greater choice in the selection of service packages and bundles;
- decrease operating costs by improving our basic execution and efficiency with respect to our core video and data services, including improving customer care and service delivery through consolidation of certain functions and application of new technologies;
- decrease operating costs by eliminating organizational redundancy and promoting standardized practices to seek to better exploit potential economies of scale; and
- decrease capital expenditures due to the substantial completion of our rebuild program in 2002.

We believe our product offerings, especially our digital and high-speed data options, will provide customers greater choice in the selection of core video and data services through a more varied group of bundled packages of services. Given that our widespread digital platform already enables a significant number and variety of channels, our plan for 2003 is to offer customers the opportunity to choose among groups of channel offerings (including premium channels such as Showtime® and HBO®), and to add other services such as data services, high-definition television (in selected markets), and video-on-demand.

We also plan to focus on increased marketing of our high-speed Internet data service, as we believe this area has the potential to provide a substantial portion of our revenue growth in the near future. We expect that these efforts will focus principally on residential customers, although we plan to continue to expand our marketing of data services to the business community, which we believe has shown an increasing interest in high-speed data service and private network services.

To further enhance the customer experience, we plan to continue our efforts to improve customer satisfaction through consolidation and outsourcing of customer contact centers, with a goal of consolidating customer care for 94% of our customers in a total of 20 customer contact centers by December 31, 2003. In addition, we have recently added an interactive channel for customer care in all markets where interactive channels are available.

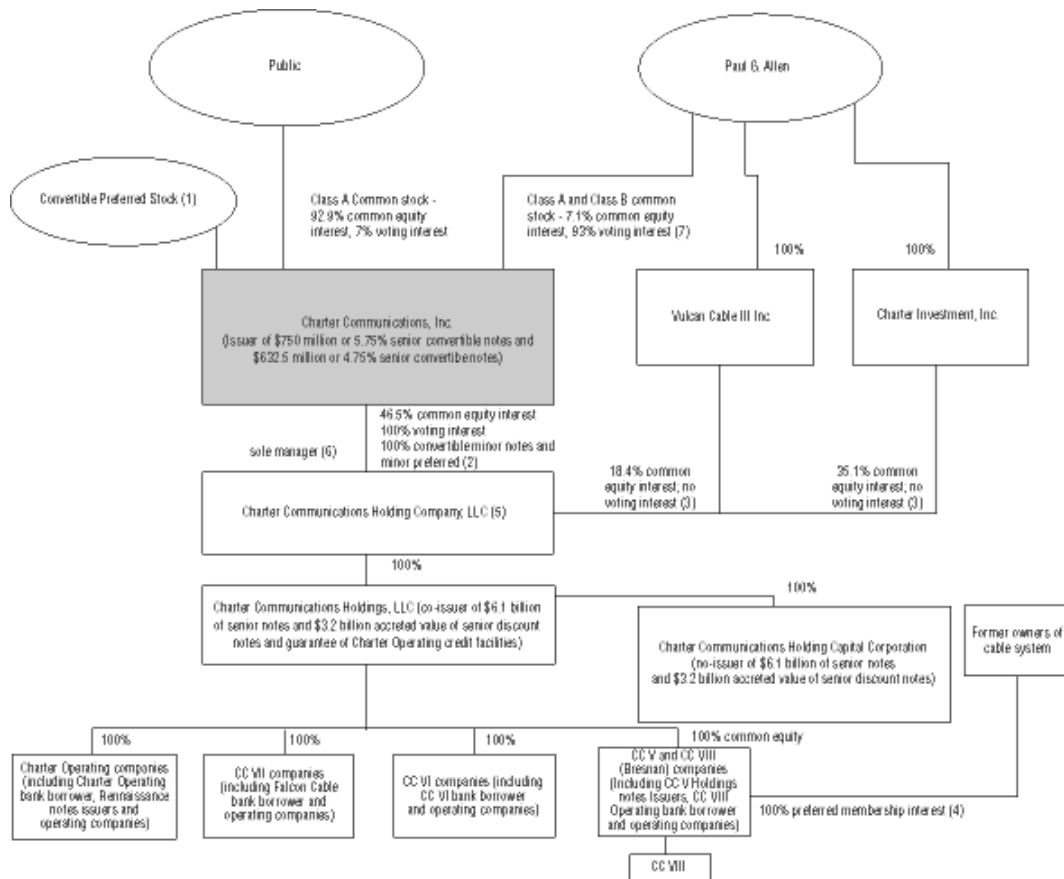
We will continue to strive to provide an efficient and reliable network, with improved service delivery. With our plant rebuild substantially complete, we plan to substantially reduce capital expenditures. We have no current plans to rebuild any systems except where rebuilds are currently in progress. Through our newly-implemented quality



assurance program, we also plan to focus on improvement of service delivery for our newly rebuilt areas in an effort to enhance the customer’s experience and retention. See “-Our Network Technology”.

**Summary Organizational Chart**

The chart below sets forth our organizational structure and that of our principal direct and indirect subsidiaries. Equity ownership and voting percentages are actual percentages as of February 28, 2003 and do not give effect to any exercise, conversion or exchange of options, preferred stock, convertible notes and other convertible or exchangeable securities.



- (1) Represents 545,259 shares of non-voting convertible redeemable preferred stock issued in connection with certain acquisitions to former owners of cable systems, convertible at a rate of 4.0469446 shares of Class A common stock for each share of non-voting convertible redeemable preferred stock, for an aggregate of approximately 2,206,633 shares of Charter Communications, Inc. Class A common stock.
- (2) Represents mirror convertible notes and mirror convertible preferred equity, which are convertible into common membership units of Charter Communications Holding Company. These notes and equity mirror the terms and amounts of the convertible notes and the Series A convertible redeemable preferred stock issued by Charter Communications, Inc.
- (3) These membership units are exchangeable at any time on a one-for-one basis for shares of Charter Communications, Inc. Class B common stock, which are in turn convertible on a one-for-one basis into shares of Charter Communications, Inc. Class A common stock.
- (4) Represents 100% of the preferred membership interests in CC VIII, LLC, a subsidiary of the CC V Holdings 11.875% notes issuers. See “-Former Owners of CC VIII (Bresnan) Cable Systems.” In April 2002, the holders of these interests exercised their right to put their CC VIII membership interests to Mr. Allen, and this transaction is scheduled to close in May 2003. An issue has arisen regarding the ultimate ownership of such CC VIII membership interests following the consummation of such put right. See “Item 13. Certain Relationships and Related Transactions — Transactions Arising Out of Mr. Allen’s Investment in Charter Communications, Inc. and Its Subsidiaries — Equity Put Rights – Bresnan.”
- (5) Also an issuer of 3,006,202 Class A preferred membership units, redeemable at \$1.00 per unit, plus accretion thereon at 8% per annum from September 14, 1999. These securities were put to Charter Communications Holding Company, LLC for redemption, and this redemption is expected to occur on April 18 for an aggregate

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redemption price of approximately \$3.9 million. See “Item 13. Certain Relationships and Related Transactions – Transactions Arising Out of Mr. Allen’s Investment in Charter Communications, Inc. and Its Subsidiaries – Equity Put Rights – Rifkin.”

- (6) Charter Communications, Inc. acts as the sole manager of Charter Communications Holding Company and most of its subsidiaries.
- (7) For greater detail, see “Item 12. Security Ownership of Certain Beneficial Owners and Management”.

**Charter Communications, Inc.** Charter Communications, Inc.’s primary asset is an approximate 46.5% common equity interest and a 100% voting interest in Charter Communications Holding Company, LLC. Charter Communications Holding Company, through its subsidiaries, owns cable systems and certain strategic investments. As sole manager under the applicable operating agreements, Charter Communications, Inc. controls the affairs of Charter Communications Holding Company and most of its subsidiaries. In addition, Charter Communications, Inc. also provides management services to Charter Communications Holding Company and its subsidiaries pursuant to a management services agreement.

The following table sets forth information as of February 28, 2003 with respect to the shares of common stock of Charter Communications, Inc. on an actual outstanding, “as-converted” and “fully-diluted” basis:

Charter Communications Inc.					
	Actual Shares Outstanding(a)			As-Converted Shares Outstanding (assuming only the exchange of all one-for-one exchangeable units)(a)(b)	
	Number of Common Shares Outstanding (a)	Percent of Common Shares Outstanding (a)	Voting Percentage (a)	Number of As-Converted Common Shares Outstanding	Percent of As-Converted Common Shares Outstanding
<b>Class A Common Stock</b>	294,527,595	99.98%	7.99%	294,527,595	44.76%
<b>Class B Common Stock</b>	50,000	0.02%	92.01%	50,000	0.01%
Total Common Shares Outstanding	294,577,595	100.00%	100.00%		
<b>One-for-One Exchangeable Equity in Subsidiaries:</b>					
Charter Investment, Inc.				222,818,858	33.86%
Vulcan Cable III Inc.				116,313,173	17.68%
Sellers of Bresnan systems				24,273,943(d)	3.69%
Total As-Converted Shares Outstanding				657,983,569	100.00%
<b>Other Convertible Securities in Charter Communications, Inc.</b>					
Convertible Preferred Stock (f)					
Convertible Debt					
5.75% Convertible Senior Notes (g)					
4.75% Convertible Senior Notes (h)					
Employee, Director and Consultant Stock Options					
Fully Diluted Common Shares Outstanding					

[Additional columns below]

[Continued from above table, first column(s) repeated]

Charter Communications Inc.		
	Fully Diluted Shares Outstanding (assuming conversion of all exchangeable and convertible securities)(c)	
	Number of Fully Diluted Common Shares Outstanding	Percentage of Fully Diluted Common Shares Out-standing
<b>Class A Common Stock</b>	294,527,595	38.30%
<b>Class B Common Stock</b>	50,000	0.01%
Total Common Shares Outstanding		
<b>One-for-One Exchangeable Equity in</b>		

**Subsidiaries:**

Charter Investment, Inc.	222,818,858	28.97%
Vulcan Cable III Inc.	116,313,173	15.12%
Sellers of Bresnan systems	24,273,943	3.16%

Total As-Converted Shares  
Outstanding

**Other Convertible Securities in Charter****Communications, Inc.**

Convertible Preferred Stock (f)	2,206,633(e)	0.29%
Convertible Debt		
5.75% Convertible Senior Notes (g)	34,786,642(e)	4.52%
4.75% Convertible Senior Notes (h)	24,095,238(e)	3.13%
Employee, Director and Consultant Stock Options	50,026,129(e)	6.50%

Fully Diluted Common Shares Outstanding 769,098,211 100.00%

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- (a) Paul G. Allen owns approximately 7% of the outstanding common stock of Charter Communications, Inc. (approximately 57% assuming exchange of all units in Charter Communications Holding Company held by him and his affiliates) and beneficially controls approximately 93% of the voting power of Charter Communications, Inc.'s capital stock. Mr. Allen, as sole holder of the shares of Class B common stock, is entitled to ten votes for each share of Class B common stock held by him and his affiliates and for each membership unit in Charter Communications Holding Company held by him and his affiliates.
- (b) Represents as-converted shares outstanding, assuming only the exchange of membership units in two of Charter Communications, Inc.'s subsidiaries (Charter Communications Holding Company, LLC and CC VIII, LLC), which units are exchangeable by the current holders for shares of Charter Communications, Inc. Class A common stock on a one-for-one basis at any time pursuant to exchange agreements between the holders of such units and Charter Communications, Inc.
- (c) Represents fully-diluted common shares outstanding, assuming exercise, exchange or conversion of all outstanding options and other convertible securities, including the exchangeable membership units described in note (b) above, all shares of Series A convertible redeemable preferred stock of Charter

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Communications, Inc., all outstanding 5.75% convertible senior notes and 4.75% convertible senior notes of Charter Communications, Inc., and all employee, director and consultant stock options.

- (d) An issue has arisen as to whether the documentation for the Bresnan transaction was correct and complete with regard to the ultimate ownership of the CC VIII membership interests following consummation of the Bresnan put transaction. See “Item 13. Certain Relationships and Related Transactions – Transactions Arising Out of Mr. Allen’s Investment in Charter Communications, Inc. and Its Subsidiaries – Equity Put Rights – Bresnan.”
- (e) The weighted-average exercise or conversion price of these securities is \$19.41.
- (f) Reflects common shares issuable upon conversion of 545,259 shares of Series A convertible redeemable preferred stock, which were issued to certain sellers at the closing of the Cable USA acquisition in 2001. Such shares have a current liquidation preference of approximately \$54.5 million and are convertible into shares of Class A common stock at an initial conversion price of \$24.71 per share (or 4.0469446 shares of Class A common stock for each share of convertible redeemable preferred stock), subject to certain adjustments.
- (g) Reflects shares issuable upon conversion of \$750 million aggregate principal amount of 5.75% convertible senior notes that are convertible into shares of Class A common stock at an initial conversion rate of 46.3822 shares of Class A common stock per \$1,000 principal amount of notes (or approximately \$21.56 per share), subject to certain adjustments.
- (h) Reflects shares issuable upon conversion of \$632.5 million aggregate principal amount of 4.75% convertible senior notes that are convertible into shares of Class A common stock at an initial conversion rate of 38.0952 shares of Class A common stock per \$1,000 principal amount of notes (or approximately \$26.25 per share), subject to certain adjustments.

**Charter Communications Holding Company, LLC.** Charter Communications Holding Company, LLC, a Delaware limited liability company that was formed on May 25, 1999, is the direct 100% parent of Charter Communications Holdings, LLC. The common membership units of Charter Communications Holding Company, LLC are owned 46.5% by Charter Communications, Inc., 18.4% by Vulcan Cable III, Inc. and 35.1% by Charter Investment, Inc. All of the outstanding common membership units in Charter Communications Holding Company, LLC held by Vulcan Cable III and Charter Investment are controlled by Mr. Allen and are exchangeable on a one-for-one basis at any time for shares of high vote Class B common stock of Charter Communications, Inc., which are in turn convertible into Class A common stock of Charter Communications, Inc. Charter Communications, Inc. controls 100% of the voting power of Charter Communications Holding Company, LLC and is its sole manager. A former investor in an acquired cable system holds 3,006,202 Class A preferred membership units that are expected to be redeemed on April 18, 2003 for an aggregate price of approximately \$3.9 million. See “Item 13. Certain Relationships and Related Transactions – Transactions Arising Out of Mr. Allen’s Investment in Charter Communications, Inc. and Its Subsidiaries – Equity Put Rights – Rifkin.”

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The following table sets forth the information as of February 28, 2003 with respect to the common units of Charter Communications Holding Company, LLC on an actual outstanding and “fully-diluted” basis:

### Charter Communications Holding Company, LLC

	Actual Units Outstanding			Fully Diluted Units Outstanding (assuming conversion of all exchangeable and convertible securities)	
	Number of Common Units Outstanding	Percent of Common Units Outstanding	Voting Percentage	Number of Fully Diluted Common Units Outstanding	Percentage of Fully Diluted Common Units Outstanding
<b>Common Units Outstanding</b>					
Charter Communications, Inc.	294,577,595	46.49%	100%	294,577,595	38.30%
Vulcan Cable III (a)	116,313,173	18.35%	—	116,313,173	15.12%
Charter Investment (b)	222,818,858	35.16%	—	222,818,858	28.97%
Total Common Units Outstanding	633,709,626	100%	100%		
<b>Units Issuable on Conversion of Mirror Convertible Securities held by Charter Communications, Inc.</b>					
Mirror Convertible Preferred units (c)				2,206,633	0.29%
Mirror Convertible Debt					
5.75% Convertible Senior Notes(c)				34,786,642	4.52%
4.75% Convertible Senior Notes(c)				24,095,238	3.13%
Mirror Employee, Director and Consultant Stock Options (c)				50,026,129	6.50%
Mirror Units issuable in respect of shares issuable on exchange of CC VIII Preferred Membership Interests (c)(d)				24,273,943	3.16%
Fully Diluted Common Units Outstanding				769,098,211	100.00%

(a) Includes 106,715,233 non-voting Class B common units and 9,597,940 non-voting Class C common units.

(b) Includes 217,585,246 non-voting Class B common units and 5,233,612 non-voting Class C common units.

(c) Certain provisions of the Charter Communications, Inc. restated certificate of incorporation and Charter Communications Holding Company’s amended and restated limited liability company agreement effectively require that Charter Communications, Inc.’s investment in Charter Communications Holding Company replicates, on a “mirror” basis, Charter Communications, Inc.’s outstanding equity and debt structure. As a result of these coordinating provisions, whenever Charter Communications, Inc. issues equity or debt, Charter Communications, Inc. transfers the proceeds from such issuance to Charter Communications Holding Company, and Charter Communications Holding Company issues a “mirror” security to Charter Communications, Inc. that replicates the characteristics of the security issued by Charter Communications, Inc. As a result, in addition to its equity interest in common units of Charter Communications Holding Company, Charter Communications, Inc. also holds 100% of the 5.75% and 4.75% mirror convertible notes of Charter Communications Holding Company that automatically convert into common membership units upon the conversion of any Charter Communications, Inc. 5.75% and 4.75% convertible senior notes and 100% of the mirror preferred membership units of Charter Communications Holding Company that automatically convert into common membership units upon the conversion of the Series A convertible redeemable preferred stock of Charter Communications, Inc. The table reflects the common equity issuable on exercise or conversion of these mirror securities; however, their weighted average exercise or conversion price is approximately \$19.41.

(d) An issue has arisen as to whether the documentation for the Bresnan transaction was correct and complete with regard to the ultimate ownership of the CC VIII membership interests following consummation of the Bresnan put transaction. See “Item 13. Certain Relationships and Related Transactions – Transactions Arising Out of Mr. Allen’s Investment in Charter Communications, Inc. and Its Subsidiaries – Equity Put Rights – Bresnan.”

**Former Owners of CC VIII (Bresnan) Cable Systems.** Upon the closing of the acquisition of the Bresnan cable systems by our subsidiary, CC VIII, in 2000, some of the former owners received a portion of their purchase price in the form of membership units in Charter Communications Holding Company or CC VIII, LLC, rather than in cash.

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The former owners that received interests in Charter Communications Holding Company have since put all such interests to Vulcan Cable III and Charter Investment and such interests are reflected in the holdings of Vulcan Cable III and Charter Investment shown above. Certain other former owners of the acquired Bresnan systems received preferred membership interests in CC VIII, LLC which are exchangeable for shares of Charter Communications, Inc. Class A common stock. In April 2002, these former owners exercised their right to put their CC VIII membership interests to Mr. Allen, and this put transaction is scheduled to close in May 2003. An issue has arisen regarding the ultimate ownership of these CC VIII membership units following the consummation of this put right. See “Item 13. Certain Relationships and Related Transactions - Transactions Arising Out of Mr. Allen’s Investment in Charter Communications, Inc. and Its Subsidiaries — Equity Put Rights – Bresnan.”

**Charter Communications Holdings, LLC.** Charter Holdings, a Delaware limited liability company formed on February 9, 1999, is a co-issuer of the publicly held Charter Holdings notes that consist of \$3.575 billion aggregate principal amount at maturity of notes issued in March 1999, \$1.532 billion aggregate principal amount at maturity of notes issued in January 2000, \$2.075 billion aggregate principal amount at maturity of notes issued in January 2001, \$1.943 billion aggregate principal amount at maturity of notes issued in May 2001 and \$1.1 billion aggregate principal amount at maturity of notes issued in January 2002. Charter Holdings owns 100% of Charter Communications Holdings Capital, the co-issuer of these notes. Charter Holdings also owns the various subsidiaries that conduct all of our cable operations, including the Charter Operating, CC V/CC VIII, CC VI and CC VII Companies described below.

**Operating Subsidiaries.** These companies are subsidiaries of Charter Holdings and own or operate all of our cable systems. There are four groups of these operating subsidiaries, identified as follows: the Charter Operating Companies, The CC V/CC VIII Companies, the CC VI Companies, and the CC VII Companies. Each group of operating subsidiaries has a separate credit facility, and the public notes issued by Renaissance Media Group and CC V Holdings are within two of these subsidiary groups. See “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources.”

## **Products and Services**

We offer our customers traditional video programming (analog and digital video) as well as data services (high-speed Internet) and in some areas advanced high bandwidth services such as video-on-demand and interactive television. Our video programming and data services are sold on a subscription basis, with prices and related charges that vary primarily based on the type of services selected, whether the services are sold as a “bundle” versus on an “a la carte” basis, and the equipment necessary to receive the services, with some variation in prices depending on geographic location. To date, telephony has been made available to only a limited number of customers.

We believe that our network architecture, with digital capability, high bandwidth capacity and two-way activated plant, enables us to be a leader in the introduction of new and advanced services. Our advanced services include or may include:

- video-on-demand;
- high-definition television;
- telephony using voice-over-Internet-protocol technology;
- private network services, such as voice and data transmission services to a network of interconnected locations of a single customer; and
- various interactive features, such as virtual interactive channels for news, finance, weather, sports, shopping, movie theater listings, games, an interactive program guide and interactive on-screen broadcast programming.

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The following table summarizes our approximate customer statistics for analog and digital video, data, telephony, and advanced services.

	Approximate as of December 31,	
	2002 <sup>(a)</sup>	2001 <sup>(a)</sup>
	(unaudited)	(unaudited)
<b>Video Services:</b>		
<b>Analog video:</b>		
Estimated homes passed (b)	11,925,000	11,502,000
Residential (non-bulk) analog video customers (c)	6,328,900	6,688,700
Multi-dwelling (bulk) and commercial unit customers (c)	249,900	247,500
Total analog video customers (c)	6,578,800	6,936,200
Estimated penetration of analog video homes passed (b)(c)(d)	55%	60%
<b>Digital video:</b>		
Estimated digital homes passed (b)	11,547,000	10,638,300
Digital customers (e)	2,682,800	2,144,800
Estimated penetration of digital homes passed (d)(e)	23%	20%
Digital percentage of analog video customers (c)(e)(f)	41%	31%
Digital set-top terminals deployed	3,772,600	2,951,400
Estimated Video-on-demand homes passed (b)	3,195,000	1,995,000
<b>High-Speed Data services:</b>		
Estimated cable modem homes passed (b)	9,826,000	7,561,000
Residential cable modem customers (g)(h)	1,138,100	552,900
Estimated penetration of cable modem homes passed (d)	12%	7%
Dial-up customers	14,200	37,100
<b>Revenue Generating Units (i):</b>		
Analog video customers (c)	6,578,800	6,936,200
Digital customers (e)	2,682,800	2,144,800
Cable modem customers (g) (h)	1,138,100	552,900
Telephony customers (j)	22,800	—
Total revenue generating units (i)	10,422,500	9,633,900
<b>Customer relationships (k)</b>	6,634,700	6,953,700
		<b>For the Year Ended December 31,</b>
		<b>2002</b>
		<b>2001</b>
Average monthly revenue per customer relationship (k)(l)		\$57
		\$47

(a) "Customers" include all persons corporate billing records show as receiving service, regardless of their payment status, except for complimentary accounts (such as our employees). Prior to publicly reporting the number of total analog video customers as of September 30, and December 31, 2001, we deducted 46,000 and 45,000 customers, respectively, from the numbers shown on the billing records as a reserve. Of the total customers reported for December 31, 2002, 93,000 customers were 60-90 days overdue, 5,000 customers were 90-120 days overdue, and 1,000 customers were more than 120 days overdue. Of the total customers reported for December 31, 2001, 160,000 customers were 60-90 days overdue, 55,000 customers were 90-120 days overdue, and 31,000 customers were more than 120 days overdue. Such delinquent customers represent 1.5% and 3.5% of total customers as of December 31, 2002 and 2001, respectively. For 2002 and 2001, our year-end financial statements reflect a reserve for uncollectible accounts that we deemed sufficient. The adequacy of the 46,000 and 45,000 customer reductions, our disconnect policies, the application of those policies and their effect on the customer totals reported by us during 2001 and prior periods are currently under investigation by the United States Attorney's Office for the Eastern District of Missouri and the Securities and Exchange Commission. Those investigations are not complete. Upon the completion of such investigations, and depending on their outcome, we may make additional adjustments in the 2001 or prior periods customer numbers if such adjustments are appropriate. When we publicly announced our 2001 results on February 11, 2002, we also

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announced that we expected the number of customers to decline by 120,000 during the first quarter of 2002. We ultimately reported a loss of 145,000 customers in that quarter. The customer reduction was primarily the result of eliminating non-paying or delinquent customers from the customer totals.

- (b) Homes passed represents the estimated number of living units, such as single family homes, apartment units and condominium units passed by the cable distribution network in a given area to which we offer the service indicated. Homes passed excludes commercial units passed by the cable distribution network.
- (c) Analog video customers include all customers who purchase video services (including those who also purchase data and telephony services), but excludes approximately 55,900 and 17,500 customer relationships, respectively, who pay for cable modem service only and who are only counted as cable modem customers. This represents a change in our methodology from prior reports through September 30, 2002, in which cable modem only customer relationships were included within our analog video customers. We made this change because we determined that most of these customers were unable to receive our most basic level of analog service because this service was physically secured or blocked, was unavailable in certain areas or the customers were unaware that this service was available to them. Had we previously utilized this new reporting methodology, analog video customers (excluding cable modem only) would have been approximately 6,647,600 as of September 30, 2002. Commercial and multi-dwelling structures 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 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 consistently applied year over year. 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. Our policy is not to count complimentary accounts (such as our employees) as customers.
- (d) Penetration represents customers as a percentage of homes passed.
- (e) Digital video customers include all households that have one or more digital set-top terminals. Included in digital video customers at December 31, 2002 and 2001 are approximately 27,500 and approximately 34,800 customers, respectively, that receive digital video service directly through satellite transmission.
- (f) Represents the number of digital video customers as a percentage of analog video customers.
- (g) As noted above, all of these customers also receive video service and are included in the video statistics above, except that the video statistics do not include approximately 55,900 and 17,500 customers at December 31, 2002 and 2001, respectively, who were cable modem only customers.
- (h) Commercial cable modem or data customers historically were calculated on an Equivalent Modem Unit or EMU basis, which involves converting commercial revenues to residential customer counts. EMU’s calculated under the historical method were approximately 98,700 and approximately 54,800 as of December 31, 2002 and 2001, respectively. Commercial EMUs are not included in the above table.
- (i) Revenue generating units represent the sum total of all primary analog video, digital video, high-speed data and telephony customers, not counting additional outlets within one household. For example, a customer who receives two types of services (such as analog video and digital video) would be treated as two revenue generating units, and if that customer added on data service, the customer would be treated as three revenue generating units. This statistic is computed in accordance with the guidelines of the National Cable & Telecommunications Association that have been adopted by eleven publicly traded cable operators (including Charter Communications, Inc.) as an industry standard.
- (j) Telephony customers include all households purchasing telephone service. On January 1, 2002, 16,100 telephony customers were acquired as a result of the AT&T Broadband transaction.
- (k) Customer relationships include the number of customers that receive at least one level of service encompassing video, data and telephony services, without regard to which service(s) such customers purchase. This statistic is computed in accordance with the guidelines of the National Cable & Telecommunications Association that have been adopted by eleven publicly traded cable operators (including Charter Communications, Inc.) as an industry standard.



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(l) Average monthly revenue per customer relationship represents total revenue, divided by twelve, divided by the average number of customer relationships.

*Video Services.* Our video service offerings include the following:

- *Basic Cable.* All of our video customers receive a package of basic programming, transmitted via an analog signal, which generally consists of local broadcast television, local community programming, including governmental and public access, and limited satellite delivered or non-broadcast channels. Our basic line-up generally has between 15 and 30 channels.
- *Expanded Basic Cable.* This expanded programming level includes a package of satellite-delivered or non-broadcast channels (such as ESPN®, CNN® and Lifetime® Television), 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. Home Box Office®, Cinemax, Showtime®, The Movie Channel, Starz and Encore are examples of premium channels. Although we offer subscriptions to premium channels on an individual basis, we are offering an increasing number of premium channel packages and 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 or music concert on a commercial-free basis.
- *Digital Tiers.* We offer digital service to our customers in several different service combination packages. All digital packages include a digital set-top terminal, an interactive electronic programming guide, up to 45 channels of CD quality digital music, an expanded menu of pay-per-view channels from 4 to 30 additional video channels. Certain digital packages also offer customers one or more premium channels of their choice with “multiplexes.” Multiplexes give customers access to several different versions of the same premium channel which are varied as to time of broadcast (such as east and west coast time slots) or programming content theme (such as westerns or romance). Some digital tier packages are focused on the interests of a particular customer demographic and emphasize, for example, sports, movies, family or ethnic programming. Other digital packages bundle digital television with other advanced services, such as high-speed Internet access.

*Data Services.* We offer high-speed Internet service to our residential and commercial customers primarily via cable modems attached to personal computers. We generally offer high-speed Internet access services under the Charter Pipeline™ brand, although in certain markets we offer this service in conjunction with a third-party provider. For our Charter Pipeline customers, we have a custom start page that is co-branded with Microsoft Corporation’s network of websites, known as MSN®, with content modules that we provide, including, for example, movie trailers, previews of movies on pay-per-view and video-on-demand, and television listings. In 2002, we began to offer a self-install option for cable modems. We also offer traditional dial-up Internet access and television-based Internet access in a very limited number of our markets.

*Advanced Services.* We continue to test, evaluate and, in some cases, offer new advanced services that we believe could either provide new revenue streams to offset overall increasing program costs or enhance our appeal to consumers to counter competitive threats. In that regard, in addition to our core video and data service offerings, we continue to develop and explore various advanced services on a limited basis. Further development, deployment and marketing of these advanced services will be determined based on perceived consumer demand, revenue opportunity and their ability to enhance sales of our core services. These advanced services include:

- *Video-On-Demand.* We offer video-on-demand (VOD) service, by which customers can access hundreds of movies and other programming at any time, with digital picture quality. In some cases we offer subscription video-on-demand (commonly known as “SVOD”), or VOD programming that is available on a category basis, for a single monthly fee.
- *Telephony/Voice Services.* We are exploring technologies using Internet protocol telephony to transmit digital voice signals over our systems. In September 2002, we commercially deployed Internet protocol telephony to approximately 16,200 homes passed in one market. We also offer traditional switch-based telephony to approximately 75,000 homes passed in one area as a result of an acquisition.
- *High-Definition Television.* We began to offer high-definition television (HDTV) on a limited basis in 18 markets in the second half of 2002. HDTV will provide our digital customers with video services at a higher resolution than standard television.
- *Business Network Services.* We offer integrated network solutions to commercial and institutional customers. These solutions include data and video services. In addition, we offer high-speed Internet services to local businesses.

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*Other New Business Initiatives.* In July 2002, we commenced a test of an advanced broadband media center terminal manufactured by Motorola, Inc. This media center terminal, which is not yet ready for commercial deployment, includes digital video recording capabilities (commonly referred to as “DVR”), advanced graphics and navigation services, interactive data products, as well as other enhanced features, and operates in conjunction with certain existing digital set-top terminals. Built-in DVR capability in the set-top terminal would enable customers to store video and audio content. A stand-alone media center unit is also planned for development. Digeo, Inc. collaborated with us on the design for the advanced broadband media centers. A Charter Communications, Inc. subsidiary and an affiliate of Mr. Allen both own equity interests in Digeo, Inc. See “Item 13. Certain Relationships and Related Transaction — Business Relationships.”

*Sale of Advertising.* We receive revenue 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 a minimum of four networks, and have covered up to 45 channels. Our system rebuild and digital services launches have increased the number of available channels on which we are able to insert local advertising. We also provide cross-channel advertising to certain programmers.

### **Pricing for Our Products and Services**

Our revenues are derived principally from the monthly fees our customers pay for various services we offer. The prices we charge vary based on the market served and level of service selected and are usually adjusted on an annual basis. As of December 31, 2002, the average monthly fee was \$13.77 for analog video service and \$26.75 for expanded analog video service. A one-time installation fee, which is often waived during certain promotional periods for a standard installation, is charged to new customers.

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

Although our service offerings vary by market because of differences in the bandwidth capacity of the cable systems in each of our markets and competitive 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 December 31, 2002
Basic cable	\$ 9.00 - \$19.00
Expanded basic cable	\$17.00 - \$34.63
Premium channel	\$10.00 - \$15.00
Pay-per-view (per movie or event)	\$ 3.99 - \$49.99
Digital cable video packages (which include high-speed data for higher tiers)	\$49.99 - \$95.99
High-speed Internet access by cable modem	\$29.99 - \$59.99
Video-on-demand (per selection)	\$ 0.99 - \$13.99

### **Our Network Technology**

We have upgraded, and expect to a limited extent to continue to upgrade on a limited basis, the technical quality and capacity of a large portion of our existing systems. We have substantially completed our build-out of new systems to a minimum bandwidth of 550 megahertz or greater, which allows us to:

- offer digital television, high-speed Internet access (data services) and other digital products and services;
- increase channel capacity up to 82 analog channels, and add even more channels and services when our bandwidth is used for digital signal transmission; and
- for systems with bandwidth of at least 550 megahertz, permit two-way communication, so that Internet access does not require a separate telephone line and our systems can provide interactive services, and potentially, telephony services.

We have no current plans to rebuild or upgrade any of our systems, other than those for which rebuilding or upgrading is currently in progress.

As part of our upgrade, we have substantially reduced the number of headends that serve our customers from 1,138

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at January 1, 2001 to 788 at December 31, 2002. Because headends are the control centers of a cable television 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 expect that headend consolidation, together with our other upgrades, will allow us to provide enhanced picture quality and greater system reliability. As a result of the upgrade, approximately 90% of our customers are now served by headends serving at least 10,000 customers.

The following table describes the technological capacity of our systems as of December 31, 2002 and the anticipated progress of planned upgrades through 2003, based on the percentage of our customer relationships that we expect will be served by the bandwidths listed below and will have access to two-way communication capability:

	<u>Less than 550 megahertz</u>	<u>550 megahertz to 660 megahertz</u>	<u>750 megahertz</u>	<u>870 megahertz</u>	<u>Two-way capability</u>	<u>Two-way enabled</u>
December 31, 2002	8%	5%	42%	45%	92%	84%
December 31, 2003	7%	5%	41%	46%	93%	86%

See “-Products and Services” for statistics regarding the approximate number of our customers who purchase the various services enabled by these upgrades.

As of December 31, 2002 our cable systems consisted of approximately 215,000 sheath miles, including approximately 47,500 sheath miles of fiber optic cable, passing approximately 11.9 million households and serving approximately 6.6 million customer relationships.

We have adopted the hybrid fiber coaxial cable (HFC) architecture as the standard for our ongoing 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 and 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 provides for six strands of fiber to each node, with two strands activated and four strands reserved for spares and future services. We believe that this hybrid network design provides high capacity and superior signal quality. 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 otherwise occur with two-way communication capability; and
- improved picture quality and service reliability.

We currently maintain two national network operations centers to monitor our networks and to further our strategy of providing high quality of service. Monitoring becomes increasingly important as we increase the number of customers utilizing two-way high-speed data service. Our enhanced dispatch centers will focus on local network operations and the reliability and performance of our advanced architecture, and will replace our existing regional operating centers.

## **Management of Our Systems**

Our operating philosophy emphasizes local management making local decisions that affect customers. At the same time, with a view to becoming more efficient and consistent in operations, we are consolidating from three divisions and ten regions to five operating divisions and eliminating certain layers of our management structure. Each operating division will be managed and supported by operational, marketing and engineering personnel at the divisional level. We expect this reorganization will facilitate the establishment of and adherence to standard practices, imaging and branding throughout our systems and better communication of policy decisions so as to enhance consistency of service delivery, improve operational efficiency and create the potential for cost reductions through further exploitation of economies of scale. At the same time, we believe our new structure will still allow

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local operating decisions and implementation to remain close to the customer.

We continue to have centralized financial management by our corporate office, which enables us to set financial and operating benchmarks and monitor system performance on an ongoing basis. Our corporate office also performs certain financial and administrative functions, on a centralized basis, such as accounting, internal audit, purchasing, marketing and programming contract administration and information technology.

### **Customer Care**

Historically, we have fielded customer service requests, inquiries and complaints through a large number of small customer service centers throughout the country. As a consequence of our aggressive acquisition program in 1999 through 2001, the number of these service centers grew rapidly and in 2000 was in excess of 300 service centers. We believe that maintaining such a large number of service centers hindered our ability to maximize the consistency of our service delivery and related customer satisfaction due to the logistical challenges and poor economies of scale inherent in maintaining and supervising such a large number of service centers.

In an effort to better serve our customers, we are consolidating our local customer care functions by operating technologically advanced, high-volume customer contact centers, and as a result we have closed and expect to continue to close a number of local payment and customer service centers. By establishing regional customer contact centers, we are 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. Our customer care specialists receive specialized training to develop customer contact skills and product knowledge that are targeted towards prompt and responsive resolution of customer complaints and customer retention, as well as towards selling additional and higher levels of service to our customers. At December 31, 2002, we operated eight of these high-volume customer contact centers. In 2003, we expect to upgrade three additional facilities to serve as customer contact centers, and to arrange services for four additional high-volume customer contact centers through third party vendors. As of December 31, 2002, we had 180 customer service locations, and our 25 largest customer service locations serviced approximately 70% of our customers.

### **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 ongoing marketing support or launch fees. We also negotiate volume discount pricing structures. Programming costs are paid each month based on calculations performed by us and are subject to adjustment based on periodic audits performed by the programmers.

*Costs.* Programming tends to be made available to us for a flat fee per customer with discounts available for channel placement or service penetration. Some channels are available without cost to us for a limited period of time, after which we generally must pay for the programming. For home shopping channels, we receive a percentage of the amount spent in home shopping purchases by our customers on channels we carry.

Our cable programming costs have increased, in every year we have operated, in excess of customary inflationary and cost-of-living type increases, and they are expected to continue to increase due to a variety of factors, including:

- additional programming being provided to customers as a result of system rebuilds that increase channel capacity;
- increased cost to produce or purchase cable programming;
- increased cost for certain previously discounted programming; and
- inflationary or negotiated annual increases.

In particular, sports programming costs have increased significantly over the past several years. In addition, contracts to purchase sports programming sometimes contain built-in cost increases for programming added during the term of the contract.

Historically, we have been able to offset increased programming costs through increased prices to our customers. However, with the impact of competition and other marketplace factors, there is no assurance that we will be able to continue to do so. In order to maintain margins despite increasing programming costs, we plan to continue to migrate certain program services from our analog level of service to our digital tiers. We expect that this migration

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will result in enhanced quality of programming offered on digital tiers and provide our video customers more value and more choice. These service migrations will likely result in an expansion in the number of our digital packages, which we believe will provide more options to bundle services and cover the increased programming expenses. Additionally, as our customers migrate to the digital tier packages, the customer base upon which we pay the increased product costs will proportionately decrease. Generally, to the extent that a reduced number of customers receive a given channel, our costs of providing that channel in our line-up decreases under our programming agreements, although we may lose the benefit of certain volume discounts. We also plan to seek to renegotiate the terms of our agreements with certain programmers as these agreements come due for renewal. 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 by the programmers, which could result in a further loss of customer relationships.

### **Franchises**

As of December 31, 2002, our systems operated pursuant to a total of approximately 4,400 franchises, permits and similar authorizations issued by local and state governmental authorities. Each franchise 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 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. Substantially all of the material franchises relating to our systems which are eligible for renewal have been renewed or extended at or prior to their stated expiration dates.

Prior to the scheduled expiration of most franchises, we initiate renewal proceedings with the granting authorities. This process usually takes three years but can take a longer period of time. The Communications Act 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, would have a material adverse effect on our business, results of operations and financial condition. Approximately 50% of our franchises covering approximately 52% of our basic cable customers expire within five years of December 31, 2002.

Under the 1996 Telecom Act, state and local authorities are prohibited from limiting, restricting or conditioning the provision of telecommunications services. They may, however, impose "competitively neutral" requirements and manage the public rights-of-way. Granting authorities may not require a cable operator to provide telecommunications services or facilities, other than institutional networks, as a condition of an initial franchise grant, a franchise renewal, or a franchise transfer. The 1996 Telecom Act also limits franchise fees to an operator's cable-related revenues and clarifies that they do not apply to revenues that a cable operator derives from providing new telecommunications services. In a March 2002 decision, the Federal Communications Commission held that revenue derived from the provision of cable modem service should not be added to franchise fee payments already limited by federal law to 5% of traditional cable service revenue. The same decision tentatively limited local franchising authority regulation of cable modem service.

### **Competition**

We face competition in the areas of price, services, 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 telephony, 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 data and other interactive video services. In the broadband industry, our principal competitor for video services throughout our territory is direct broadcast satellite, and in markets where it is available, our principal competitor for data services is digital subscriber line (DSL). 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 a particular market, a cable operator overbuilder would likely be a significant competitor at the local level). As of

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December 31, 2002, we are aware of traditional overbuild situations impacting approximately 3% of our total customer relationships.

We are the third largest cable operator based on number of cable customers. Of the five largest cable operators (with Comcast Corporation being first, AOL Time Warner Inc. being second, Cox Communications, Inc. being fourth and Adelphia Communications Corporation being fifth), Charter Communications, Inc. is the only operator whose sole business is cable-related services. 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 market place 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, known as DBS, is a significant competitor to cable systems. The DBS industry has grown rapidly over the last several years, far exceeding the growth rate of the cable television industry, and now serves more than 19 million subscribers nationwide. DBS service allows the subscriber to receive video and high-speed Internet access services directly via satellite using a relatively small dish antenna, provided the customer enables two-way communication through a separate telephone connection. Consistent with increasing consolidation in the communications industry, Rupert Murdoch's News Corp., one of the world's largest media companies, just agreed to acquire a controlling interest in DirecTV, the largest domestic DBS company. Affiliation with News Corp. could significantly strengthen DirecTV's competitive posture, particularly through favorable programming arrangements with various News Corp. affiliates and subsidiaries, such as the Fox television network.

Video compression technology and high powered satellites allow DBS providers to offer more than 200 digital channels from a single 32 transponder satellite, thereby surpassing the typical analog cable system. In 2002, 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 \$30 for 75 channels as compared to approximately \$46 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 have a national service 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, leads to greater efficiencies and lower costs in the lower tiers of service. However, we believe that most consumers continue to prefer our stronger local presence in our markets. 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, in part due to the inability of DBS providers to provide data services absent a separate telephone connection to enable two-way communication. Further, cable providers have the potential in some areas to provide a more complete "whole house" communications package when combining video, data and telephony.

DBS companies historically were prohibited from retransmitting popular local broadcast programming. However, a change to the copyright laws in 1999 eliminated this legal impediment. As a result, DBS companies now may retransmit such programming, once they have secured retransmission consent from the popular broadcast stations they wish to carry, and honor mandatory carriage obligations of less popular broadcast stations in the same television markets. In response to the legislation, DirecTV, Inc. and EchoStar Communications Corporation have begun carrying the major network stations in the nation's top television markets. DBS, however, is limited in the local programming it can provide because of the current capacity limitations of satellite technology, and the DBS companies currently offer local broadcast programming only in the larger U.S. markets.

DirecTV is now providing two-way high-speed Internet access services. Another satellite company called WildBlue (formerly iSKY) reports that it plans to deliver two-way high-speed Internet access to residential and small business markets in the contiguous U.S. and portions of Canada in 2004 using the Ka-band and spot beam technology. EchoStar, according to a recent press report, is planning to offer its video programming services with the Internet services provided by EarthLink, an Internet service provider, using digital subscriber line technology.

*DSL.* The deployment of digital subscriber line technology, known as DSL, 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. Several telephone companies which already have plant, an existing customer base, and other operational functions in place (such as, billing, service personnel, etc.)

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and other companies offer DSL service. DSL actively markets its service and many providers have offered promotional pricing with a one-year service agreement. The Federal Communications Commission has initiated a rulemaking proceeding that could materially reduce existing regulation of DSL service, essentially freeing such service from traditional telecommunications regulation. It is also possible that federal legislation could reduce regulation of Internet services offered by incumbent telephone companies. Legislative action and the Federal Communications Commission's decisions and policies in this area are subject to change. We expect DSL to remain a significant competitor to our data services.

DSL and other forms of high-speed Internet access provide competition to our own provision of Internet access. For example, as discussed above, satellite-based delivery options are in development. High-speed Internet access also facilitates the streaming of video into homes and businesses. As the quality and availability of video streaming over the Internet improves, video streaming may 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 data services on our system is generally less than for comparable DSL services and that some residential customers prefer our ability to bundle data 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 telephony with data services for a higher percentage of their customers, and that ability is appealing to many consumers.

*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 Federal Communications Commission 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 television 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 us. 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 December 31, 2002, we are aware of overbuild situations impacting approximately 3% of our total customer relationships, and potential overbuild situations in areas servicing approximately 5% of our total customer relationships, together representing a total of approximately 8% of our customer relationships. Additional overbuild situations may occur in other systems. In response to such overbuilds, these systems have been designated priorities for the upgrade of cable plant and the launch of new and enhanced services. As of December 31, 2002, we have upgraded many of these systems to at least 750 megahertz two-way HFC architecture.

*Telephone Companies and Utilities.* The competitive environment has been significantly affected by technological developments and regulatory changes enacted under the 1996 Telecom Act, which was designed to enhance competition in the cable television and local telephone markets. 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.

Although telephone companies can lawfully enter the cable television business, activity in this area is currently quite limited. Local exchange carriers do provide facilities for the transmission and distribution of voice and data



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services, including Internet services, in competition with our existing or potential interactive services ventures and businesses. 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 entry of telephone companies as direct competitors in the video marketplace may become more widespread and could adversely affect the profitability and valuation of established cable systems.

As we expand our offerings to include Internet access and other telecommunications services, we will be subject to competition from 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.

Additionally, we are subject to competition from utilities which possess fiber optic transmission lines capable of transmitting signals with minimal signal distortion.

*Private Cable.* Additional competition is posed by satellite master antenna television systems known as “SMATV systems” serving multiple dwelling units, referred to in the cable industry as “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. The Federal Communications Commission ruled in 1998 that private cable operators can lease video distribution capacity from local telephone companies and distribute cable programming services over public rights-of-way without obtaining a cable franchise. In 1999, both the Fifth and Seventh Circuit Courts of Appeals upheld this Federal Communications Commission policy.

*Wireless Distribution.* Cable television systems also compete with wireless program distribution services such as multi-channel multipoint distribution systems or “wireless cable,” known as MMDS. MMDS uses low-power microwave frequencies to transmit television programming over-the-air to paying customers. Wireless distribution services generally provide many of the programming services provided by cable systems, and digital compression technology is likely to increase significantly the channel capacity of their systems. Both analog and digital MMDS services require unobstructed “line of sight” transmission paths.

## **Regulation and Legislation**

The following summary addresses the key regulatory developments and legislation affecting the cable industry.

The operation of a cable system is extensively regulated by the Federal Communications Commission, some state governments and most local governments. The Federal Communications Commission 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 Federal Communications Commission 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.

The 1996 Telecom Act required the Federal Communications Commission to undertake a number of implementing rulemakings. Moreover, Congress and the Federal Communications Commission have frequently revisited the subject of cable regulation. Future legislative and regulatory changes could adversely affect our operations.

*Cable Rate Regulation.* The 1992 Cable Act imposed an extensive rate regulation regime on the cable television industry, which limited the ability of cable companies to increase subscriber fees. Under that regime, all cable systems were subjected to rate regulation, unless they faced “effective competition” in their local franchise area. Federal law defines “effective competition” on a community-specific basis as requiring satisfaction of certain conditions. These conditions are not typically satisfied in the current marketplace; hence, most cable systems



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potentially are subject to rate regulation. However, with the rapid growth of DBS, it is likely that additional cable systems will soon qualify for “effective competition” and thereby avoid further rate regulation.

Although the Federal Communications Commission established the underlying regulatory scheme, local government units, commonly referred to as local franchising authorities, are primarily responsible for administering the regulation of the lowest level of cable service—the basic service tier, which typically contains local broadcast stations and public, educational, and government access channels. Before a local franchising authority begins basic service rate regulation, it must certify to the Federal Communications Commission that it will follow applicable federal rules. Many local franchising authorities have voluntarily declined to exercise their authority to regulate basic service rates. Local franchising authorities also have primary responsibility for regulating cable equipment rates. Under federal law, charges for various types of cable equipment must be unbundled from each other and from monthly charges for programming services.

As of December 31, 2002, approximately 15% of our local franchising authorities were certified to regulate basic tier rates. Because the 1992 Cable Act permits communities to become certified and regulate rates at any time, it is possible that additional localities served by the systems may choose to certify and regulate basic rates in the future.

For regulated cable systems, the basic service tier rate increases are governed by a complicated price cap scheme devised by the Federal Communications Commission that allows for the recovery of inflation and certain increased costs, as well as providing some incentive for system upgrades. Operators also have the opportunity to bypass this “benchmark” regulatory scheme in favor of traditional “cost-of-service” regulation in cases where the latter methodology appears favorable. Cost-of-service regulation is a traditional form of rate regulation, under which a utility is allowed to recover its costs of providing the regulated service, plus a reasonable profit.

Cable programming service tiers, which are the expanded basic programming packages that offer services other than basic programming and which typically contain satellite-delivered programming, were historically rate regulated by the Federal Communications Commission. Under the 1996 Telecom Act, however, the Federal Communications Commission’s authority to regulate cable programming service tier rates expired on March 31, 1999. The Federal Communications Commission still adjudicates cable programming service tier complaints filed prior to that date, but strictly limits its review, and possible refund orders, to the time period prior to March 31, 1999. The elimination of cable programming service tier regulation affords us substantially greater pricing flexibility, subject to competitive factors and customer acceptance.

Premium cable services offered on a per-channel or per-program basis remain unregulated under both the 1992 Cable Act and the 1996 Telecom Act. However, federal law requires that the basic service tier be offered to all cable subscribers and limits the ability of operators to require purchase of any cable programming service tier if a customer seeks to purchase premium services offered on a per-channel or per-program basis. The 1996 Telecom Act also relaxes existing “uniform rate” requirements by specifying that uniform rate requirements do not apply where the operator faces “effective competition,” and by exempting bulk discounts to multiple dwelling units, although complaints about predatory pricing still may be made to the Federal Communications Commission.

*Cable Entry into Telecommunications and Pole Attachment Rates.* The 1996 Telecom Act creates a more favorable environment for us to provide telecommunications services beyond traditional video delivery. It provides that no state or local laws or regulations may prohibit or have the effect of prohibiting any entity from providing any interstate or intrastate telecommunications service. States are authorized, however, to impose “competitively neutral” requirements regarding universal service, public safety and welfare, service quality, and consumer protection. State and local governments also retain their authority to manage the public rights-of-way and may require reasonable, competitively neutral compensation for management of the public rights-of-way when cable operators provide telecommunications service. The favorable pole attachment rates afforded cable operators under federal law can be gradually increased by utility companies owning the poles if the operator provides telecommunications service, as well as cable service, over its plant. The Federal Communications Commission 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 United States Supreme Court.

Cable entry into telecommunications will be affected by the rulings and regulations implementing the 1996 Telecom Act, including the rules governing interconnection. A cable operator offering telecommunications services generally needs efficient interconnection with other telephone companies to provide a viable service. A number of details designed to facilitate interconnection are subject to ongoing regulatory and judicial review, but the basic obligation of incumbent telephone companies to interconnect with competitors, such as cable companies offering telephone service, is well established. Even so, the economic viability of different interconnection arrangements can be greatly affected by regulatory changes. Consequently, we cannot predict whether reasonable interconnection terms will be

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available in any particular market we may choose to enter.

*Internet Service.* Over the past several years, proposals have been advanced at the Federal Communications Commission and Congress that would require cable operators to provide non-discriminatory access to unaffiliated Internet service providers and online service providers. Several local franchising authorities actually adopted mandatory “open access” requirements, but various federal courts rejected each of these actions, relying on different legal theories.

In March 2002, the Federal Communications Commission ruled that cable modem service (that is, the provision of high-speed internet access over cable system infrastructure) is an interstate information service, rather than a cable or telecommunications service. This classification should leave cable modem service exempt from the burdens associated with traditional cable and telecommunications regulation. Indeed, the Federal Communications Commission held that revenue derived from cable modem service should not be added to franchise fee payments already limited by federal law to 5% of traditional cable service revenue. The Federal Communications Commission tentatively concluded that there was no other statutory basis for local franchise authorities to assess a fee on cable modem service. With regard to the open access question, the Federal Communications Commission specifically held that, regardless of classification, regulatory forbearance should now apply. As a result of this ruling we have stopped collecting franchise fees for high-speed data service.

The full consequences of classifying cable modem service as an interstate information service are not yet fully known. The Federal Communications Commission is already considering whether providers of cable modem service should contribute to the federal government’s universal service fund. This contribution could more than offset the savings associated with excluding cable modem service from local franchise fee assessments. The Federal Communications Commission also initiated a rulemaking proceeding to determine whether its jurisdiction over information services still might warrant imposition of open access requirements in the future. Finally, the information services classification itself is subject to judicial review. If regulators ultimately were allowed to impose Internet access requirements on cable operators, it could burden the capacity of cable systems and complicate our own plans for providing Internet service.

*Telephone Company Entry into Cable Television.* The 1996 Telecom Act allows telephone companies to compete directly with cable operators by repealing the historic telephone company/cable cross-ownership ban. Local exchange carriers can now compete with cable operators both inside and outside their telephone service areas with certain regulatory safeguards. Because of their resources, local exchange carriers could be formidable competitors to traditional cable operators. Various local exchange carriers already are providing video programming services within their telephone service areas through a variety of distribution methods.

Under the 1996 Telecom Act, local exchange carriers or any other cable competitor providing video programming to subscribers through broadband wire should be regulated as a traditional cable operator, subject to local franchising and federal regulatory requirements, unless the local exchange carrier or other cable competitor elects to deploy its broadband plant as an open video system. To qualify for favorable open video system status, the competitor must reserve two-thirds of the system’s activated channels for unaffiliated entities. Even then, the Federal Communications Commission revised its open video system policy to leave franchising discretion to state and local authorities. It is unclear what effect this ruling will have on the entities pursuing open video system operation.

Although local exchange carriers and cable operators can now expand their offerings across traditional service boundaries, the general prohibition remains on local exchange carrier buyouts of cable systems serving an overlapping territory. Cable operator buyouts of overlapping local exchange carrier systems, and joint ventures between cable operators and local exchange carriers in the same market, also are prohibited. The 1996 Telecom Act provides a few limited exceptions to this buyout prohibition, including a carefully circumscribed “rural exemption.” The 1996 Telecom Act also provides the Federal Communications Commission with the limited authority to grant waivers of the buyout prohibition.

*Electric Utility Entry into Telecommunications/Cable Television.* The 1996 Telecom Act provides that registered utility holding companies and subsidiaries may provide telecommunications services, including cable television, notwithstanding the Public Utility Holding Company Act of 1935. Electric utilities must establish separate subsidiaries, known as “exempt telecommunications companies” and must apply to the Federal Communications Commission for operating authority. Like telephone companies, electric utilities have substantial resources at their disposal, and could be formidable competitors to traditional cable systems. Several such utilities have been granted broad authority by the Federal Communications Commission to engage in activities which could include the provision of video programming.

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*Additional Ownership Restrictions.* The 1996 Telecom Act eliminated a statutory restriction on broadcast network/cable cross-ownership, but left in place existing Federal Communications Commission regulations prohibiting local cross-ownership between co-located television stations and cable systems. The District of Columbia Circuit Court of Appeals subsequently struck down this remaining broadcast/cable cross-ownership prohibition, and the Federal Communications Commission has now eliminated the prohibition.

Pursuant to the 1992 Cable Act, the Federal Communications Commission adopted rules precluding a cable system from devoting more than 40% of its activated channel capacity to the carriage of affiliated national video program services. Also pursuant to the 1992 Cable Act, the Federal Communications Commission adopted rules that preclude any cable operator from serving more than 30% of all U.S. domestic multichannel video subscribers, including cable and direct broadcast satellite subscribers. The D.C. Circuit Court of Appeals struck down these vertical and horizontal ownership limits as unconstitutional, concluding that the Federal Communications Commission had not adequately justified the specific rules (i.e., the 40% and 30% figures) adopted. The Federal Communications Commission is now considering replacement regulations.

*Must Carry/Retransmission Consent.* The 1992 Cable Act contains broadcast signal carriage requirements. Broadcast signal carriage is the transmission of broadcast television signals over a cable system to cable customers. These requirements, among other things, allow local commercial television broadcast stations to elect once every three years between “must carry” status or “retransmission consent” status. Less popular stations typically elect must carry, which is the broadcast signal carriage rule that allows local commercial television broadcast stations to require a cable system to carry the station. More popular stations, such as those affiliated with a national network, typically elect retransmission consent which is the broadcast signal carriage rule that allows local commercial television broadcast stations to negotiate for payments for granting permission to the cable operator to carry the stations. Must carry requests can dilute the appeal of a cable system’s programming offerings because a cable system with limited channel capacity may be required to forego carriage of popular channels in favor of less popular broadcast stations electing must carry. Retransmission consent demands may require substantial payments or other concessions. Either option has a potentially adverse effect on our business. The burden associated with must carry may increase substantially if broadcasters proceed with planned conversion to digital transmission and the Federal Communications Commission determines that cable systems simultaneously must carry all analog and digital broadcasts in their entirety. This burden would reduce capacity available for more popular video programming and new Internet and telecommunication offerings. The Federal Communications Commission tentatively decided against imposition of dual digital and analog must carry in a January 2001 ruling. At the same time, however, it initiated further fact-gathering which ultimately could lead to a reconsideration of the tentative conclusion. The Federal Communications Commission is also considering whether it should maintain its initial ruling that, whenever a digital broadcast signal does become eligible for must carry, a cable operator’s obligation is limited to carriage of a single digital video signal. If the Commission reverses itself, and cable operators are required to carry ancillary digital feeds, the burden associated with digital must carry could be significantly increased.

*Access Channels.* Local franchising authorities can include franchise provisions requiring 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, up to 15% in some cases, for commercial leased access by unaffiliated third parties. The Federal Communications Commission has adopted rules regulating the terms, conditions and maximum rates a cable operator may charge for commercial leased access use. We believe that requests for commercial leased access carriages have been relatively limited. The Federal Communications Commission rejected a request that unaffiliated Internet service providers be found eligible for commercial leased access.

*Access to Programming.* To spur the development of independent cable programmers and competition to incumbent cable operators, the 1992 Cable Act imposed restrictions on the dealings between cable operators and cable programmers. Of special significance from a competitive business position, the 1992 Cable Act precludes video programmers affiliated with cable companies from favoring cable operators over new competitors and requires such programmers to sell their satellite-delivered programming to other multichannel video distributors. This provision limits the ability of vertically integrated cable programmers to offer exclusive programming arrangements to cable companies. The Federal Communications Commission recently extended this exclusivity prohibition to October 2007. DBS providers have no similar restrictions on exclusive programming contracts. Pursuant to the Satellite Home Viewer Improvement Act, the Federal Communications Commission has adopted regulations governing retransmission consent negotiations between broadcasters and all multichannel video programming distributors, including cable and DBS.

*Inside Wiring; Subscriber Access.* In an order dating back to 1997 and largely upheld in a 2003 reconsideration order, the Federal Communications Commission established rules that require an incumbent cable operator upon

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expiration of a multiple dwelling unit service contract to sell, abandon, or remove “home run” wiring that was installed by the cable operator in a multiple dwelling unit building. These inside wiring rules are expected to assist building owners in their attempts to replace existing cable operators with new programming providers who are willing to pay the building owner a higher fee, where such a fee is permissible. In another proceeding, the Federal Communications Commission has preempted restrictions on the deployment of private antennae on property within the exclusive use of a condominium owner or tenant, such as balconies and patios. This Federal Communications Commission ruling may limit the extent to which we along with multiple dwelling unit owners may enforce certain aspects of multiple dwelling unit agreements which otherwise prohibit, for example, placement of digital broadcast satellite receiver antennae in multiple dwelling unit areas under the exclusive occupancy of a renter. These developments may make it even more difficult for us to provide service in multiple dwelling unit complexes.

*Other Communications Act Provisions and Regulations of the Federal Communications Commission.* In addition to the Communications Act provisions and Federal Communications Commission regulations noted above, there are other statutory provisions and regulations of the Federal Communications Commission covering such areas as:

- subscriber privacy,
- programming practices, including, among other things,
  - (1) blackouts of programming offered by a distant broadcast signal carried on a cable system which duplicates the programming for which a local broadcast station has secured exclusive distribution rights,
  - (2) local sports blackouts,
  - (3) indecent programming,
  - (4) lottery programming,
  - (5) political programming,
  - (6) sponsorship identification,
  - (7) children’s programming advertisements, and
  - (8) closed captioning,
- registration of cable systems and facilities licensing,
- maintenance of various records and public inspection files,
- aeronautical frequency usage,
- lockbox availability,
- antenna structure notification,
- tower marking and lighting,
- consumer protection and customer service standards,
- technical standards,
- equal employment opportunity,
- consumer electronics equipment compatibility, and
- emergency alert systems.

The Federal Communications Commission ruled that cable customers must be allowed to purchase set-top terminals 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 basic converter functions, which could then be provided by third party vendors. The first phase implementation date was July 1, 2000. As of January 1, 2005, cable operators will be prohibited from placing in service new set-top terminals that integrate security functions and basic converter navigation functions.

The FCC is currently conducting a rulemaking in which it is considering adopting rules to help implement a recent agreement between major cable operators and manufacturers of consumer electronics on “plug and play” digital televisions. The proposed rules would require cable operators to provide “point of deployment” security modules and support to customer-owned digital televisions and similar devices already equipped with built-in set-top box functionality. The rules would also permit the offering of digital programming with certain copy controls built into the programming, subject to limitations on the use of those copy controls. These proposed restrictions, if adopted as proposed, would apply equally to cable operators and to other MVPDs, such as DBS.

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*Additional Regulatory Policies May Be Added in the Future.* The Federal Communications Commission has initiated an inquiry to determine whether the cable industry's future provision of interactive services should be subject to regulations ensuring equal access and competition among service vendors. The inquiry, which grew out of the Commission's review of the AOL-Time Warner merger is yet another expression of regulatory concern regarding control over cable capacity.

*Copyright.* Cable television systems are subject to federal copyright licensing covering carriage of television and radio broadcast signals. In exchange for filing certain reports and contributing a percentage of their revenues to a federal copyright royalty pool that varies depending on the size of the system, the number of distant broadcast television signals carried, and the location of the cable system, cable operators can obtain blanket permission to retransmit copyrighted material included in 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. We cannot predict the outcome of this legislative activity. Copyright clearances for nonbroadcast programming services are arranged through private negotiations.

Cable operators distribute locally originated programming and advertising that use music controlled by the two principal major music performing rights organizations, the American Society of Composers, Authors and Publishers and Broadcast Music, Inc. The cable industry has had a long series of negotiations and adjudications with both organizations. Although we cannot predict the ultimate outcome of these industry proceedings or the amount of any license fees we may be required to pay for past and future use of association-controlled music, we do not believe such license fees will be significant to our business and operations.

*State and Local Regulation.* 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. Federal law now prohibits local franchising authorities from granting exclusive franchises or from unreasonably refusing to award additional franchises. Cable franchises generally are granted for fixed terms and in many cases include monetary penalties for non-compliance and may be terminable if the franchisee fails to comply with material provisions.

The specific terms and conditions of franchises vary materially between jurisdictions. Each franchise generally contains provisions governing cable operations, franchising fees, system construction and maintenance obligations, system channel capacity, design and technical performance, customer service standards, and indemnification protections. A number of states, including Connecticut, subject cable systems to the jurisdiction of centralized state governmental agencies, some of which impose regulation of a character similar to that of a public utility. Although local franchising authorities have considerable discretion in establishing franchise terms, there are certain federal limitations. For example, local franchising authorities cannot insist on franchise fees exceeding 5% of the system's gross cable-related revenues, cannot dictate the particular technology used by the system, and cannot specify video programming other than identifying broad categories of programming. Certain states are considering the imposition of new broadly applied telecommunications taxes.

Federal law contains renewal procedures designed to protect incumbent franchisees against arbitrary denials of renewal. Even if a franchise is renewed, the local franchising authority may seek to impose new and more onerous requirements such as significant improvements in service or increased franchise fees as a condition of renewal. Similarly, if a local franchising authority's consent is required for the purchase or sale of a cable system or franchise, the local franchising authority may attempt to impose more burdensome or onerous franchise requirements as a condition for providing its consent. Historically, most franchises have been renewed for and consents granted to cable operators that have provided satisfactory services and have complied with the terms of their franchise.

Under the 1996 Telecom Act, states and local franchising authorities are prohibited from limiting, restricting, or conditioning the provision of competitive telecommunications services, except for certain "competitively neutral" requirements and as necessary to manage the public rights-of-way. This law should facilitate entry into competitive telecommunications services, although certain jurisdictions still may attempt to impose rigorous entry requirements. In addition, local franchising authorities may not require a cable operator to provide any telecommunications service or facilities, other than institutional networks under certain circumstances, as a condition of an initial franchise grant, a franchise renewal, or a franchise transfer. The 1996 Telecom Act also provides that franchising fees are limited to an operator's cable-related revenues and do not apply to revenues that a cable operator derives from providing new telecommunications services. In a March 2002 decision, the Federal Communications Commission tentatively held that a cable operator's provision of Internet access service should not subject the operator to additional franchising requirements. That decision is currently under appeal to federal court.

## **Employees**

Our corporate office includes employees of Charter Communications, Inc. and Charter Communications Holding Company. The corporate office is responsible for coordinating and overseeing our operations, including certain critical functions, such as marketing and engineering, that are conducted by personnel at the divisional and local system level. The corporate office also performs certain financial functions such as accounting, billing, finance and acquisitions, payroll and benefit administration, information system design and support, internal audit, purchasing and programming contract administration on a centralized basis. Many of those individuals are employed by Charter Communications Holding Company and are leased to Charter Communications, Inc. pursuant to a mutual services agreement. See “Item 13. Certain Relationships and Related Transactions — Management and Consulting Arrangements.”

As of December 31, 2002, we had approximately 18,600 full-time equivalent employees, approximately 300 of which were represented by collective bargaining agreements, and we have never experienced a work stoppage. Since December 31, 2002, we have reduced our number of employees to approximately 16,900 as of March 31, 2003, with further reductions anticipated.

## **Item 2. Properties.**

Our principal physical assets consist of cable television 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 television systems.

Our cable television 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 regional data centers, customer contact centers and our regional and divisional administrative offices. However, for the foreseeable future, we plan to reduce our number of administrative offices and lease the space, where possible, while attempting to sell those existing locations that we believe are no longer required. 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 Communications Holding Company owns the real property and building for our principal executive offices.

The physical components of our cable systems require maintenance and periodic upgrades to support the new services and products we introduce. See “Item 1. Business – Our Network Technology.” We believe that our properties are generally in good operating condition and are suitable for our business operations.

## **Item 3. Legal Proceedings.**

### **Securities Class Actions and Derivative Suits.**

Fourteen putative federal class action lawsuits (the “Federal Class Actions”) have been filed against Charter Communications, Inc. and certain of its former and present officers and directors in various jurisdictions allegedly on behalf of all purchasers of Charter Communications, Inc.’s securities during the period from either November 8 or November 9, 1999 through July 17 or July 18, 2002. Unspecified damages are sought by the plaintiffs. In general, the lawsuits allege that Charter Communications, Inc. utilized misleading accounting practices and failed to disclose these accounting practices and/or issued false and misleading financial statements and press releases concerning Charter Communications, Inc.’s operations and prospects.

The Federal Class Actions consist of:

In the United States District Court for the Eastern District of Missouri

- Carmen Rodriguez, on behalf of herself and all others similarly situated, v. Charter Communications, Inc., Jerald L. Kent, Carl E. Vogel and Kent D. Kalkwarf, filed on August 5, 2002;
- Andrew Budman and Krupa Budman, together and on behalf of all others similarly situated, v. Charter Communications, Inc., Paul G. Allen, Jerald L. Kent and Carl Vogel, filed on August 7, 2002;

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- Jill D. Martin, on behalf of herself and all others similarly situated, v. Charter Communications, Inc., Jerald L. Kent, Carl E. Vogel and Kent D. Kalkwarf, filed on August 9, 2002;
- James L. Gessford, on behalf of himself and all others similarly situated, v. Charter Communications, Inc., Jerald L. Kent, Carl E. Vogel and Kent D. Kalkwarf, filed on August 13, 2002;
- Lee Posner, on behalf of himself and all others similarly situated, v. Charter Communications, Inc., Carl E. Vogel and Kent Kalkwarf, filed on September 9, 2002;
- Laurence Balfus, on behalf of himself and all others similarly situated, v. Charter Communications, Inc., Paul Allen, Jerald L. Kent, Carl E. Vogel and Kent Kalkwarf, filed on September 12, 2002;
- John Dortch, on behalf of himself and all others similarly situated, v. Charter Communications, Inc., Jerald L. Kent, Carl E. Vogel and Kent D. Kalkwarf, filed on September 12, 2002; and
- StoneRidge Investment Partners LLC, by itself and on behalf of all others similarly situated, v. Charter Communications, Inc., Paul G. Allen, Jerald L. Kent, Carl E. Vogel and Kent Kalkwarf, filed on September 30, 2002

In the United States District Court for the Central District of California

- Mytien Ngo, individually and on behalf of all others similarly situated, v. Charter Communications, Inc., Carl E. Vogel and Kent Kalkwarf, filed on July 31, 2002;
- David Birnbaum, individually and on behalf of all others similarly situated, v. Charter Communications, Inc., Carl E. Vogel and Kent Kalkwarf, filed on August 6, 2002;
- Fred B. Storey, individually and on behalf of all others similarly situated, v. Charter Communications, Inc., Carl E. Vogel and Kent Kalkwarf, filed on August 12, 2002; and
- Patricia Morrow, individually and on behalf of all others similarly situated, v. Charter Communications, Inc., Carl E. Vogel and Kent Kalkwarf, filed on August 13, 2002

In the United States District Court for the Southern District of Illinois

- George Pike, for himself and on behalf of all others similarly situated, v. Charter Communications, Inc., Paul G. Allen, Jerald L. Kent and Carl E. Vogel, filed on August 15, 2002

In the United States District Court for the District of Columbia

- Evelyn Gadol, individually and on behalf of all others similarly situated, v. Charter Communications, Inc., Carl E. Vogel and Kent Kalkwarf, filed on August 27, 2002

In October 2002, Charter Communications, Inc. filed a motion with the Judicial Panel on Multidistrict Litigation (the “Panel”) to transfer the Federal Class Actions to the Eastern District of Missouri. On March 12, 2003, the Panel transferred the six Federal Class Actions not filed in the Eastern District of Missouri to that district for coordinated or consolidated pretrial proceedings with the eight Federal Class Actions already pending there. The Panel’s transfer order assigned the Federal Class Actions to Judge Charles A. Shaw. By virtue of a prior court order, StoneRidge Investment Partners LLC became lead plaintiff upon entry of the Panel’s transfer order. We anticipate that the lead plaintiff will file a single consolidated amended complaint shortly. No response from us will be due until after this consolidated amended complaint is filed.

On September 12, 2002, a shareholders derivative suit (the “State Derivative Action”) was filed in Missouri state court against Charter Communications, Inc. and its current directors, as well as its former auditors. A substantively identical derivative action was later filed and consolidated into the State Derivative Action. The plaintiffs allege that the individual defendants breached their fiduciary duties by failing to establish and maintain adequate internal controls and procedures. Unspecified damages, allegedly on our behalf, are sought by the plaintiffs.

The State Derivative Action is entitled:



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- Kenneth Stacey, Derivatively on behalf of Nominal Defendant Charter Communications, Inc., v. Ronald L. Nelson, Paul G. Allen, Marc B. Nathanson, Nancy B. Peretsman, William Savoy, John H. Tory, Carl E. Vogel, Larry W. Wangberg, and Charter Communications, Inc.

Separately, on February 12, 2003, a shareholders derivative suit (the “Federal Derivative Action”), was filed against Charter Communications, Inc. and its current directors in the United States District Court for the Eastern District of Missouri. The plaintiff alleges that the individual defendants breached their fiduciary duties and grossly mismanaged Charter Communications, Inc. by failing to establish and maintain adequate internal controls and procedures. Unspecified damages, allegedly on our behalf, are sought by the plaintiffs.

The Federal Derivative Action is entitled:

- Arthur Cohn, Derivatively on behalf of Nominal Defendant Charter Communications, Inc., v. Ronald L. Nelson, Paul G. Allen, Marc B. Nathanson, Nancy B. Peretsman, William Savoy, John H. Tory, Carl E. Vogel, Larry W. Wangberg, and Charter Communications, Inc.

In addition to the Federal Class Actions, the State Derivative Action and the Federal Derivative Action, six putative class action lawsuits have been filed against Charter Communications, Inc. and certain of its current directors and officers in the Court of Chancery of the State of Delaware (the “Delaware Class Actions”). The Delaware Class Actions are substantively identical and generally allege that the defendants breached their fiduciary duties by participating or acquiescing in a purported and threatened attempt by Defendant Paul Allen to purchase shares and assets of Charter Communications, Inc. at an unfair price. The lawsuits were brought on behalf of Charter Communications, Inc.’s securities holders as of July 29, 2002, and seek unspecified damages and possible injunctive relief. No such purported or threatened transaction by Mr. Allen has been presented.

The Delaware Class Actions consist of :

- Eleanor Leonard, v. Paul G. Allen, Larry W. Wangberg, John H. Tory, Carl E. Vogel, Marc B. Nathanson, Nancy B. Peretsman, Ronald L. Nelson, William Savoy, and Charter Communications, Inc., filed on August 12, 2002;
- Helene Giarraputo, on behalf of herself and all others similarly situated, v. Paul G. Allen, Carl E. Vogel, Marc B. Nathanson, Ronald L. Nelson, Nancy B. Peretsman, William Savoy, John H. Tory, Larry W. Wangberg, and Charter Communications, Inc., filed on August 13, 2002;
- Ronald D. Wells, Whitney Council and Manny Varghese, on behalf of themselves and all others similarly situated, v. Charter Communications, Inc., Ronald L. Nelson, Paul G. Allen, Marc B. Nathanson, Nancy B. Peretsman, William Savoy, John H. Tory, Carl E. Vogel, Larry W. Wangberg, filed on August 13, 2002;
- Gilbert Herman, on behalf of himself and all others similarly situated, v. Paul G. Allen, Larry W. Wangberg, John H. Tory, Carl E. Vogel, Marc B. Nathanson, Nancy B. Peretsman, Ronald L. Nelson, William Savoy, and Charter Communications, Inc., filed on August 14, 2002;
- Stephen Noteboom, on behalf of himself and all others similarly situated, v. Paul G. Allen, Larry W. Wangberg, John H. Tory, Carl E. Vogel, Marc B. Nathanson, Nancy B. Peretsman, Ronald L. Nelson, William Savoy, and Charter Communications, Inc., filed on August 16, 2002; and
- John Fillmore on behalf of himself and all others similarly situated, v. Paul G. Allen, Larry W. Wangberg, John H. Tory, Carl E. Vogel, Marc B. Nathanson, Nancy B. Peretsman, Ronald L. Nelson, William Savoy, and Charter Communications, Inc., filed on October 18, 2002.

All of the lawsuits discussed above are each in preliminary stages, and no dispositive motions or other responses to any of the complaints have been filed. Charter Communications, Inc. intends to vigorously defend the lawsuits.

**Government Investigations.** In August of 2002, Charter Communications, Inc. became aware of a grand jury investigation being conducted by the United States Attorney’s Office for the Eastern District of Missouri into certain of its accounting and reporting practices, focusing on how Charter Communications, Inc. reported customer numbers, refunds that Charter Communications, Inc. sought from programmers and its reporting of amounts



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received from digital set-top terminal suppliers for advertising. We have been advised by the U.S. Attorney's Office that no member of the Board of Directors, including our Chief Executive Officer, is a target of the investigation. We are fully cooperating with the investigation.

On November 4, 2002, Charter Communications, Inc. received an informal, non-public inquiry from the Staff of the Securities and Exchange Commission. The SEC has subsequently issued a formal order of investigation dated January 23, 2003, and subsequent document subpoenas. The investigation and subpoenas generally concern Charter Communications, Inc.'s prior reports with respect to its determination of the number of customers, and various of its accounting policies and practices including its capitalization of certain expenses and dealings with certain vendors, including programmers and digital set-top terminal suppliers. We are actively cooperating with the SEC Staff.

**Outcome.** We are unable to predict the outcome of the lawsuits and the government investigations described above. An unfavorable outcome in the lawsuits or the government investigations described above could have a material adverse effect on our results of operations and financial condition.

**Indemnification.** We are generally required to indemnify each of the named individual defendants in connection with these matters pursuant to the terms of our Bylaws and (where applicable) such individual defendants' employment agreements. Pursuant to the terms of certain employment agreements and in accordance with the Bylaws of Charter Communications, Inc., in connection with the pending grand jury investigation, SEC investigation and the above described lawsuits, our current directors and our current and former officers have been advanced certain costs and expenses incurred in connection with their defense. See "Item 13. Certain Relationships and Related Transactions – Indemnification Advances" for greater detail.

**Insurance.** Charter Communications, Inc. has directors' and officers' liability insurance coverage that it believes is available for these matters, subject to the terms, conditions and limitations of the respective policies.

#### **Item 4. *Submission of Matters to a Vote of Security Holders.***

No matters were submitted to a vote of security holders during the fourth quarter of the year ended December 31, 2002.

**PART II****Item 5. Market for Registrant's Common Equity and Related Stockholder Matters.****(A) Market Information**

Our Class A common stock is quoted on the Nasdaq National Market under the ticker symbol "CHTR." The Class B common stock has no established public trading market.

**Class A Common Stock**

	High	Low
<b>2002</b>		
First quarter	\$16.850	\$ 9.100
Second quarter	\$11.530	\$ 2.960
Third quarter	\$ 4.650	\$ 1.810
Fourth quarter	\$ 2.270	\$ 0.760
<b>2001</b>		
First quarter	\$24.188	\$19.000
Second quarter	\$24.070	\$18.875
Third quarter	\$24.450	\$10.490
Fourth quarter	\$17.050	\$11.730

**(B) Holders**

As of February 28, 2003, there were approximately 3,600 record holders of our Class A common stock and one record holder of our Class B common stock.

**(C) Dividends**

Charter Communications, Inc. has not paid stock or cash dividends on any of its common stock, and we do not intend to pay cash dividends on common stock in the foreseeable future. Except for the cash dividends on preferred stock issued from time to time, we intend to retain future earnings, if any, to finance the expansion of our business. Additionally, Charter Communications, Inc. is prohibited from declaring or paying cash dividends on any class of stock on par with or junior to the Series A convertible redeemable preferred stock, including the common stock, unless the cumulative dividends on the preferred stock and any accrued dividends on stock on par with the preferred stock for any past or current period have been paid or set aside in full.

Charter Communications Holding Company may make pro rata distributions to all holders of its common membership units, including Charter Communications, Inc. Covenants in the indentures and credit agreements governing the debt obligations of Charter Communications Holdings and its subsidiaries restrict their ability to make distributions to us, and accordingly, limit our ability to declare or pay cash dividends. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations."

**(D) Recent Sales of Unregistered Securities**

No unregistered equity securities of Charter Communications, Inc. were sold by Charter Communications, Inc. or its subsidiaries during the fourth quarter of the year ended December 31, 2002. For information regarding securities issued under our equity compensation plans, see "Item 12. Security Ownership of Certain Beneficial Owners and Management — Securities Authorized for Issuance under Equity Compensation Plans."

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**Item 6. Selected Financial Data.**

The following table presents selected consolidated financial data for the periods indicated (dollars in millions, except share data):

	Charter Communications, Inc.				Charter Communications Properties Holdings (1)	
	Year Ended December 31,				12/24/1988	
	2002	2001 (a)	2000 (a)	1999	Through 12/31/1998 (b)	
	(restated)	(restated)			01/01/1998 Through 12/23/1998 (b)	
<b>Statement of Operations Data:</b>						
Revenues	\$ 4,566	\$ 3,807	\$ 3,141	\$ 1,428	\$ 14	\$ 50
Costs and Expenses:						
Operating (excluding depreciation and amortization and other items listed below)	1,804	1,480	1,185	460	7	26
Selling, general and administrative	966	832	608	329	1	6
Depreciation and amortization	1,437	2,682	2,398	745	8	17
Impairment of franchises	4,638	—	—	—	—	—
Option compensation expense, net	5	(5)	38	80	1	—
Special charges	36	18	—	—	—	—
	8,886	5,007	4,229	1,614	17	49
Income (Loss) from operations	(4,320)	(1,200)	(1,088)	(186)	(3)	1
Interest expense, net	(1,506)	(1,313)	(1,042)	(444)	(2)	(17)
Loss on equity investments	(3)	(54)	(19)	—	—	—
Other, net	(118)	(66)	(1)	(8)	—	(1)
Loss before minority interest and cumulative effect of accounting change						
	(5,947)	(2,633)	(2,150)	(638)	(5)	(17)
Minority interest	3,179	1,464	1,282	573	5	—
Loss before income taxes and cumulative effect of accounting change						
	(2,768)	(1,169)	(868)	(65)	—	(17)
Income tax benefit (expense)	520	12	10	(1)	—	—
Loss before cumulative effect of accounting change						
	(2,248)	(1,157)	(858)	(66)	—	(17)
Cumulative effect of accounting change	(266)	(10)	—	—	—	—
Net loss	(2,514)	(1,167)	(858)	(66)	—	(17)
Dividends on preferred stock	(3)	(1)	—	—	—	—
Net loss applicable to common stock	\$ (2,517)	(1,168)	(858)	\$ (66)	—	\$ (17)
Loss per common share, basic and diluted						
	\$ (8.55)	\$ (4.33)	\$ (3.80)	\$ (2.22)	\$ (0.04)	N/A
Weighted-average common shares outstanding						
	294,440,261	269,594,386	225,697,775	29,811,202	50,000	N/A
<b>Balance Sheet Data (end of period):</b>						
Total assets	\$ 22,384	\$ 26,463	\$ 24,352	\$ 18,967	\$ 4,336	\$ 282
Long-term debt	18,671	16,343	13,061	8,937	2,002	275
Minority interest	1,025	4,409	4,546	5,381	2,147	—
Redeemable securities	—	—	1,104	751	—	—
Preferred stock — redeemable	51	51	—	—	—	—
Shareholders' equity/Members' equity (deficit)	41	2,585	2,767	3,011	1	(8)



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Comparability of the above information from year to year is affected by acquisitions and dispositions completed by us. See Note 5 to our consolidated financial statements contained in “Item 8. Financial Statements and Supplementary Data” and “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations — Acquisitions.”

- (a) Financial data as of and for the years ended December 31, 2001 and 2000 has been restated to reflect adjustments necessary to properly reflect changes discussed in “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations — Restatement of Prior Results.”
- (b) Prior to the acquisition of the Charter companies by Mr. Allen on December 23, 1998, the cable systems operated under the Charter Communications name were operated under three groups of companies which were managed by Charter Investment and in which Charter Investment had an ownership interest. One of these groups, Charter Communications Properties Holdings, LLC (“CCPH”), was wholly-owned by Charter Investment. Subsequent to Mr. Allen’s acquisition, these three groups of companies were contributed to Charter Operating, a wholly-owned subsidiary of Charter Communications Holdings. CCPH is deemed to be our predecessor. The contribution of CCPH was accounted for as a reorganization under common control. Accordingly, our results of operations for 1998 prior to and including December 23, 1998 include the accounts of CCPH. The contributions of the operating companies that formerly comprised the other two groups were accounted for in accordance with purchase accounting. Accordingly, our results of operations for periods after December 23, 1998 include the accounts of CCPH and the other two groups contributed to Charter Operating.

### **Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.**

Reference is made to “Certain Trends and Uncertainties” of this section and “Cautionary Statement 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, this section should be read in conjunction with the audited consolidated financial statements of Charter Communications, Inc. and subsidiaries as of and for the years ended December 31, 2002, 2001 and 2000.

All comparisons and references in this Form 10-K to results for fiscal years 2001 and 2000 are to the restated results. See “Restatement of Prior Results” below and Note 3 to our consolidated financial statements contained in “Item 8. Financial Statements and Supplementary Data” for a more detailed discussion of the restatement.

#### **Introduction**

We have a history of net losses. Our net losses are principally attributable to the substantial interest costs we incur because of our high level of debt, the significant depreciation expenses that we incur resulting from the extensive capital investments we have made in our cable properties and the amortization and impairment of our franchise intangibles. We expect these expenses will remain substantial, and therefore we expect to continue to report net losses for the foreseeable future. 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 do not anticipate that we will engage in significant merger or acquisition activity for the foreseeable future and, as discussed in “-Liquidity and Capital Resources” and “-Certain Trends and Uncertainties” below, we believe our access to the debt or equity markets to obtain additional financing beyond that currently provided by our various credit facilities and the commitment proposal of Vulcan Inc. is seriously constrained. Accordingly, we do not believe that our historical growth rates are accurate indicators of future growth.

Since our inception and currently, our ability to conduct operations is dependent on our continued access to credit pursuant to our subsidiaries’ credit facilities. The occurrence of an event of default under our subsidiaries’ credit facilities could result in capital from these facilities being unavailable to us and could also trigger events of default under our outstanding public notes and would have a material adverse effect on us. In addition, in the fourth quarter of 2003, CC V Holdings, LLC will be required to redeem \$66 million of the CC V Holdings 11.875% senior discount notes due 2008 and in October 2005 \$750 million of Charter Communications, Inc.’s outstanding public notes will mature. We expect that we will not be able to make the required principal payments on the Charter Communications, Inc. notes in 2005 unless we obtain additional debt or equity financing, and there can be no assurance that we will be able to obtain the requisite financing or that such financing, if available, would not bear terms that are materially disadvantageous to current debt and equity holders.

## Restatement of Prior Results

On November 19, 2002, we announced that we had determined that additional franchise costs and deferred income tax liability should have been recorded relating to the differences between the financial statement and tax basis of assets we acquired in connection with certain cable businesses acquired throughout 1999 and 2000. As a result of this restatement, we engaged KPMG LLP to perform audits as of and for the years ended December 31, 2001 and 2000 because our former accountants, Arthur Andersen LLP, were no longer available to provide an opinion as to restated financial statements.

In connection with these audits and discussions with the staff of the Securities and Exchange Commission (SEC) in connection with their review of our periodic filings, we concluded that it was appropriate to make certain adjustments to previously reported results. Among other things, adjustments were made to previous interpretations and applications of generally accepted accounting principles (GAAP) consistently followed by us since 2000 and throughout the restatement period. Although we do not anticipate that additional adjustments will be necessary, until the SEC review process has been completed, it is possible that additional adjustments may be required.

These adjustments reduced our revenue for the first three quarters of 2002 by \$38 million, and for the years ended December 31, 2001 and 2000 by \$146 million and \$108 million, respectively. Such adjustments represent approximately 1%, 4% and 3% of reported revenues for the respective periods in 2002, 2001 and 2000. Our consolidated net loss increased by \$26 million for the first three quarters of 2002 and decreased by \$11 million for the year ended December 31, 2001. Net loss increased by \$29 million for the year ended December 31, 2000, primarily due to adjustments related to the original accounting for acquisitions and elements of the rebuild and upgrade activities discussed below. In addition, as a result of certain of these adjustments, our statements of cash flows have been restated. Cash flows from operations for the years ended December 31, 2001 and 2000 were reduced by \$30 million and \$303 million, respectively. The more significant categories of adjustments relate to the following items outlined below.

*Launch Incentives from Programmers.* Amounts previously recognized as advertising revenue in connection with the launch of new programming channels have been deferred and recorded in other long-term liabilities in the year such launch support was provided, and amortized as a reduction of programming costs based upon the relevant contract term. These adjustments decreased revenue \$30 million for the first three quarters of 2002, and \$118 million and \$76 million for the years ended December 31, 2001 and 2000, respectively. Additionally, for the year ended December 31, 2000, we increased marketing expense by \$24 million for other promotional activities associated with launching new programming services previously deferred and subsequently amortized. The corresponding amortization of such deferred amounts reduced programming expenses by \$36 million for the first three quarters of 2002, and \$27 million and \$5 million for the years ended December 31, 2001 and 2000, respectively.

*Customer Incentives and Inducements.* Marketing inducements paid to encourage potential customers to switch from satellite providers to Charter branded services and enter into multi-period service agreements were previously deferred and recorded as property, plant and equipment and recognized as depreciation and amortization expense over the life of customer contracts. These amounts have been restated as a reduction of revenue in the period such inducements were paid. Revenue declined \$5 million for the first three quarters of 2002, and \$19 million and \$2 million for the years ended December 31, 2001 and 2000, respectively. Substantially all of these amounts are offset by reduced depreciation and amortization expense.

*Capitalized Labor and Overhead Costs.* Certain elements of labor costs and related overhead allocations previously capitalized as property, plant and equipment as part of our rebuild activities, customer installation and new service introductions have been expensed in the period incurred. Such adjustments increased operating expenses by \$73 million for the first three quarters of 2002, and \$93 million and \$52 million for the years ended December 31, 2001 and 2000, respectively.

*Customer Acquisition Costs.* Certain customer acquisition campaigns were conducted through third-party contractors in 2000, 2001 and portions of 2002. The costs of these campaigns were originally deferred and recorded as other assets and recognized as amortization expense over the average customer contract life. These amounts have been reported as marketing expense in the period incurred and totaled \$32 million for the first three quarters of 2002, and \$59 million and \$4 million and for the years ended December 31, 2001 and 2000, respectively. We discontinued this program in the third quarter of 2002 as contracts for third-party vendors expired. Substantially all of these amounts are offset by reduced depreciation and amortization expense.

*Rebuild and Upgrade of Cable Systems.* In 2000, as we were completing our acquisitions, we initiated a three-year program to replace, upgrade and integrate a substantial portion of our network (the rebuild program). This rebuild/upgrade of the cable network infrastructure was envisioned as providing the platform capacity through which many broadband communication services could be provided to the

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marketplace for many years to come. Such a rebuild program was unprecedented and is not expected to recur. We began implementation of this three-year rebuild program in January 2000 and adhered to it over the period. It was expanded in July 2001 to encompass cable system assets acquired in June 2001 from AT&T Broadband. There were no other significant modifications to the rebuild program over the three-year period.

As the rebuild program was beginning in early 2000, we were nearing the end of a period in which we were acquired by Paul G. Allen and merged with Marcus Cable and in which we had subsequently completed an initial public offering and acquired 16 cable businesses adding approximately 5 million additional customers. We were faced with integrating these acquisitions, administering the rebuild program and also putting in place processes and new personnel to handle the increased size and complexity of an operation that had grown exponentially in a period of about 18 months. During the first quarter of 2000, management also recognized the need to reassess depreciable lives of the property that was subject to the three-year rebuild program. Based on a review of the rebuild program, \$3 billion of assets were identified as being subject to replacement, and accordingly, management reduced the useful lives of those assets. In connection with the restatement, however, it has been determined that some of these assets were to be retained and not replaced because sections of the network were scheduled to be upgraded and not rebuilt. In a cable system *rebuild* there is outright replacement and retirement of substantially all components of the network, whereas an *upgrade* involves the retention of the original property, particularly the fiber and coaxial cabling.

Presented below is a schedule of the costs of cable distribution system assets subject to the rebuild program, as originally recorded, reconciled to the final determinations in the restatement. The depreciation lives were shortened for this asset pool as discussed previously and supplemented below.

(In millions)	Total
Total asset population subject to rebuild and upgrade, as originally recorded	\$ 2,998
Assets which were never intended to be replaced but rather were upgraded and remain in service	(946)
Cost of assets inadvertently excluded from the asset population	401
Adjustment to record acquired assets at depreciated replacement cost at date of acquisition	(1,225)
Total adjusted asset value subject to replacement and thus shortened depreciation life	\$ 1,228

In connection with the restatement process, we conducted a detailed system-by-system analysis of the rebuild program to identify those assets which were intended to be rebuilt versus upgraded and determined that approximately \$844 million of trunk and distribution cabling, and \$102 million of headend equipment (in aggregate, \$946 million) was enhanced and retained in service. Accordingly, an adjustment was made in the restatement with effect from January 1, 2000 to properly exclude those assets from the population of assets treated as subject to replacement and thus for which a shortened depreciation life was previously assigned.

The evaluation conducted in connection with the restatement also revealed the inadvertent exclusion of \$401 million of trunk and distribution cabling and electronics, which were acquired in 1999, from the population of assets that were subject to shortened depreciation lives. This group of assets were misclassified within our fixed assets sub-ledger for one acquisition and thus omitted from the analysis performed in connection with the preparation of our historical financial statements. Accordingly, an adjustment was made in the restatement to properly include these assets as well.

Furthermore, an adjustment to reduce the value of assets subject to replacement of approximately \$1.2 billion was determined necessary to record the assets at estimated depreciated replacement cost at the date of acquisition.

As a result of the items identified above, we determined that depreciation expense was overstated by \$413 million for the first three quarters of 2002, and \$330 million and \$119 million in the years ended 2001 and 2000, respectively.

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*Deferred Tax Liabilities/Franchise Assets.* Adjustments were made to record deferred tax liabilities associated with the acquisition of various cable television businesses. These adjustments increased amounts assigned to franchise assets by \$1.4 billion with a corresponding increase in deferred tax liabilities of \$1.2 billion. The balance of the entry was recorded to equity and minority interest. In addition, as described above, a correction was made to reduce amounts assigned in purchase accounting to assets identified for replacement over the three-year period of our rebuild and upgrade of our network. This reduced the amount assigned to the network assets to be retained and increased the amount assigned to franchise assets by approximately \$627 million with a resulting increase in amortization expense for the years restated. Such adjustments increased the impairment of franchises recognized in the first quarter of 2002 by \$199 million (before minority interest) and increased amortization expense by \$130 million and \$121 million for the years ended December 31, 2001 and 2000, respectively.

*Other Adjustments.* In addition to the items described above, reductions to 2000 revenues include the reversal of certain advertising revenues from equipment vendors. Other adjustments of expenses include expensing certain marketing and customer acquisition costs previously charged against purchase accounting reserves, certain tax reclassifications from tax expense to operating costs, reclassifying management fee revenue from a joint venture to offset losses from investments and adjustments to option compensation expense. The net impact of these adjustments to net loss is an increase of \$38 million and a decrease of \$10 million, respectively, for the years ended December 31, 2001 and 2000.

The tables below set forth our condensed consolidated balance sheets as of December 31, 2001 and December 31, 2000, and condensed consolidated statement of operations and condensed consolidated statement of cash flows information for the years ended December 31, 2001 and 2000. For greater detail see Note 3 to our consolidated financial statements contained in "Item 8. Financial Statements and Supplementary Data".

*Controls.* The adjustments for the rebuild and upgrade of cable systems and deferred tax matters/franchise generally relate to non-recurring activities. Since our period of rapid growth in 2000 and early 2001, in which we were rapidly acquiring cable systems, we have integrated the various accounting processes of our acquired cable systems. For more information, see Note 5 to our consolidated financial statements contained in "Item 8. Financial Statements and Supplementary Data." We have also substantially improved the quantity and, we believe, the quality of our accounting and internal audit staff. In addition, we are developing better interactions between our accounting and internal audit staff and the other elements of our organization. These changes in our staff have been supplemented with changes in accounting and internal controls processes and systems which we believe result in an improved ability of management to understand and analyze underlying business data. The role of our internal audit staff has also been expanded, particularly with respect to capitalization and depreciation. We believe that these changes in staff, responsibilities and processes and systems have improved both our controls over recurring transactions and non-recurring transactions, such as integration of acquired cable systems and the rebuild and upgrade of cable systems.

The following table sets forth selected consolidated balance sheet information, showing previously reported and restated amounts, as of December 31, 2001 (in millions):

	As previously reported	As restated
Property, plant and equipment, net	\$ 7,150	\$ 6,914
Franchises, net	17,139	18,911
Total assets	24,962	26,463
Long-term debt	16,343	16,343
Other long-term liabilities	341	1,682
Minority interest	3,976	4,409
Total shareholders' equity	2,862	2,585



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The following table sets forth selected consolidated statement of operations information, showing previously reported and restated amounts, for the year ended December 31, 2001 (in millions, except per share data):

	As previously reported	As restated
Revenues	\$ 3,953	\$ 3,807
Costs and expenses:		
Operating (excluding depreciation and amortization and other items listed below)	1,326	1,480
Selling, general and administrative	841	832
Depreciation and amortization	3,010	2,682
Option compensation income	(46)	(5)
Special charges	18	18
	<u>5,149</u>	<u>5,007</u>
Loss from operations	(1,196)	(1,200)
Loss before minority interest, income taxes and cumulative effect of accounting change	(2,656)	(2,633)
Loss before cumulative effect of accounting change	(1,178)	(1,157)
Net loss applicable to common stock	\$ (1,179)	\$ (1,168)
Loss per common share, basic and diluted	<u>\$ (4.37)</u>	<u>\$ (4.33)</u>
Weighted average common shares outstanding, basic and diluted	<u>269,594,386</u>	<u>269,594,386</u>

The following table sets forth selected consolidated balance sheet information, showing previously reported and restated amounts, as of December 31, 2000 (in millions):

	As previously reported	As restated
Property, plant and equipment, net	\$ 5,267	\$ 4,829
Franchises, net	17,069	18,835
Total assets	23,044	24,352
Long-term debt	13,061	13,061
Other long-term liabilities	285	1,517
Minority interest	4,090	4,546
Total shareholders' equity	3,123	2,767

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The following table sets forth selected consolidated statement of operations information, showing previously reported and restated amounts, for the year ended December 31, 2000 (in millions, except per share data):

	As previously reported	As restated
Revenues	\$ 3,249	\$ 3,141
Costs and expenses:		
Operating (excluding depreciation and amortization and other items listed below)	1,036	1,185
Selling, general and administrative	711	646
Depreciation and amortization	2,473	2,398
	<u>4,220</u>	<u>4,229</u>
Loss from operations	(971)	(1,088)
Loss before minority interest and income taxes	(2,055)	(2,150)
Net loss	<u>\$ (829)</u>	<u>\$ (858)</u>
Loss per common share, basic and diluted	<u>\$ (3.67)</u>	<u>\$ (3.80)</u>
Weighted average common shares outstanding, basic and diluted	<u>225,697,775</u>	<u>225,697,775</u>

The following table sets forth selected consolidated cash flow information, showing previously reported and restated amounts, for the years ended December 31, 2001 and 2000 (in millions):

	2001		2000	
	As previously reported	As restated	As previously reported	As restated
Net cash from operating activities	\$ 519	\$ 489	\$ 1,131	\$ 828
Net cash from investing activities	(4,809)	(4,774)	(4,054)	(3,751)
Net cash from financing activities	\$ 4,162	\$ 4,156	\$ 2,920	\$ 2,920

**Acquisitions**

The following table sets forth information regarding our acquisitions in 2000, 2001 and 2002:

	Acquisition Date	Purchase Price (Dollars in Millions)			Total Price	Acquired Customers
		Cash Paid	Assumed Debt	Securities Issued/Other Consideration		
Interlake	1/00	\$ 13	\$ —	\$ —	\$ 13	6,000
Bresnan	2/00	1,100	963	1,014(a)	3,077	695,800
Capital Cable	4/00	60	—	—	60	23,200
Farmington	4/00	15	—	—	15	5,700
Kalamazoo	9/00	—	—	171(b)	171	50,700
<b>Total 2000 Acquisitions</b>		<b>1,188</b>	<b>963</b>	<b>1,185</b>	<b>3,336</b>	<b>781,400</b>
AT&T Systems	6/01	1,711	—	25(c)	1,736(c)	551,100
Cable USA	8/01	45	—	55(d)	100	30,600
<b>Total 2001 Acquisitions</b>		<b>1,756</b>	<b>—</b>	<b>80</b>	<b>1,836</b>	<b>581,700</b>
High Speed Access Corp.	2/02	78	—	—	78	N/A
Enstar Limited Partnership Systems	4/02	48	—	—	48	21,600
Enstar Income Program II-1, L.P.	9/02	15	—	—	15	6,400
<b>Total 2002 Acquisitions</b>		<b>141</b>	<b>—</b>	<b>—</b>	<b>141</b>	<b>28,000</b>
<b>Total 2000-2002 Acquisitions</b>		<b>\$3,085</b>	<b>\$963</b>	<b>\$1,265</b>	<b>\$5,313</b>	<b>1,391,100</b>

- (a) Comprised of \$385 million in equity in Charter Communications Holding Company and \$629 million of preferred limited liability company membership interests in CC VIII.
- (b) In connection with this transaction, we acquired all of the outstanding stock of Cablevision of Michigan in exchange for 11,173,376 shares of Charter Communications, Inc. Class A common stock.
- (c) Comprised of \$1.7 billion, as adjusted, in cash and a cable system located in Florida valued at \$25 million, as adjusted post-closing.
- (d) In connection with this transaction, at the closing we acquired all of the outstanding stock of Cable USA and the assets of related affiliates in exchange for cash and 505,664 shares of Charter Communications, Inc. Series A convertible redeemable preferred stock. In the first quarter of 2003, an additional \$0.34 million in cash was paid and 39,595 additional shares of Series A convertible redeemable preferred stock were issued to certain sellers.

All acquisitions were accounted for under the purchase method of accounting and results of operations were included in our consolidated financial statements from their respective dates of acquisition.

On February 28, 2002, CC Systems LLC, a subsidiary of Charter Communications Holding Company, purchased from High Speed Access Corp. the contracts and associated assets, and assumed related liabilities, that serve our data services customers, including a customer contact center, a network operations center and provisioning software. At the closing, CC Systems paid \$78 million to High Speed Access and delivered to High Speed Access 37,000 shares of High Speed Access Series D convertible preferred stock and all of the warrants to buy High Speed Access common stock owned by Charter Communications Holding Company, and High Speed Access purchased 38,000 shares of its Series D Preferred Stock from Vulcan Ventures Incorporated, an entity 100% owned by Mr. Allen, for \$8 million. Concurrently with the closing of the transaction, all of the agreements between our subsidiaries and High Speed Access Corp. (other than a license agreement entered into in connection with the asset purchase), namely, the programming content agreement, the services agreement the systems access agreement, the 1998 network services agreement and the May 2000 network services agreement, were terminated. Charter Communications Holding Company obtained a fairness opinion from a qualified investment-banking firm regarding the valuation of the assets purchased by CC Systems pursuant to the asset purchase agreement. Concurrently with the closing of the asset purchase transaction, High Speed Access Corp. purchased all of its common stock held by Vulcan Ventures Incorporated for \$4.4 million. Following the closing of the asset purchase, neither we nor any of our subsidiaries nor Vulcan Ventures Incorporated beneficially owned any equity securities of High Speed Access. See “Item 13. Certain Relationships and Related Transactions — Business Relationships.”

In April 2002, we purchased cable systems in Illinois serving in the aggregate approximately 21,600 customers, for a total cash purchase price of \$48 million. In September 2002, we purchased additional Illinois cable television

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systems, serving approximately 6,400 customers, for a cash purchase price of \$15 million. Enstar Communications Corporation, a direct subsidiary of Charter Communications Holding Company, is a general partner of the limited partnerships that sold these systems to us, but does not exercise control over these partnerships.

We have no current plans to pursue any significant acquisitions and do not believe that we have access to the capital markets to make such acquisitions; however, we will continue to evaluate opportunities to consolidate our operations geographically through the sale of, or exchange of like-kind assets with, other cable operators as such opportunities arise, and on a very limited basis, consider strategic new acquisitions. Our primary criteria in considering these opportunities are the rationalization of our operations into geographic clusters and the potential financial benefits we expect to ultimately realize as a result of the sale, swap, or acquisition. In addition, we may sell certain assets from time to time.

### **Overview of Operations**

Approximately 87% of our revenues for the year ended December 31, 2002 are attributable to monthly subscription fees charged to customers for our video and data services, equipment rental and ancillary services provided by our cable systems. Generally, these customer subscriptions may be discontinued by the customer at any time. The remaining 13% of revenue is derived primarily from installation and reconnection fees charged to customers to commence or reinstate service, pay-per-view and video-on-demand programming where users are charged a fee for individual programs viewed, advertising revenues, commissions related to the sale of merchandise by home shopping services and franchise fee revenues, which are collected by us but then paid to local franchising authorities. We have generated increased revenues during the past three years, primarily through the sale of digital video and high-speed data services to new and existing customers, price increases on video services and customer growth from acquisitions. Going forward, our strategy is to grow revenues and improve margins by seeking to reduce analog customer losses and increase revenues per customer through the sale of data services and digital video services to our existing customer base.

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, and advertising sales costs, franchise fees and expenses related to customer billings. Our negative operating margins increased from 32% for the year ended December 31, 2001 to 95% for the year ended December 31, 2002, principally due to the recognition of a \$4.6 billion franchise impairment charge in the fourth quarter of 2002 coupled with depreciation associated with our capital expenditures related to the construction and upgrading of our systems offset by a decrease in amortization expense as a result of the adoption of SFAS No. 142, which eliminated the amortization of franchises determined to have an indefinite life. Our negative operating margins decreased from 35% for the year ended December 31, 2000 to 32% for the year ended December 31, 2001 primarily as a result of increased revenue due to increases in the number of digital video and high-speed data customers. For the year ended December 31, 2002, our loss from operations was \$4.3 billion. Excluding franchise impairment charges, we generated income from operations of \$318 million for the year ended December 31, 2002. We do not expect charges for impairment in the future of comparable magnitude to the fourth quarter 2002 impairment charge.

We have had a history of net losses. Further, we expect to continue to report net losses for the foreseeable future. The principal reasons for our prior net losses include our depreciation and amortization expenses, impairment charges on franchises and interest costs on borrowed money, which increased in the aggregate by \$3.6 billion and \$555 million, respectively for the year ended December 31, 2002 as compared to December 31, 2001 and for the year ended December 31, 2001 as compared to December 31, 2000. Continued net losses could have a material adverse impact on our ability to access necessary capital, including under our existing credit facilities. See "Liquidity and Capital Resources" for greater detail.

### **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 our 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 impact 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
- Litigation

In addition, there are other items within our financial statements that require estimates or judgment but are not deemed critical, but changes in judgment, or underestimates 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 December 31, 2002 and 2001, the net carrying amount of our property, plant and equipment (consisting primarily of cable network assets) was approximately \$7.7 billion (representing 34% of total assets) and \$6.9 billion (representing 26% of total assets). Total capital expenditures for the years ended December 31, 2002, 2001 and 2000 (including capital items that had been received but for which payment had not been made) were approximately \$2.2 billion, \$2.9 billion and \$2.8 billion, respectively.

Costs associated with network construction, initial customer installations, installation refurbishments and the addition of network equipment necessary to enable advanced services are capitalized. Costs capitalized as part of initial customer installations include materials, direct labor, and certain indirect costs. 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.

Direct 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:

- Scheduling 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 data 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 terminal.

We capitalized internal direct labor costs of \$173 million, \$171 million and \$111 million, for the years ended December 31, 2002, 2001 and 2000, respectively.

Judgment is required to determine the extent to which indirect costs ("overhead") are incurred as a result of specific capital activities, and therefore should be capitalized. We capitalize overhead based upon an allocation of the portion of indirect costs that contribute to capitalizable activities using an overhead rate applied to the amount of direct labor capitalized. We have established the overhead rates based on an analysis of the nature of costs incurred in support of capitalizable activities and a determination of the portion of costs which is directly attributable to capitalizable activities. The primary costs that are included in the determination of the 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 overhead study on a periodic basis to determine whether facts or circumstances warrant a change to our capitalization policies. We capitalized overhead of \$162 million, \$134 million and \$86 million, respectively, for the years ended December 31, 2002, 2001 and 2000.

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*Useful lives of property, plant and equipment.* We evaluate the appropriateness of estimated useful lives assigned to our property, plant and equipment, and revise such lives to the extent warranted by changing facts and circumstances. Beginning in January 2000, we commenced a significant initiative to rebuild and upgrade portions of our cable network. During 2001 and 2000, we reduced the useful lives of \$1.1 billion in 2000 and an additional \$125 million in 2001, of assets expected to be replaced and retired through that process to approximately one to three years, representing management's best estimate of the expected pattern of the retirement from service of such assets. A significant change in assumptions about the extent or timing of future asset usage or retirements could materially affect future depreciation expense.

Depreciation expense related to property, plant and equipment totaled \$1.4 billion, \$1.2 billion and \$1.0 billion, representing approximately 16%, 24% and 25% of costs and expenses, for the years ended December 31, 2002, 2001 and 2000, respectively. Of these amounts, approximately \$183 million, \$352 million and \$674 million, respectively, relates to network assets which were replaced and retired over the three-year period of the rebuild initiative. Depreciation is recorded using the straight-line method over management's estimate of the estimated useful lives of the related assets as follows:

Cable distribution systems	7-15 years
Customer equipment and installations	3-5 years
Vehicles and equipment	1-5 years
Buildings and leasehold improvements	5-15 years
Furniture and fixtures	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 December 31, 2002 and 2001 was approximately \$13.7 billion (representing 61% of total assets) and \$18.9 billion (representing 71% of total assets), respectively. Furthermore, we recorded approximately \$54 million of goodwill as a result of the acquisition of High Speed Access in February 2002.

We adopted SFAS No. 142 "Goodwill and Other Intangible Assets" on January 1, 2002. SFAS No. 142 requires that franchise intangible assets that meet the indefinite life criteria no longer be amortized against earnings but instead must be tested for impairment annually 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 January 1, 2002 and December 31, 2002 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 franchise renewals, will be amortized on a straight-line basis over 10 years, which represents management's best estimate of the average remaining useful lives of such franchises. Prior to the adoption of SFAS No. 142, our franchises were amortized over an average useful life of 15 years. Franchise amortization expense related to franchises not qualifying for indefinite life treatment totaled \$9 million for the year ended December 31, 2002. Franchise amortization expense was \$1.4 billion and \$1.4 billion, representing approximately 28% and 33% of costs and expenses, for the years ended December 31, 2001 and 2000. Going forward, we expect amortization expense on franchise assets will be approximately \$8 million annually based on our current franchise agreements and anticipated upgrade plans. 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 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 poor 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. Furthermore, we were 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

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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 and high-speed data, 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. We utilize an independent third-party appraiser with expertise in the cable industry to assist in the determination of the fair value of intangible assets.

During the first quarter of 2002, we had an independent appraiser perform valuations of our franchises as of January 1, 2002. 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 clusters of our cable systems which management believes represents the highest and best use of those assets. We determined that our franchises were impaired and as a result recorded the cumulative effect of a change in accounting principle of \$266 million, net of minority interest. This adjustment has been reflected in the year ended December 31, 2002 financial statements. As required by SFAS No. 142, the standard has not been retroactively applied to results for the period prior to adoption.

We performed our annual impairment assessment as of October 1, 2002 using an independent third-party appraiser and following the guidance of EITF Issue 02-17, *Recognition of Customer Relationship Intangible Assets Acquired in a Business Combination*, which was issued in October 2002 and requires the consideration of assumptions that marketplace participants would consider, such as expectations of future contract renewals and other benefits related to the intangible asset. Revised earnings forecasts and the methodology required by SFAS No. 142, which excludes certain intangibles, led to recognition of a \$4.6 billion impairment charge in the fourth quarter of 2002.

The independent third party appraiser's valuation as of October 1, 2002, yielded an enterprise value of approximately \$25 billion, which included \$3 billion assigned to customer relationships. SFAS No. 142 does not permit the recognition of the customer relationship asset not previously recognized. Accordingly, our impairment analysis could not include approximately \$373 million and \$2.9 billion attributable to customer relationship values as of January 1, 2002 and October 1, 2002, respectively.

This valuation involves numerous assumptions as noted above. While the current economic conditions indicate the combination of assumptions utilized in the appraisal is reasonable, as market conditions change so will the assumptions with a resulting impact on the valuation. A 10% increase in fair value of the enterprise would have decreased the impairment charge by approximately \$1.6 billion while a 10% decrease in the fair value of the enterprise would have increased the impairment charge by approximately \$2.0 billion.

*Income Taxes.* All operations are held through Charter Communications Holding Company, LLC and its direct and indirect subsidiaries. Charter Communications Holding Company 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 Communications Holding Company are passed through to its members: Charter Communications, Inc., Charter Investment, Inc., Vulcan Cable III, Inc., and certain former owners of acquired companies. Charter Communications, Inc. is responsible for its share of taxable income or loss of Charter Communications Holding Company allocated to it in accordance with the Charter Communications Holding Company amended and restated 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). Pursuant to the LLC Agreement, through the end of 2003, net tax losses of Charter Communications Holding Company that would otherwise have been allocated to Charter Communications, Inc. based generally on its percentage ownership of outstanding common units will be allocated instead to the membership units held by Vulcan Cable and Charter Investment (the "Special Loss Allocations") to the extent of their capital account balances. The LLC Agreement further provides that, beginning at the time Charter Communications Holding Company first generates net tax profits, the net tax profits that would otherwise have been allocated to Charter Communications, Inc. based generally on its percentage ownership of outstanding common membership units will instead be allocated to Vulcan Cable and Charter Investment (the "Special Profit Allocations"). The Special Profit Allocations to Vulcan Cable and Charter Investment will generally continue until the cumulative amount of the Special Profit Allocations offsets the cumulative amount of the Special Loss Allocations. The LLC Agreement generally provides that any additional net tax profits are to be allocated proportionately among the members of Charter Communications Holding Company based on their ownership of Charter Communications Holding Company membership units. The cumulative amount

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of the actual income tax losses allocated to Vulcan Cable and Charter Investment as a result of the Special Loss Allocations through the period ended December 31, 2002 is approximately \$3.3 billion.

In certain situations, the Special Loss Allocations and Special Profit Allocations described above could result in Charter Communications, Inc. paying taxes in an amount that is more or less than if Charter Communications Holding Company had allocated net tax profits and net tax losses among its members based 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 amount and timing of alternative minimum taxes paid by Charter Communications, Inc., (iv) the apportionment of the allocated income or loss among the states in which Charter Communications Holding Company does business, and (v) future federal and state tax laws. Further, in the event of new capital contributions to Charter Communications Holding Company, it is possible that the tax effects of the Special Profit Allocations and Special Loss Allocations will change significantly pursuant to the provisions of the income tax regulations. Such change could defer the actual tax benefits to be derived by Charter Communications, Inc. with respect to the net tax losses allocated to it or accelerate the actual taxable income to Charter Communications, Inc. with respect to the net tax profits allocated to it. As a result, it is possible under certain circumstances, that Charter Communications, Inc. could receive future allocations of taxable income in excess of its currently allocated tax deductions and available tax loss carryforwards.

In addition to the aforementioned reasons, under their exchange agreement with Charter Communications, Inc., Vulcan Cable and Charter Investment may exchange some or all of their membership units in Charter Communications Holding Company for Charter Communications, Inc.'s Class B common stock, be merged with Charter Communications, Inc., or be acquired by Charter Communications, Inc. 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 and Charter Investment could elect to cause Charter Communications Holding Company to make the remaining Special Profit Allocations to Vulcan Cable and Charter Investment immediately prior to the consummation of the exchange. In the event Vulcan Cable and Charter Investment choose not to make such election or to the extent such allocations are not possible, Charter Communications, Inc. 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 Communications, Inc. for any incremental income taxes that Charter Communications, Inc. would owe as a result of such an exchange and any resulting future Special Profit Allocations to Charter Communications, Inc.

As of December 31, 2002, we have recorded deferred income tax liabilities of \$499 million. This includes approximately \$232 million of the deferred income tax liabilities recorded in the consolidated financial statements related to certain indirect corporate subsidiaries of Charter Communications Holding Company, which file separate income tax returns.

Additionally, we have deferred tax assets of \$1.4 billion, which primarily relate to the excess of cumulative financial statement losses over cumulative tax losses allocated to us. The deferred tax assets also include \$322 million of tax net operating loss carryforwards of Charter Communications, Inc. and its indirect corporate subsidiaries which are subject to separate return limitations. 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 \$1.4 billion.

We are currently under examination by the Internal Revenue Service for the tax years ending December 31, 1999 and 2000. Management does not expect the results of this examination to have a material adverse effect on our consolidated financial position or results of operation.

*Litigation.* We have legal contingencies that have a high degree of uncertainty. As described in "Item 3. Legal Proceedings," numerous allegations have been made against us. No reserves have been established for those matters because we believe they are either not estimable or not probable. When a contingency becomes probable and estimable a reserve is established. We have established reserves for certain other matters. If any of our litigation matters, described in "Item 3. Legal Proceedings," are resolved unfavorably, they could have a material adverse effect on our future results of operations and financial condition.



[Table of Contents](#)**Results of Operations**

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

	Year Ended December 31,					
	2002		2001		2000	
Revenues	\$ 4,566	100%	\$ 3,807	100%	\$ 3,141	100%
Costs and Expenses:						
Operating (excluding depreciation and amortization and other items listed below)	1,804	40%	1,480	39%	1,185	38%
Selling, general and administrative	966	21%	832	22%	608	19%
Depreciation and amortization	1,437	31%	2,682	70%	2,398	76%
Impairment of franchises	4,638	102%	—	—	—	—
Option compensation expense, net	5	—	(5)	—	38	1%
Special charges	36	1%	18	1%	—	—
	8,886	195%	5,007	132%	4,229	134%
Loss from operations	(4,320)	(95)%	(1,200)	(32)%	(1,088)	(34)%
Interest expense, net	(1,506)		(1,313)		(1,042)	
Loss on equity investments	(3)		(54)		(19)	
Other, net	(118)		(66)		(1)	
Loss before minority interest, income taxes and cumulative effect of accounting change	(5,947)		(2,633)		(2,150)	
Minority interest	3,179		1,464		1,282	
Loss before income taxes and cumulative effect of accounting change	(2,768)		(1,169)		(868)	
Income tax benefit	520		12		10	
Loss before cumulative effect of accounting change	(2,248)		(1,157)		(858)	
Cumulative effect of accounting change	(266)		(10)		—	
Net loss	(2,514)		(1,167)		(858)	
Dividends on preferred stock	(3)		(1)		—	
Net loss applicable to common stock	\$ (2,517)		\$ (1,168)		\$ (858)	
Loss per common share, basic and diluted	\$ (8.55)		\$ (4.33)		\$ (3.80)	
Weighted-average common shares outstanding	294,440,261		269,594,386		225,697,775	

**Year Ended December 31, 2002 Compared to Year Ended December 31, 2001**

**Revenues.** Revenues increased by \$759 million, or 20%, from \$3.8 billion in 2001 to \$4.6 billion in 2002. This increase is principally the result of increases in the number of digital video and high-speed data customers as well as price increases.

Average monthly revenue per customer increased from \$47 in 2001 to \$57 in 2002. Average monthly revenue per customer represents total annual revenue, divided by twelve, divided by the average number of customer relationships.

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

	Year Ended December 31,					
	2002		2001		2002 over 2001	
	Balance	% of Revenues	Balance	% of	Change	% Change
Analog video	\$3,083	68%	\$2,768	73%	\$315	11%
Digital video	457	10%	307	8%	150	49%
High-speed data	340	7%	155	4%	185	119%
Advertising sales	302	7%	197	5%	105	53%
Other	384	8%	380	10%	4	1%
	\$4,566	100%	\$3,807	100%	\$759	20%

Analog video revenues consist primarily of revenues from basic and premium services. Analog video revenues increased by \$315 million, or 11%, to \$3.1 billion in 2002 as compared to \$2.8 billion in 2001. Approximately \$130 million of the increase was due to a full year of revenue from the AT&T Broadband systems acquired in June 2001 with the remainder due to general price increases, offset somewhat by the decline in analog video customers. We do not expect an increase in analog video customers; however, our goal is to sustain revenues by reducing analog customer losses and to grow revenues through price increases on certain services and packages as well as the sale of data services and digital video services.

Digital video revenues increased by \$150 million, or 49%, to \$457 million in 2002 as compared to \$307 million in 2001. All of our digital video customers also receive basic analog video service, and digital video revenues consist of the portion of revenues from digital video customers in excess of the amount paid by these customers for analog video service. The majority of the increase resulted from the addition of approximately 538,000 digital customers. Approximately \$31 million of the increase resulted from a full year of revenue from digital video customers acquired in the acquisition of AT&T Broadband systems in June 2001. While we expect the number of our digital customers to increase, we believe the growth rate for these services will slow as compared to prior years.

High-speed data revenues increased \$185 million, or 119%, from \$155 million for the year ended December 31, 2001 to \$340 million for the year ended December 31, 2002. The majority of the increase or \$171 million was primarily due to the addition of 585,200 high-speed data customers. Between 2001 and 2002, we were able to offer this service to more of our customers, as the estimated percentage of homes passed that could receive high-speed data service increased from 66% to 82% as a result of our ongoing system upgrades.

Advertising sales revenues consist primarily of revenues from commercial advertising customers, programmers and other vendors. Advertising sales increased \$105 million, or 53%, from \$197 million in 2001 to \$302 million in 2002. The increase was primarily due to an increase of \$53 million, from \$13 million in 2001 to \$66 million in 2002, related to an increase in advertising contracts with programmers, \$40 million related to increased advertising capacity as a result of an increased number of channels carried by our systems and \$14 million related to the acquisition of AT&T Broadband systems in June 2001. For the years ended December 31, 2002 and 2001, we received \$13 million and \$14 million, respectively, in advertising revenue from our two largest suppliers of digital set-top terminals representing 0.3% and 0.4% of total revenues, respectively. We expect that advertising provided to vendors and programmers will decline substantially in the future. Revenues from advertising provided to vendors and programmers are recognized based upon the fair value of advertising. Vendor advertising purchases are made pursuant to written agreements that are generally consistent with other third-party commercial advertising agreements and at prices that we believe approximate fair value. In some cases we purchased equipment from the vendors at the same time.

Other revenues consist primarily of revenues from franchise fees, customer installations, equipment rental, processing fees, wire maintenance fees, home shopping, dial-up Internet service, late payment fees and other miscellaneous revenues. Other revenues increased \$4 million, or 1%, from \$380 million for the year ended December 31, 2001 to \$384 million for the year ended December 31, 2002. The increase was primarily due to an increase in franchise fee revenue directly related to the increase in analog and digital video revenues and a full year of revenue from the acquisition of AT&T Broadband systems in June 2001, offset by decreases in late payment fees charged to customers and other miscellaneous revenues. Franchise fee revenues are collected from customers and remitted to franchise authorities.

The decrease in accounts receivable of 11% compared to the increase in revenue of 20% is primarily due to the timing of collection of receivables from programmers for fees associated with the launching of their networks. These fees are not recorded in revenue but are included as reductions of programming expense over the life of the

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contract. Launch receivables decreased \$27 million, or 28%, from \$97 million as of December 31, 2001 to \$70 million as of December 31, 2002.

*Operating Expenses.* Operating expenses increased \$324 million, or 22%, from \$1.5 billion in 2001 to \$1.8 billion in 2002. Total programming costs paid to programmers were \$1.2 billion and \$951 million, representing 67% and 64% of total operating expenses for the years ended December 31, 2002 and 2001, respectively.

Key expense components as a percentage of revenues are as follows (dollars in millions):

	Year Ended December 31,					
	2002		2001		2002 over 2001	
	Balance	% of Revenues	Balance	% of Revenues	Change	% Change
Analog video programming	\$1,012	22%	\$ 874	23%	\$138	16%
Digital video programming	159	3%	103	3%	56	54%
High-speed data	112	3%	65	2%	47	72%
Advertising sales	87	2%	64	2%	23	36%
Service	434	10%	374	9%	60	16%
	\$1,804	40%	\$1,480	39%	\$324	22%

Analog video programming costs consist primarily of costs paid to programmers for the provision of basic and premium channels as well as pay-per-view programs. The increase in analog video programming costs of \$138 million, or 16%, was primarily due to price increases, particularly in sports programming, and an increased number of analog channels carried on our systems. In addition, approximately \$51 million of the increase results from a full year of costs related to the acquisition of AT&T Broadband systems in June 2001. The costs were offset by the amortization of launch support against analog video programming of \$48 million and \$27 million for the years ended December 31, 2002 and 2001, respectively. Digital video programming costs in 2002 were \$56 million higher than in 2001 due to an increase in digital video customers and increased costs. Data services costs consist of costs related to the provision of high-speed data service, including salaries and benefits. The increase of \$47 million, or 72%, in direct operating costs to provide data services was primarily due to the increase in high-speed data customers.

Our cable programming costs have increased, in every year we have operated, in excess of customary inflationary and cost-of-living type increases, and they are expected to continue to increase due to a variety of factors, including additional programming being provided to customers as a result of system rebuilds that increase channel capacity, increased costs to produce or purchase cable programming, increased costs from certain previously discounted programming, and inflationary or negotiated annual increases. Our increasing programming costs will result in declining video product margins to the extent we are unable to pass on cost increases to our customers. We expect to partially offset any resulting margin compression through increased incremental high-speed data revenues.

Advertising sales expenses consist of costs related to traditional advertising services, including salaries and benefits. Advertising sales expenses increased \$23 million, or 36%, primarily due to increased sales commissions resulting from the increase in advertising revenues. Service costs consist primarily of service personnel salaries and benefits, franchise fees, system utilities, maintenance and pole rent expense. The increase in service costs of \$60 million, or 16%, resulted primarily from our growth in digital video and high-speed data services.

*Selling, General and Administrative Expenses.* Selling, general and administrative expenses increased by \$134 million, or 16%, from \$832 million for the year ended December 31, 2001 to \$966 million for the year ended December 31, 2002. Key components of expense as a percentage of revenues are as follows (dollars in millions):

	Year Ended December 31,					
	2002		2001		2002 over 2001	
	Balance	% of Revenues	Balance	% of Revenues	Change	% Change
General and administrative	\$813	18%	\$696	18%	\$117	17%
Marketing	153	3%	136	4%	17	13%
	\$966	21%	\$832	22%	\$134	16%

General and administrative expenses consist primarily of salaries and benefits, rent expense, billing costs, bad debt expense and property taxes. The increase in general and administrative expenses of \$117 million, or 17%, resulted

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primarily from increases in salaries and benefits of \$66 million, bad debt and collection expense of \$24 million and insurance of \$13 million. These increases were partially offset by a decrease in billing expenses of \$12 million as a result of renegotiated contracts with third-party billing providers.

Marketing expenses increased \$17 million, or 13%, due to increased costs associated with promotions of our service offerings including advertising, telemarketing and direct sales.

*Depreciation and Amortization.* Depreciation and amortization expense decreased by \$1.2 billion, or 46%, from \$2.7 billion in 2001 to \$1.4 billion in 2002. This decrease was due primarily to the adoption on January 1, 2002 of SFAS No. 142, which requires that franchise intangible assets that meet the indefinite life criteria of SFAS No. 142 no longer be amortized against earnings but instead be tested for impairment on an annual basis. As a result of this change, total amortization of franchise assets decreased from \$1.4 billion in 2001 to \$9 million in 2002. The decrease was partially offset by the increase in depreciation expense related to additional capital expenditures in 2002.

*Impairment Charge.* We performed our annual impairment assessment on October 1, 2002 using an independent third-party appraiser. This valuation led to recognition of a \$4.6 billion impairment charge in the fourth quarter of 2002. We do not expect to incur impairment charges of comparable magnitude in the future.

*Option Compensation Expense.* Option compensation expense increased by \$10 million from \$5 million of net benefit in 2001 to \$5 million of expense in 2002. The net benefit in 2001 was primarily the result of the reversal of \$22 million of expense previously recorded in connection with approximately 7 million options for which the rights were waived by our former President and Chief Executive Officer as part of his September 2001 separation agreement. Option compensation expense was recorded in 2002 because exercise prices on certain options issued prior to our initial public offering in 1999 were less than the estimated fair values of our common stock at the time of grant. Compensation expense is being accrued over the vesting period of such options, which ends in April 2004. On January 1, 2003, we adopted SFAS No. 123 using the prospective method "Accounting for Stock-Based Compensation" as the prospective method under which we 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. For more information see "Note 4" to our consolidated financial statements contained in "Item 8. Financial Statements and Supplementary Data."

*Special Charges.* In the fourth quarter of 2002, we recorded a special charge of \$35 million, of which \$31 million is associated with our workforce reduction program. The remaining \$4 million is related to legal and other costs associated with our shareholder lawsuits and governmental investigations. Special charges of \$18 million in 2001 represent charges associated with the transition of approximately 145,000 data customers from the Excite@Home Internet service to our Charter Pipeline service, as well as employee severance costs. We expect to continue to record additional special charges in 2003 related to the reorganization of our operations and costs of litigation.

*Net Interest Expense.* Net interest expense increased by \$193 million, or 15%, from \$1.3 billion in 2001 to \$1.5 billion in 2002. The increase in net interest expense was a result of increased average debt outstanding in 2002 of \$17.8 billion compared to \$15.7 billion in 2001, partially offset by a decrease in our average borrowing rate from 8.40% in 2001 to 8.02% in 2002. The increased debt was used for capital expenditures.

*Loss on Equity Investments.* Loss on equity investments decreased by \$51 million, from \$54 million in 2001 to \$3 million in 2002. In 2002, the loss on equity investments was primarily due to losses of \$5 million on investments carried under the equity method of accounting offset by realized gains of \$2 million on marketable securities. The loss on equity investments in 2001 included a loss of \$38 million related to our investment in High Speed Access, a related party, which is described more fully in "Item 13. Certain Relationships and Related Transactions."

*Other Expense.* Other expense increased by \$52 million from \$66 million in 2001 to \$118 million in 2002. This increase is primarily due to an increase in losses on interest rate agreements which do not qualify for hedge accounting under SFAS No. 133, which increased from \$48 million in 2001 to \$101 million in 2002.

*Income Tax Benefit.* Income tax benefit of \$520 million and \$12 million were recognized for the years ended December 31, 2002 and 2001, respectively. The income tax benefits are realized through reductions in deferred tax liabilities related to our investment in Charter Communications Holding Company, as well as the change in the deferred tax liabilities of certain of our indirect corporate subsidiaries.

*Minority Interest.* Minority interest increased by \$1.7 billion, from \$1.5 billion in 2001 to \$3.2 billion in 2002. Minority interest represents the allocation of losses to the minority interest based on ownership of Charter

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Communications Holding Company and the 2% accretion of the preferred membership interests in CC VIII issued to certain former owners of the Bresnan systems acquired by CC VIII in February 2000. The increase is a result of an increase in loss before minority interest. See “Item 13. Certain Relationships and Related Transactions — Transactions Arising Out of Mr. Allen’s Investment in Charter Communications, Inc. and Its Subsidiaries — Equity Put Rights - Bresnan.”

*Cumulative Effect of Accounting Change.* Cumulative effect of accounting change in 2002 represents the impairment charge recorded as a result of adopting SFAS No. 142. Cumulative effect of accounting change in 2001 represents losses incurred upon adoption of SFAS No. 133.

*Net Loss.* Net loss increased by \$1.3 billion, from \$1.2 billion in 2001 to \$2.5 billion in 2002 as a result of the combination of factors described above, including the impact of the impairment of franchises offset somewhat by the decrease in amortization expense as a result of the adoption of SFAS No. 142.

*Preferred Stock Dividends.* On August 31, 2001, Charter Communications, Inc. issued 505,664 shares (and on February 28, 2003 issued an additional 39,595 shares) of Series A Convertible Redeemable Preferred Stock in connection with the Cable USA acquisition in August 2001, on which it pays a quarterly cumulative cash dividends at an annual rate of 5.75% on a liquidation preference of \$100 per share.

*Loss Per Common Share.* The loss per common share increased by \$4.22, from \$4.33 per common share for the year ended December 31, 2001 to \$8.55 per common share for the year ended December 31, 2002 as a result of the factors described above.

### **Year Ended December 31, 2001 Compared to Year Ended December 31, 2000**

*Revenues.* Revenues increased by \$666 million, or 21%, from \$3.1 billion in 2000 to \$3.8 billion in 2001. This increase is principally the result of increases in digital video and high-speed data customers.

Average monthly revenue per customer increased from \$42 in 2000 to \$47 in 2001. Average monthly revenue per customer represents total annual revenue, divided by twelve, divided by the average number of customer relationships.

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

	Year Ended December 31,					
	2001		2000		2001 over 2000	
	Balance	% of Revenues	Balance	% of Revenues	Change	% Change
Analog video	\$2,768	73%	\$2,503	79%	\$265	11%
Digital video	307	8%	89	3%	218	245%
High-speed data	155	4%	55	2%	100	182%
Advertising sales	197	5%	142	5%	55	39%
Other	380	10%	352	11%	28	8%
	<u>\$3,807</u>	<u>100%</u>	<u>\$3,141</u>	<u>100%</u>	<u>\$666</u>	<u>21%</u>

Analog video revenues consist primarily of revenues from basic and premium services. Analog video revenues increased by \$265 million, or 11%, from \$2.5 billion for the year ended December 31, 2000 to \$2.8 billion for the year ended December 31, 2001. Approximately \$121 million of the increase was due to the acquisition of the AT&T Broadband systems on June 30, 2001 while the majority of the remainder of the increase was due to general price increases.

Digital video revenues increased by \$218 million from \$89 million for the year ended December 31, 2000 to \$307 million for the year ended December 31, 2001. Approximately \$16 million of the increase was due to digital video customers acquired through the acquisition of the AT&T Broadband systems while the majority of the remainder of the increase was due to the addition of approximately 967,300 digital customers due to the upgrade and expansion of our systems to provide advanced services to a larger customer base.

High-speed data revenues increased \$100 million from \$55 million for the year ended December 31, 2000 to \$155 million for the year ended December 31, 2001. Approximately \$7 million of the increase was due to high-speed data customers acquired through the acquisition of the AT&T Broadband systems, while the majority of the

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remaining increase was due to the addition of approximately 378,700 additional high-speed data customer relationships.

Advertising sales revenues consist primarily of revenues from commercial advertising customers, programmers and other vendors. Advertising sales increased \$55 million, or 39%, from \$142 million in 2000 to \$197 million in 2001. The increase was primarily due to an increase of \$13 million in advertising contracts with programmers, \$11 million related to the acquisition of the AT&T Broadband systems and \$15 million related to increased advertising capacity as a result of an increased number of channels carried by our systems. For the year ended December 31, 2001 and 2000, we received \$14 million and \$0, respectively, in advertising revenue from our two largest digital set-top terminal suppliers. Revenues from advertising provided to vendors and programmers are recognized based upon the fair value of advertising.

Other revenues consist primarily of revenues from franchise fees, customer installations, equipment rental, processing fees, wire maintenance fees, home shopping, dial-up Internet service, late payment fees and other miscellaneous revenues. Other revenues increased \$28 million, or 8%, from \$352 million for the year ended December 31, 2000 to \$380 million for the year ended December 31, 2001. The increase was primarily due to an increase in franchise fees directly related to the increase in analog and digital video revenues and other miscellaneous revenues and increases as a result of the acquisition of the AT&T Broadband systems, offset by decreases in late fees charged to customers.

The increase in accounts receivable of 40% compared to the increase in revenue of 21% is primarily due to the timing of collection of receivables from programmers which are not recorded as revenue but are included as reductions of programming expense over the life of the contract, increases in the aging of customer receivables and timing of the AT&T Broadband acquisition. Programmer receivables increased \$6 million, or 7%, from \$91 million as of December 31, 2000 to \$97 million as of December 31, 2001.

*Operating Expenses.* Operating expenses increased \$295 million, or 25%, from \$1.2 billion in 2000 to \$1.5 billion in 2001. Total programming costs paid to programmers were \$951 million and \$763 million, representing 64% and 64% of total operating expenses for the years ended December 31, 2001 and 2000, respectively.

Key expense components as a percentage of revenues are as follows (dollars in millions):

	Year Ended December 31,					
	2001		2000		2001 over 2000	
	Balance	% of Revenues	Balance	% of Revenues	Change	% Change
Analog video programming	\$ 874	23%	\$ 741	24%	\$133	18%
Digital video programming	103	2%	34	1%	69	203%
High-speed data	65	2%	25	1%	40	160%
Advertising sales	64	2%	57	2%	7	12%
Service	374	10%	328	10%	46	14%
	<u>\$1,480</u>	<u>39%</u>	<u>\$1,185</u>	<u>38%</u>	<u>\$295</u>	<u>25%</u>

The increase in analog video programming costs of \$133 million, or 18%, was primarily due to price increases, particularly in sports programming, and increased number of channels carried on our systems. In addition, approximately \$37 million of the increase relates to the acquisition of the AT&T Broadband systems. The increase of \$69 million in costs to provide digital video services was primarily due to an increase in digital customers. The increase of \$40 million in direct operating costs to provide data services was primarily due to the increase in high-speed data customers.

Advertising sales expense consist of costs related to traditional advertising services. Advertising sales expenses increased \$7 million, or 12%, primarily due to increased sales commissions as a result of increases in advertising revenues. Service costs consist primarily of service personnel salaries and benefits, franchise fees, system utilities, maintenance and pole rent expense. The increase in service costs of \$46 million, or 14%, resulted primarily from our acquisition of the AT&T Broadband systems in June 2001 coupled with the addition of digital video and high-speed data customers.

*Selling, General and Administrative Expenses.* Selling, general and administrative expenses increased by \$224 million, or 37%, from \$608 million for the year ended December 31, 2000 to \$832 million for the year ended December 31, 2001. Key components of expense as a percentage of revenues are as follows (dollars in millions):

	Year Ended December 31,					
	2001		2000		2001 over 2000	
	Balance	% of Revenues	Balance	% of Revenues	Change	% Change
General and administrative	\$696	18%	\$505	16%	\$191	38%
Marketing	136	4%	103	3%	33	32%
	—	—	—	—	—	—
	\$832	22%	\$608	19%	\$224	37%

General and administrative expenses consist primarily of salaries and benefits, rent expense, billing costs, bad debt, expense and property taxes. The increase in general and administrative expenses of \$191 million, or 38%, resulted primarily from our acquisition of the AT&T Broadband systems in June 2001 coupled with increases in salaries and benefits of \$54 million and an increase in bad debt expense and collection of \$47 million. The increase in bad debt expense resulted primarily from more aggressive discounting of our analog video product during late 2000 and most of 2001 in an effort to grow our customer base and counteract price competition from satellite providers. This practice led to an increase in customers during the discounted period who subsequently cancelled their service without paying for services previously provided. We also extended the period during which we extended credit to customers, which created a larger exposure to customers whose accounts were subject to cancellation and resulting bad debt expense.

Based on the aged receivable balance at December 31, 2001, we permanently adjusted our bad debt allowance formula to reserve 100% of the receivables more than 90 days past due and reserved an additional \$6.3 million in the fourth quarter of 2001. We disconnected many of these slower or non paying customers in the first quarter of 2002, as we changed our marketing techniques and tightened our credit and disconnection policies by decreasing the amount of time that we would allow a customer to receive service while payments were past due.

Marketing costs increased \$33 million, or 32%, related to an increased level of promotions of our service offerings and the AT&T Broadband systems acquisition.

*Depreciation and Amortization.* Depreciation and amortization expense increased by \$284 million, or 12%, from \$2.4 billion in 2000 to \$2.7 billion in 2001. This increase resulted from increased capital expenditures under our rebuild and upgrade program in 2000 and 2001 and amortization of franchises in connection with acquisitions completed in 2000 and 2001.

*Option Compensation Expense.* Option compensation expense decreased by \$43 million from \$38 million of expense in 2000 to \$5 million of net benefit in 2001. The decrease: is primarily the result of the reversal of \$22 million of expense previously recorded in connection with approximately 7 million options for which the rights were waived by our former President and Chief Executive Officer as part of his September 2001 separation agreement. This was partially offset by expense recorded because exercise prices on certain options issued prior to our initial public offering in 1999 were less than the estimated fair values of our common stock at the time of grant Compensation expense is being accrued over the vesting period of such, options which ends in April 2004.

*Special Charges.* Special charges in 2001 of \$18 million represent charges associated with the transition of approximately 145,000 data customers from the Excite@Home Internet service to our Charter Pipeline service, as well as employee severance costs.

*Net Interest Expense.* Net interest expense increased by \$271 million, or 26%, from \$1.0 billion in 2000 to \$1.3 billion in 2001. The increase in interest expense was a result of increased average debt outstanding in 2001 of \$15.7 billion compared to \$12.3 billion in 2000, partially offset by a decrease in our average borrowing rate from 9.02% in 2000 to 8.40% in 2001. The increased debt was used for acquisitions and capital expenditures.

*Loss on Equity Investments.* Loss on equity investments increased by \$35 million, from \$19 million in 2000 to \$54 million in 2001. In 2001, the loss on equity investments was primarily due to losses of \$42 million on investments carried under the equity method of accounting, realized losses of \$4 million on marketable securities and other than temporary losses of \$8 million on investments carried under the cost method. These losses were primarily the result of weakening market conditions coupled with poor performance of these investments. The loss on equity investments included a loss of \$38 million related to our investment in High Speed Access, a related party, which is described below at "Item 13. Certain Relationships and Related Transactions."

*Other Expense.* Other expense increased by \$65 million from \$1 million, in 2000 to \$66 million in 2001. This



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increase resulted primarily from a loss of \$50 million on interest rate agreements as a result of SFAS No. 133.

*Income Tax Benefit.* Income tax benefit of \$12 million and \$10 million for the years ended December 31, 2001 and 2000, respectively, represents deferred income tax benefits primarily related to the change in the deferred tax assets related to our investment in Charter Communications Holding Company, LLC.

*Minority Interest.* Minority interest increased by \$182 million, or 14%, from \$1.3 billion in 2000 to \$1.5 billion in 2001. Minority interest represents the allocation of losses to the minority interest based on ownership of Charter Communications Holding Company and the 2% accretion of the preferred membership interests in CC VIII issued to certain former owners of the Bresnan systems acquired by CC VIII in February 2000. The increase is a result of an increase in loss before minority interest offset by a decrease in the minority interest percentage as a result of the issuance of Class A common stock by Charter Communications, Inc. See “Item 13. Certain Relationships and Related Transactions — Transactions Arising Out of Mr. Allen’s Investment in Charter Communications, Inc. and Its Subsidiaries — Equity Put Rights — Bresnan.”

*Net Loss.* Net loss increased by \$309 million, or 36%, from \$858 million in 2000 to \$1.2 billion in 2001 as a result of the combination of factors described above, including the acquisition of AT&T Broadband and the increase in depreciation expense as a result of our capital expenditures.

*Preferred Stock Dividends.* Charter Communications, Inc. issued 505,664 shares of Series A Convertible Redeemable Preferred Stock in connection with the Cable USA acquisition in August 2001, on which it pays a quarterly cumulative cash dividends at an annual rate of 5.75% on a liquidation preference of \$100 per share.

*Loss Per Common Share.* The loss per common share increased by \$0.53, or 14%, from \$3.80 per common share for the year ended December 31, 2000 to \$4.33 per common share for the year ended December 31, 2001 as a result of the factors described above, partially offset by an increase in weighted average shares outstanding due to the issuance of 60,247,350 shares of common stock in May 2001.

## **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 debt facilities and other financing sources, historical financing activities, cash needs, capital expenditures and outstanding debt. The first part of this section, entitled “Overview” provides an overview of these topics. The second part of this section, entitled “Historical Operating, Financing and Investing Activities” provides information regarding the cash provided from or used in our operating, financing and investing activities during the years 2000 through 2002. The third part of this section, entitled “Capital Expenditures” provides more detailed information regarding our historical capital expenditures and our planned capital expenditures going forward. The fourth part of this section, entitled “Description of Our Outstanding Debt” describes our outstanding debt in greater detail, including a summary of scheduled maturities. The fifth part of this section, entitled “Credit Facility Terms, Restrictions and Covenants”, summarizes the principal terms, covenants and restrictions governing the credit facilities of our subsidiaries. The sixth part of this section, entitled “Indenture Restrictions and Covenants” summarizes certain of the covenants and restrictions governing our outstanding notes. The last part of this section, entitled “Funding Commitment of Vulcan Inc.”, summarizes the terms of a credit commitment made by Vulcan Inc. in favor of certain of our subsidiaries. For further discussion of certain trends with respect to our liquidity and capital resources, see the section below entitled “Certain Trends and Uncertainties.”

### *Overview*

Our business requires significant cash to fund capital expenditures, debt service costs and ongoing operations. We have historically funded liquidity and capital requirements through cash flows from operations, borrowings under the credit facilities of our subsidiaries, issuances of debt securities by us and our subsidiaries and our issuances of equity securities. The mix of funding sources changes from period to period, but for the year ended December 31, 2002, approximately 70% of our funding requirements were from cash flows from operations, 16% was from borrowings under the credit facilities of our subsidiaries and 14% was from issuance of debt by our subsidiaries. We expect that our mix of sources of funds will continue to change in the future based on our overall capital needs relative to our cash flow and on the availability under the credit facilities of our subsidiaries, our access to the bond and equity markets and our ability to generate free cash flows.

We believe that as a result of our significant level of debt, current market conditions and recent downgrades to our



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debt securities, we have limited access to the debt and equity markets at this time. Accordingly, during 2003, we expect to fund our liquidity and capital requirements principally through cash on hand, cash flow from operations, and through borrowings under the credit facilities of our subsidiaries and the Vulcan Inc. commitment described below in “- Funding Commitment of Vulcan Inc.” As of December 31, 2002, we held \$321 million in cash and cash equivalents and we had total potential unused availability of \$1.4 billion under the credit facilities of our subsidiaries, although the actual availability at that time was only \$944 million because of limits imposed under covenant restrictions. However, continued access to these credit facilities is subject to our remaining in compliance with the applicable covenants of these credit facilities.

Our future cash needs will be significantly affected by our outstanding debt balances. The following table summarizes our payment obligations as of December 31, 2002 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 (1)	\$19,692	\$236	\$1,403	\$4,638	\$13,415
Capital and Operating Lease Obligations (1)	78	17	25	17	19
Programming Minimum Commitments (2)	714	173	228	34	279
Total	\$20,484	\$426	\$1,656	\$4,689	\$13,713

(1) The table presents maturities of long-term debt outstanding as of December 31, 2002. Refer to Note 10 and 24 to our consolidated financial statements contained in “Item 8. Financial Statements and Supplementary Data” for a description of our long-term debt and other long-term liabilities.

(2) We pay programming fees under multi-year contracts ranging from three to six years typically based on increasing flat fees per customer. Total programming costs paid to programmers were \$1.2 billion, \$951 million and \$763 million for the years ended December 31, 2002, 2001 and 2000, respectively. Certain of our programming contracts provide that the amount payable is the greater of the amount payable based on the per customer fees or a guaranteed minimum payment or commitment set forth in the contract. The table sets forth the aggregate guaranteed minimum commitments under our programming contracts.

As the principal amounts owing under our various debt obligations become due, sustaining our liquidity and access to capital will become more difficult over time. In the fourth quarter of 2003, CC V will be required to repay approximately \$66 million in principal amount of the CC V bonds. In 2005, \$750 million of Charter Communications Inc.’s outstanding convertible notes will mature. In subsequent years, substantial additional amounts will become due under our remaining obligations. In addition, a default under the covenants governing 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.

We expect to remain in compliance with the covenants under the credit facilities of our subsidiaries and indentures, and that our cash on hand, cash flow from operations and the amounts available under the credit facilities should be sufficient to satisfy our liquidity needs through the end of 2003. However, it is unclear whether we will have access to sufficient capital to satisfy our principal repayment obligations which are scheduled to come due in 2005 and thereafter. We do not expect that cash flows from operations will be sufficient, on their own, to permit us to satisfy these obligations. Our substantial debt levels and the depressed price of our equity securities limit our access to the debt and equity markets on reasonable terms at this time and for the foreseeable future. In addition, the maximum allowable leverage ratios under our credit facilities will decline over time and the total potential borrowing available under our subsidiaries’ current credit facilities (subject to covenant restrictions and limitations) will decrease from approximately \$9.2 billion as of the end of 2002 to \$9.0 billion, \$8.7 billion and \$7.7 billion by the end of 2003, 2004 and 2005, respectively. Although Mr. Allen and his affiliates have purchased equity from us and our subsidiaries in the past, except for the commitment of Vulcan Inc., an affiliate of Mr. Allen, described below

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under “-Funding Commitment of Vulcan Inc.”, there is no obligation for Mr. Allen or his affiliates to purchase equity from or contribute or loan funds to us or to our subsidiaries in the future.

In addition, because of our corporate structure, Charter Communications, Inc. has less access to capital than certain of its operating subsidiaries and therefore Charter Communications, Inc.’s ability to repay its senior notes is subject to additional uncertainties. Charter Communications, Inc. is a holding company and its principal assets are its interest in Charter Communications Holding Company, LLC and the mirror notes payable by Charter Communications Holding Company, LLC to Charter Communications, Inc., which have the same principal amount and terms as those of Charter Communications, Inc.’s convertible senior notes. As a result, Charter Communications, Inc.’s ability to make interest payments, and, in 2005 and 2006, to repay the outstanding principal of its convertible senior notes as they mature, is dependent on Charter Communications, Inc.’s receipt of payments on the mirror notes owing by Charter Communications Holding Company to Charter Communications, Inc., and distributions from Charter Communications Holding Company.

Charter Communications Holding Company’s ability to make any such payments or distributions is in turn dependent on its receipt of distributions from, or payments on intercompany loans owing by, its direct and indirect subsidiaries. Charter Communications Holding Company and Charter Communications, Inc. are separate legal entities from these subsidiaries and these subsidiaries are not required to make payments or distributions to Charter Communications Holding Company or Charter Communications, Inc.

The indenture governing the Charter Communications Holdings notes permits Charter Communications Holdings and its subsidiaries to make payments to the extent of its outstanding unsubordinated intercompany debt to Charter Communications Holding Company, which had an aggregate principal amount of approximately \$73 million as of December 31, 2002. That amount is only sufficient to enable Charter Communications, Inc. to make interest payments on its convertible senior notes through December, 2003, and is not sufficient to enable Charter Communications, Inc. to make interest payments beginning in April, 2004 or to repay all or any portion of its convertible senior notes at maturity.

Accordingly, Charter Communications, Inc. will not be able to make interest payments beginning in April, 2004, or principal payments at maturity in 2005 and 2006, with respect to its convertible senior notes unless it can obtain additional financing or it receives distributions or other payments from its subsidiaries. The indentures governing the Charter Communications Holdings notes permit Charter Communications Holdings to make distributions to Charter Communications Holding Company only if, at the time of distribution, Charter Communications Holdings can meet a leverage ratio of 8.75 to 1.0, there is no default under the indentures and other specified tests are met. Charter Communications Holdings did not meet that leverage ratio for the quarter ended December 31, 2002.

If, at any time, additional capital or borrowing capacity is required beyond amounts internally generated or available through existing credit facilities or in traditional debt or equity financings, we would consider:

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

Although there are no current plans to do so, we also may consider transactions to reduce our leverage including seeking to exchange currently outstanding debt for debt with a lower principal amount or, if opportunities arise, acquiring our outstanding debt in the market.

If the above strategies were not successful, ultimately, 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 all principal and interest payments to which they are contractually entitled.

As a means of enhancing our liquidity, we are currently attempting to cut costs, reduce capital expenditures and are exploring sales of assets.

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See “Cautionary Statement Regarding Forward-Looking Statements” and “-Certain Trends and Uncertainties.”

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

We held \$321 million in cash and cash equivalents as of December 31, 2002 compared to \$2 million as of December 31, 2001. The increase in cash and cash equivalents is primarily a result of our desire to increase our liquid assets.

*Operating Activities.* Net cash provided by operating activities for the years ended December 31, 2002, 2001 and 2000 was \$748 million, \$489 million and \$828 million, respectively. Operating activities provided \$259 million more cash in 2002 than in 2001 primarily due to increased revenues of \$759 million over 2001 and changes in operating assets and liabilities that provided \$56 million more cash in 2002 than in 2001 offset in part by increases in operating expenses and cash interest expense.

Operating activities provided \$339 million less cash in 2001 than in 2000 primarily due to changes in operating assets and liabilities that provided \$303 million less cash in 2001 than in 2000.

*Investing Activities.* Net cash used in investing activities for the years ended December 31, 2002, 2001 and 2000 was \$2.4 billion, \$4.8 billion and \$3.8 billion, respectively. Investing activities used \$2.4 billion less cash in 2002 than in 2001 primarily as a result of reductions in capital expenditures and acquisitions. Purchases of property, plant and equipment used \$779 million less cash in 2002 than in 2001 as a result of our efforts to reduce capital expenditures. Payments for acquisitions used \$1.6 billion less cash in 2002 than in 2001.

Investing activities used \$1.0 billion more cash in 2001 than in 2000 primarily as a result of increases in capital expenditures and acquisitions. Purchases of property, plant and equipment used \$465 million more cash in 2001 than in 2000 primarily as a result of our efforts to upgrade, rebuild and expand our cable systems. Payments for acquisitions used \$567 million more cash in 2001 than in 2000 primarily as a result of our acquisition of cable systems from AT&T Broadband in 2001.

*Financing Activities.* Net cash provided by financing activities for the years ended December 31, 2002, 2001 and 2000 was \$1.9 billion, \$4.2 billion and \$2.9 billion, respectively. Financing activities provided \$2.2 billion less cash in 2002 than in 2001. The decrease in cash provided in 2002 compared to 2001 was primarily due to a decrease in issuances of long-term debt. In addition, in 2001 we received proceeds from the issuance of Class A common stock of \$1.2 billion which did not recur in 2002.

Financing activities provided \$1.2 billion more cash in 2001 than in 2000. The increase in cash provided in 2001 compared to 2000 was primarily due to proceeds from the issuance of Class A common stock of \$1.2 billion.

### *Capital Expenditures*

We have substantial ongoing capital expenditure requirements. We made capital expenditures, excluding acquisitions of cable systems, of \$2.2 billion, \$2.9 billion and \$2.8 billion for the years ended December 31, 2002, 2001 and 2000, respectively. The majority of the capital expenditures in 2002 related to our rebuild and upgrade program and purchases of digital set-top terminals and cable modems. Upgrading our cable systems has enabled us to offer digital television, cable modem high-speed Internet access, video-on-demand, interactive services, additional channels and tiers, and expanded pay-per-view options to a larger customer base. Our capital expenditures in 2002 were funded primarily from cash flows from operations, the issuance of debt and borrowings under credit facilities.

During 2003, we expect to spend approximately \$1.0 billion to \$1.1 billion in the aggregate on capital expenditures. We expect our capital expenditures in 2003 will be lower than 2002 levels because our rebuild and upgrade plans are largely completed.

As first reported in our Form 10-Q for the third quarter of 2002, we adopted capital expenditure disclosure guidance which was recently developed by eleven publicly traded cable system operators, including Charter Communications, Inc., with the support of the National Cable & Telecommunications Association (“NCTA”). The new disclosure is intended to provide more consistency in the reporting of operating statistics in capital expenditures and customer relationships among peer companies in the cable industry. These disclosure guidelines are not required disclosure under GAAP, nor do they impact our accounting for capital expenditures under GAAP.

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The following table presents our major capital expenditures categories in accordance with NCTA disclosure guidelines for the years ended December 31, 2002 and 2001 (dollars in millions):

	For the years ended December 31,	
	2002	2001
Customer premise equipment (a)	\$ 748	\$ 926
Scalable infrastructure (b)	261	308
Line extensions (c)	101	161
Upgrade/Rebuild (d)	777	1,014
Support capital (e)	280	504
Total capital expenditures (f)	2,167	2,913

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- 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 51 and customer premise equipment (e.g., set-top terminals 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).
- f) Represents all capital purchases made in 2002 and 2001, respectively. This amount differs from that shown in our statement of cash flows by the changes in year end balances of related accounts payable.

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### Description of Our Outstanding Debt

As of December 31, 2002, our total debt was approximately \$18.7 billion, as summarized below (dollars in millions):

	December 31, 2002		Semi-Annual Interest Payment Dates	Start Date for Interest Payment on Discount Notes	Maturity Date(b)
	Face Value	Accreted Value(a)			
<b>Long-Term Debt</b>					
Charter Communications, Inc.:					
October and November 2000					
5.750% convertible senior notes due 2005(c)	\$ 750	\$ 750	4/15 & 10/15		10/15/05
May 2001					
4.750% convertible senior notes due 2006(c)	633	633	12/1 & 6/1		6/1/06
Charter Holdings:					
March 1999					
8.250% senior notes due 2007	600	599	4/1 & 10/1		4/1/07
8.625% senior notes due 2009	1,500	1,497	4/1 & 10/1		4/1/09
9.920% senior discount notes due 2011	1,475	1,307	4/1 & 10/1	10/1/04	4/1/11
January 2000					
10.000% senior notes due 2009	675	675	4/1 & 10/1		4/1/09
10.250% senior notes due 2010	325	325	1/15 & 7/15		1/15/10
11.750% senior discount notes due 2010	532	421	1/15 & 7/15	7/15/05	1/15/10
January 2001					
10.750% senior notes due 2009	900	900	4/1 & 10/1		10/1/09
11.125% senior notes due 2011	500	500	1/15 & 7/15		1/15/11
13.500% senior discount notes due 2011	675	454	1/15 & 7/15	7/15/06	1/15/11
May 2001					
9.625% senior notes due 2009	350	350	5/15 & 11/15		11/15/09
10.000% senior notes due 2011	575	575	5/15 & 11/15		5/15/11
11.750% senior discount notes due 2011	1,018	693	5/15 & 11/15	11/15/06	5/15/11
January 2002					
9.625% senior notes due 2009	350	348	5/15 & 11/15		11/15/09
10.000% senior notes due 2011	300	298	5/15 & 11/15		5/15/11
12.125% senior discount notes due 2012	450	280	1/15 & 7/15	7/15/07	4/15/12
Renaissance Media Group LLC:					
10.000% senior discount notes due 2008	114	113	4/15 & 10/15	10/15/03	4/15/08
CC V Holdings, LLC:					
11.875% senior discount notes due 2008	180	163	6/1 & 12/1	6/1/04	12/1/08(d)
Other long-term debt	1	1			
<b>Credit Facilities</b>					
Charter Operating	4,542	4,542			
CC VI Operating	926	926			
Falcon Cable	1,155	1,155			
CC VIII Operating	1,166	1,166			
	<u>\$19,692</u>	<u>\$18,671</u>			

- (a) The accreted value presented above represents the face value of the notes less the original issue discount at the time of sale plus the accretion to the balance sheet date.
- (b) In general, we have the right to redeem all of the notes set forth in this table (other than the March 1999 Charter Holdings 8.250% Senior Notes, the January 2000 Charter Holdings 10.000% Senior Notes, the January 2001 Charter Holdings 10.750% Senior Notes, the May 2001 Charter Holdings 9.625% Senior Notes, and the January 2002 Charter Holdings 9.625% Senior Notes) in whole or part at our 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. We currently have no intention of redeeming any of these notes prior to their stated maturity dates. For additional information, see Note 10 to our consolidated financial statements.
- (c) The 5.75% convertible senior notes and the 4.75% convertible senior notes are convertible at the option of the holder into shares of Class A common stock at a conversion rate of 46.3822 and 38.0952 shares, respectively, per \$1,000 principal amount of notes, which is equivalent to a price of \$21.56 and \$26.25 per share, respectively, subject to certain adjustments. Specifically, the adjustments include anti-dilutive

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provisions, which cause adjustments to occur automatically based on the occurrence of specified events to provide protection rights to holders of the notes. Additionally, the conversion ratio may be adjusted by us when deemed appropriate.

(d) A \$66 million principal payment is also due on December 1, 2003.

As of December 31, 2002 and 2001, long-term debt totaled approximately \$18.7 billion and \$16.3 billion, respectively. This debt was comprised of approximately \$7.8 billion and \$6.7 billion of debt under our subsidiaries' credit facilities, \$9.5 billion and \$8.2 billion of high yield debt and approximately \$1.4 billion and \$1.4 billion of debt related to our convertible senior notes at December 31, 2002 and 2001, respectively. As of December 31, 2002, we had unused total potential availability of \$1.4 billion under the credit facilities of our subsidiaries, although our financial covenants would have limited our availability to \$944 million at December 31, 2002. Continued access to these credit facilities is subject to our remaining in compliance with the applicable covenants of these credit facilities.

As of December 31, 2002 and 2001, the weighted average interest rate on our bank debt was approximately 5.6% and 6.0%, respectively, the weighted average interest rate on our high yield debt was approximately 10.2% and 10.1%, respectively, and the weighted average rate on the convertible debt was approximately 5.3%, resulting in a blended weighted average interest rate of 7.9% and 7.6%, respectively. Approximately 79% of our debt effectively bore fixed interest rates including the effects of our interest rate hedge agreements as of December 31, 2002 as compared to approximately 82% at December 31, 2001. The fair value of our total fixed-rate debt was \$4.4 billion and \$9.5 billion at December 31, 2002 and 2001, respectively. The fair value of variable-rate debt was \$6.4 billion and \$6.7 billion at December 31, 2002 and 2001, respectively. The fair value of fixed-rate debt and variable rate debt is based on quoted market prices.

Traditionally, we have accessed the high-yield bond market as a source of capital for our growth. Moody's Investor Services downgraded our outstanding debt in October, 2002 and again in January, 2003. Moody's also reduced its liquidity rating of Charter Communications, Inc. to its lowest level. In January, 2003, Standard & Poor's downgraded our outstanding debt. We believe that as a result of our significant level of debt, current market conditions and these downgrades, we have limited access to the debt market at this time and we expect to fund our cash needs during 2003 from cash on hand, cash from operations and borrowings under the existing credit facilities of our subsidiaries. Effective April 14, 2003, we entered into a commitment letter with Vulcan Inc., which is an affiliate of Paul Allen, pursuant to which Vulcan Inc. agreed to lend, or cause an affiliate to lend initially to Charter Communications VII, LLC an aggregate amount of up to \$300 million, which amount includes a subfacility of up to \$100 million for the issuance of letters of credit. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — Funding Commitment of Vulcan Inc." We recognize the interim nature of this facility and continue to evaluate our options and to consider steps to address our leverage. We have hired an independent consulting firm to assist us in evaluating alternatives.

As noted above, our access to capital from the credit facilities of our subsidiaries is contingent on compliance with a number of restrictive covenants, including covenants tied to our operating performance. We may not be able to comply with all of these restrictive covenants. If there is an event of default under our subsidiaries' credit facilities, such as the failure to maintain the applicable required financial ratios, we would be unable to borrow under these credit facilities, which could materially adversely impact our ability to operate our business and to make payments under our debt instruments. In addition, an event of default under certain of our debt obligations, if not waived, may result in the acceleration of those debt obligations, which could in turn result in the acceleration of other debt obligations, and could result in exercise of remedies by our creditors and could force us to seek the protection of the bankruptcy laws. See "-Credit Facility Terms, Restrictions and Covenants" below for a more detailed description of these covenant restrictions and cross-default provisions.

Our significant amount of debt and the significant interest charges incurred to service debt may adversely affect our ability to obtain financing in the future and react to changes in our business. We may need additional capital if we do not achieve our projected revenues, or if our operating expenses increase. If we are not able to obtain such capital from increases in our operating cash flow, additional borrowings or other sources, we may not be able to fund customer demand for digital video, data or telephony services, offer certain services in certain of our markets or compete effectively. Consequently, our financial condition and results of operations could suffer materially.

### *Credit Facility Terms, Restrictions and Covenants*

The following table presents information relative to borrowing and covenant compliance under our credit facilities as of December 31, 2002 (dollars in millions):

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	Charter Operating	CC VI Operating	Falcon Cable Communications	CC VIII Operating	Total
Credit facilities outstanding	\$ 4,542	\$ 926	\$ 1,155	\$ 1,166	\$ 7,789
Other debt (1)	203	25	1	6	236
Intercompany debt (2)	73	10	49	—	132
Total defined bank debt (3)	\$ 4,818	\$ 961	\$ 1,205	\$ 1,172	\$ 8,157
Adjusted EBITDA (4)	\$ 1,141	\$ 174	\$ 283	\$ 293	N/A
Bank Compliance Leverage Ratio (Total Debt/Adjusted EBITDA) (5)	4.22	5.52	4.26	4.00	N/A
Maximum Allowable Leverage Ratio (6)	4.50	6.25	5.00	5.50	N/A
Total Credit Facilities (7)	\$ 5,175	\$ 1,200	\$ 1,328	\$ 1,492	\$ 9,195
Potential Bank Availability (8)	\$ 318	\$ 127	\$ 173	\$ 326	\$ 944
Customer relationships (9)	4,023,200	586,700	1,077,300	947,500	6,634,700

- (1) Includes other permitted bank level debt, capitalized leases and letters of credit, which are classified as debt by the respective credit facility agreements for the calculation of maximum allowable leverage. For Charter Operating, this includes the Renaissance Media Group LLC senior discount notes with an accreted value of \$113 million as of December 31, 2002.
- (2) Includes permitted intercompany loans between Charter Holdings or Charter Communications Holding Company to the respective bank group entities. These amounts eliminate in consolidation.
- (3) This represents our subsidiaries' total debt as defined for purposes of the covenants in their respective credit agreements.
- (4) Adjusted EBITDA for each borrowing entity is presented as determined pursuant to the related credit facilities agreement. Adjusted EBITDA is a key financial measure by which our covenants are calculated under our debt instruments and is included herein to provide additional information with respect to our subsidiaries' ability to meet their debt service requirements, but should not be construed as an alternative to operating income or cash flows from operating activities, as determined in accordance with generally accepted accounting principles.
- (5) Bank Compliance Leverage Ratio represents total debt as of such date determined as defined in the applicable credit agreement, including intercompany debt, divided by Adjusted EBITDA, annualized.
- (6) Maximum Allowable Leverage Ratio represents the maximum bank compliance leverage ratio permitted under the respective bank agreements. This is the most restrictive of the financial covenants.
- (7) Total Credit Facilities represents the total borrowing capacity of the credit facility.
- (8) Potential Bank Availability represents the Total Credit Facilities capacity less Credit Facilities Outstanding, adjusted for any limitations due to covenant restrictions.
- (9) Represents the estimated number of customer relationships served by the entities subject to each credit agreement. See note (k) on page 13 for a definition of customer relationships.

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The maximum allowable leverage ratio declines over the term of each credit facility before becoming fixed until the credit facility matures as follows:

<b>Charter Operating:</b>	<b>CC VI Operating:</b>
4.25 through June 30, 2003	6.25 through June 30, 2003
4.00 thereafter until maturity	5.50 through June 30, 2004
	4.50 through June 30, 2005
	4.00 thereafter until maturity
<b>Falcon Cable Communications:</b>	<b>CC VIII Operating:</b>
5.00 through June 29, 2003	4.75 through September 30, 2003
4.50 through June 29, 2004	4.00 thereafter until maturity
3.50 through June 29, 2005	
3.00 thereafter until maturity	

Based upon outstanding indebtedness as of December 31, 2002, aggregate future principal payments on borrowings under our credit facilities as of December 31, 2002 are presented below (dollars in millions). While current maturities of debt in 2003 are presented in the table below, current maturities are not presented on the balance sheet as we intend to refinance the amounts due in 2003 with availability under the revolving portions of our credit facilities or with cash on hand.

	Charter Operating	CC VI Operating	Falcon Cable Communications	CC VIII Operating	Total
2003	\$ 35	\$ 49	\$ 5	\$ 80	\$ 169
2004	36	72	5	80	193
2005	249	71	35	105	460
2006	688	94	386	190	1,358
2007	942	140	724	241	2,047
Thereafter	2,592	500	—	470	3,562
	\$4,542	\$926	\$1,155	\$1,166	\$7,789

The table below presents the aggregate future principal payments on outstanding borrowings under our credit facilities, assuming that the maximum available borrowings under such facilities were outstanding as of December 31, 2002 (dollars in millions):

	Charter Operating	CC VI Operating	Falcon Cable Communications	CC VIII Operating	Total
2003	\$ 35	\$ 49	\$ 19	\$ 84	\$ 187
2004	43	106	29	85	263
2005	513	124	170	215	1,022
2006	1,050	199	386	398	2,033
2007	942	222	724	240	2,128
Thereafter	2,592	500	—	470	3,562
	\$5,175	\$1,200	\$1,328	\$1,492	\$9,195

*Charter Operating Credit Facilities.* Obligations under the Charter Operating credit facilities are guaranteed by Charter Operating's parent, Charter Holdings, and by Charter Operating's subsidiaries. The obligations under the Charter Operating credit facilities are secured by pledges of all equity interests owned by Charter Operating and its subsidiaries in other persons, and intercompany obligations owing to Charter Operating and/or its subsidiaries by their affiliates, but are not secured by the other assets of Charter Operating or its subsidiaries. The obligations under the Charter Operating credit facilities are also secured by pledges by Charter Holdings of all equity interests it holds in other persons, and intercompany obligations owing to it by its affiliates, but are not secured by the other assets of Charter Holdings.



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The Charter Operating credit facilities provide for borrowings of up to \$5.2 billion and provide for four term facilities: two Term A facilities with an aggregate principal amount of \$1.11 billion that mature in September 2007, each with different amortization schedules, one beginning in June 2002 and one beginning in September 2005; and two Term B facilities with an aggregate principal amount of \$2.73 billion, of which \$1.84 billion matures in March 2008 and \$893 million matures in September 2008. The amortization of the principal amount of the Term B term loan facilities is substantially “back-ended,” with more than 90% of the principal balance due in the year of maturity. The Charter Operating credit facilities also provide for two revolving credit facilities, in an aggregate amount of \$1.34 billion, which will reduce annually beginning in March 2004 and September 2005, with a maturity date in September 2007. Supplemental credit facilities in the amount of up to \$100 million may be available from lenders within or outside the lending group that agree to provide it. Amounts under the Charter Operating credit facilities bear interest at the base rate or the Eurodollar rate, as defined, plus a margin of up to 2.75% for Eurodollar loans (4.58% to 3.13% as of December 31, 2002) and 1.75% for base rate loans. A quarterly commitment fee of between 0.25% and 0.375% per annum is payable on the unborrowed balance of the revolving credit facilities.

As of December 31, 2002, outstanding borrowings under the Charter Operating credit facilities were approximately \$4.5 billion and the unused total potential availability was \$633 million, although our financial covenants would have limited our availability to \$318 million as of December 31, 2002. In January 2002, we repaid \$465 million under the revolving portion of the Charter Operating credit facilities with proceeds from the issuance of the January 2002 Charter Holdings notes.

*CC VI Operating Credit Facilities.* The obligations under the CC VI Operating credit facilities are guaranteed by CC VI Operating’s parent, CC VI Holdings, LLC, and by the subsidiaries of CC VI Operating. The obligations under the CC VI Operating credit facilities are secured by pledges of all equity interests owned by CC VI Operating and its subsidiaries in other persons, and by intercompany obligations owing CC VI Operating and/or its subsidiaries by their affiliates, but are not secured by other assets of CC VI Operating or its subsidiaries. The obligations under the CC VI Operating credit facilities are also secured by pledges by CC VI Holdings of all equity interests it holds in other persons, and intercompany obligations owing to it by its affiliates, but are not secured by the other assets of CC VI Holdings.

The CC VI Operating credit facilities provide for two term facilities, one with a principal amount of \$450 million that matures May 2008 (Term A), and the other with a principal amount of \$400 million that matures November 2008 (Term B). The CC VI Operating credit facilities also provide for a \$350 million reducing revolving credit facility with a maturity date in May 2008. Supplemental credit facilities in the amount of \$300 million may be available until December 31, 2004 from lenders within or outside the lending group that agree to provide it. Amounts under the CC VI Operating credit facilities bear interest at the base rate or the Eurodollar rate, as defined, plus a margin of up to 3% for Eurodollar loans (4.31% to 2.62% as of December 31, 2002) and 2.0% for base rate loans. A quarterly commitment fee of between 0.250% and 0.375% per annum is payable on the unborrowed balance of the Term A facility and the revolving facility.

As of December 31, 2002, outstanding borrowings under the CC VI Operating credit facilities were \$926 million and unused availability was \$274 million, although our financial covenants would have limited our availability to \$127 million as of December 31, 2002. We repaid \$76 million under the CC VI Operating revolving credit facilities with proceeds from the issuance of the January 2002 Charter Holdings notes.

*Falcon Facilities.* The obligations under the Falcon credit facilities are guaranteed by the direct parent of Falcon Cable Communications, Charter Communications VII, LLC, and by the subsidiaries of Falcon Cable Communications. The obligations under the Falcon credit facilities are secured by pledges of all of the equity interests of Falcon Cable Communications and its subsidiaries, and by intercompany obligations owing to Falcon Cable Communications and/or its subsidiaries by their subsidiaries, but are not secured by other assets of Falcon Cable Communications or its subsidiaries. The obligations under the Falcon credit facilities are also secured by pledges of intercompany obligations and the equity interests of Charter Communications VII in Falcon Cable Communications, but are not secured by the other assets of Charter Communications VII.

The Falcon credit facilities provide for two term facilities, one with a principal amount of \$192 million that matures June 2007 (Term B), and the other with the principal amount of \$288 million that matures December 2007 (Term C). The Falcon credit facilities also provide for a reducing revolving facility of up to approximately \$68 million (maturing in December 2006), a reducing supplemental facility of up to \$110 million (maturing in December 2007) and a second reducing revolving facility of up to \$670 million (maturing in June 2007). Supplemental credit facilities in the amount of up to \$486 million may also be available from lenders within or outside the lending group that agree to provide it. Amounts under the Falcon credit facilities bear interest at the base rate or the Eurodollar rate, as defined, plus a margin of up to 2.5% for Eurodollar loans (4.07% to 2.68% as of December 31, 2002) and up

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to 1.5% for base rate loans. A quarterly commitment fee of between 0.25% and 0.375% per annum is payable on the unborrowed balance of the revolving facilities.

As of December 31, 2002, outstanding borrowings were \$1.2 billion and unused availability was \$173 million, all of which would have been available based on our financial covenants as of December 31, 2002. We repaid \$97 million under the Falcon revolving credit facilities with proceeds from the issuance of the January 2002 Charter Holdings notes.

*CC VIII Operating Credit Facilities.* The obligations under the CC VIII Operating credit facilities are guaranteed by the parent company of CC VIII Operating, CC VIII Holdings, LLC, and by the subsidiaries of CC VIII Operating. The obligations under the CC VIII Operating credit facilities are secured by pledges of all equity interests owned by CC VIII Operating and its subsidiaries in other persons, and by intercompany obligations owing to CC VIII Operating or its subsidiaries by their affiliates, but are not secured by other assets of CC VIII Operating or its subsidiaries. The obligations under the CC VIII Operating credit facilities are also secured by pledges of equity interests owned by CC VIII Holdings in other persons, and by intercompany obligations owing to CC VIII Holdings by its affiliates, but are not secured by the other assets of CC VIII Holdings.

The CC VIII Operating credit facilities provide for borrowings of up to \$1.49 billion as of December 31, 2002. The CC VIII Operating credit facilities provide for three term facilities, two Term A facilities with a reduced current aggregate principal amount of \$450 million, that continues reducing quarterly until they reach maturity in June 2007, and a Term B facility with a principal amount of \$495 million, that continues reducing quarterly until it reaches maturity in February 2008. The amortization of the principal amount of the Term B term loan facilities is substantially “back-ended,” with more than 90% of the principal balance due in the year of maturity. The CC VIII Operating credit facilities also provide for two reducing revolving credit facilities, in the aggregate amount of \$547 million, which reduce quarterly beginning in March 2002 and September 2005, respectively, with maturity dates in June 2007. Supplemental facilities in the amount of \$300 million may be available from lenders within or outside the lending group that agree to provide it. Amounts under the CC VIII Operating credit facilities bear interest at the base rate or the Eurodollar rate, as defined, plus a margin of up to 2.75% for Eurodollar loans (4.54% to 2.89% as of December 31, 2002) and up to 1.75% for base rate loans. A quarterly commitment fee of between 0.250% and 0.375% is payable on the unborrowed balance of the revolving credit facilities.

As of December 31, 2002, outstanding borrowings were \$1.2 billion, and unused availability was \$326 million, all of which would have been available based on our financial covenants as of December 31, 2002. We repaid \$107 million under the CC VIII revolving credit facilities with proceeds from the issuance of the January 2002 Charter Holdings notes.

*Credit Facilities — Restrictive Covenants.* Each of the credit facilities of our subsidiaries contain representations and warranties, affirmative and negative covenants similar to those described below with respect to the indentures governing the public notes of our subsidiaries, information requirements, events of default and financial covenants. The financial covenants, which are generally tested on a quarterly basis, measure performance against standards set for leverage, debt service coverage, and operating cash flow coverage of cash interest expense. Additionally, the 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 the applicable time requirement. The Charter Operating credit facility also provides that in the event that any existing Charter Holdings notes or other long-term indebtedness of Charter Holdings remain outstanding on the date which is six months prior to the scheduled final maturity, the term loans under the Charter Operating credit facility will mature and the revolving credit facilities will terminate on such date. See “- Certain Trends and Uncertainties — Restrictive Covenants.”

The Charter Operating, CC VIII Operating, Falcon and CC VI Operating credit facilities generally permit our subsidiaries to make distributions to Charter Holdings to pay interest on the Charter Holdings notes and to Charter Communications, Inc. to pay interest on the convertible senior notes, in each case provided the respective borrower’s interest coverage test (as defined in the relevant credit agreement) for the most recent fiscal quarter preceding the distribution exceeds 1.75 times its cash interest expense for the same period, including the amount of such distribution. Other distributions to Charter Holdings are also permitted if the relevant borrower meets specified financial ratios. In each case, such distributions are not permitted during the existence of a default under the related credit facilities. See “- Certain Trends and Uncertainties — Restrictive Covenants.”

The events of default for these 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 or (iii) the occurrence of events that cause or permit the acceleration of other indebtedness owing by the guarantor, borrower or the borrower’s restricted subsidiaries in amounts in excess of the amounts specified below.

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Guarantor/Borrower	Principal Amount
Charter Holdings/Charter Operating	\$50 Million
CC VI Holdings/CC VI Operating	\$25 Million
Charter Communications VII/Falcon Cable Communications	\$10 Million
CC VIII Holdings, CC VIII Operating	\$25 Million

Although there are no direct cross-defaults between our subsidiaries' separate credit facilities, an event of default resulting in the acceleration of the debt under any of our subsidiaries' credit facilities would cause an event of default under the indentures governing the Charter Holdings notes, which would in turn trigger the cross-default provision of the Charter Operating credit facilities. See "— Certain Trends and Uncertainties — Acceleration of Indebtedness of Subsidiaries."

The credit facilities of our subsidiaries contain change of control provisions, making it an event of default, and permitting acceleration of the debt, in the event of certain specified changes of control, including if Mr. Allen, his estate, heirs and related entities, fails to maintain, directly or indirectly, at least 51% voting interest in the related borrower, or ceases to own of record or beneficially, directly or indirectly, at least 25% of the equity interests in the related borrower. See "— Certain Trends and Uncertainties — Long-Term Indebtedness — Change of Control Payments."

### *Indenture Restrictions and Covenants*

This section summarizes certain of the restrictions and covenants with respect to our outstanding notes.

*Convertible Senior Notes and High Yield Indebtedness — Change of Control.* In the event of a specified change of control under each of the indentures governing the public notes of our subsidiaries described above, our subsidiaries must offer to repurchase any then outstanding public notes at 101% of their principal amount or accreted value, as applicable, plus accrued and unpaid interest, if any. See "— Certain Trends and Uncertainties — Long-Term Indebtedness — Change of Control Payments."

In the event of a specified change of control event in the indentures governing the Charter Communications, Inc. convertible senior notes, Charter Communications, Inc. must offer to repurchase any then outstanding 5.75% convertible senior notes and 4.75% convertible senior notes at 100% of their principal amount plus accrued interest to the repurchase date. See "— Certain Trends and Uncertainties — Long-Term Indebtedness — Change of Control Payments."

*High Yield Restrictive Covenants; Limitation on Indebtedness.* The indentures governing the public notes of our subsidiaries contain certain covenants that restrict the ability of Charter Holdings, Charter Capital, the CC V notes issuers, Renaissance Media Group, and, as described below, their respective restricted subsidiaries to:

- incur additional debt;
- pay dividends on equity or repurchase equity;
- grant liens;
- make investments;
- sell all or substantially all of our 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 the bond issuers' debt, or issue specified equity interests; and
- engage in certain transactions with affiliates.

The particular restrictions applicable to our various high yield notes are discussed in greater detail below.

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*Summary of Restrictive Covenants under 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 except for:

- additional debt, if, after giving pro forma effect to the incurrence, Charter Holdings could meet a leverage ratio (ratio of consolidated debt to four times EBITDA from the most recent quarter) of 8.75 to 1.0, and, regardless of whether the leverage ratio could be met,
- up to \$3.5 billion of debt under credit facilities,
- up to \$75 million of debt incurred to finance the purchase of new assets,
- up to \$300 million of additional debt,
- an amount equal to 200% of proceeds of new cash equity proceeds received by Charter Holdings and its restricted subsidiaries since March 1999, the date of our 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.

The restricted subsidiaries of Charter 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 Charter Holdings indentures permit Charter Holdings and its restricted subsidiaries to incur debt under one category, and later reclassify that debt into another category. Our subsidiaries' credit agreements generally impose more restrictive limitations on incurring new debt than Charter Holdings' indentures, so our subsidiaries that are subject to credit agreements are not 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 leverage ratio test, which requires that Charter Holdings meet an 8.75 to 1.0 leverage ratio after giving pro forma effect to the transaction and that no default exists or would exist as a consequence of such incurrence. If those conditions are met, restricted payments in an aggregate amount of up to 100% of Charter Holding's consolidated EBITDA, 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 our first indenture, plus \$100 million. Charter Holdings' restricted subsidiaries include virtually all of its direct and indirect subsidiaries.
- Charter Holdings and its restricted subsidiaries may not make investments except permitted investments if there is a default under the indentures or if Charter Holdings' could incur \$1.00 of new debt under the leverage ratio test described above after giving effect to the transaction. Permitted investments include investments by Charter Holdings in restricted subsidiaries or by restricted subsidiaries in Charter Holdings, investments in productive assets (including through equity) up to \$150 million, 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 up to \$50 million.
- 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 our subsidiaries' credit facilities, liens securing the purchase price of new assets, other liens securing indebtedness up to \$50 million and specified liens incurred in the ordinary course of business.
- Charter Holdings and Charter 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 Charter

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Holdings and its subsidiaries could incur \$1.00 of new debt under the debt incurrence test described above after giving effect to the transaction.

- 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 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 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 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 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 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 notes.

*Summary of Restrictive Covenants under CC V Notes.* The limitations on incurrence of debt contained in the indenture governing the CC V notes permit the CC V issuers and their restricted subsidiaries to incur additional debt or issue shares of preferred stock, so long as we are not in default under the CC V indenture:

- if, after giving pro forma effect to the incurrence, the CC V issuers could meet a leverage ratio (ratio of consolidated debt to four times consolidated cash flow from the most recent quarter) of 6.5 to 1.0, and, regardless of whether the leverage ratio could be met,
- up to approximately \$346 million of debt under a credit facility,
- up to \$10 million of debt incurred to finance the purchase of new assets,
- up to \$15 million of additional debt, 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 indenture governing the CC V notes permits the CC V issuers to incur debt under one of the categories above, and reclassify the debt into a different category. The CC VIII credit agreement generally imposes more restrictive limitations on incurring new debt, so CC VIII Operating and its subsidiaries are not permitted to utilize the full debt incurrence capability provided by the indenture covenants provided for the CC V notes.

- Under the indenture governing the CC V notes, the CC V issuers and their restricted subsidiaries are permitted to pay dividends on equity interests, repurchase interests, make restricted investments, or make other specified restricted payments only if CC V could, after giving pro forma effect thereto, incur \$1.00 of additional debt under the leverage ratio test, which would require that the CC V issuers meet the 6.5 to 1.0 leverage ratio of the indebtedness covenant and no default would exist or result as a consequence thereof.

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If those conditions are met, the CC V issuers and their restricted subsidiaries are permitted to make restricted payments in an aggregate amount not to exceed the result of 100% of the CC V issuers' consolidated cash flow, minus 1.4 times their consolidated interest expense, plus 100% of new equity proceeds received by the CC V issuers, plus returns on certain investments, all cumulatively from January 1, 1999. The CC V issuers and their restricted subsidiaries may make permitted investments up to \$10 million and other specified permitted investments, restricted payments up to \$5 million, and other specified restricted payments without meeting the foregoing test.

- The CC V issuers and their restricted subsidiaries are not permitted to grant liens on their assets other than specified permitted liens. Permitted liens include liens securing debt permitted by the covenant limiting incurrence of debt, liens securing amounts up to the greater of \$15 million or 5% of total assets, certain existing liens and specified liens incurred in the ordinary course of business.
- The CC V issuers are generally not permitted to sell or otherwise dispose of all or substantially all of their assets or merge with or into other companies unless the CC V issuers and their subsidiaries could incur 1.00 of additional debt under the leverage ratio test described above, after giving effect to the transaction.
- The CC V issuers and their subsidiaries may generally not otherwise sell assets or, in the case of restricted subsidiaries, equity interests, unless they receive consideration at least equal to the fair market value of the assets or equity interests, with at least 75% of the consideration for such sale consisting of a controlling interest in a permitted business or assets useful in a permitted business or cash, assumption of liabilities or securities promptly converted into cash. The CC V issuers and their restricted subsidiaries are then required within 360 days after any asset sale either to commit to use the net cash proceeds over a specified threshold either to acquire assets, including controlling assets in permitted businesses, make capital expenditures or use the net cash proceeds to repay debt, or to offer to repurchase the CC V notes with any remaining proceeds.
- The CC V issuers and their restricted subsidiaries may not engage in sale and leaseback transactions unless, at the time of the transaction, the applicable CC V issuer or restricted subsidiary could have incurred indebtedness under the leverage ratio test described above in an amount equal to the present value of the net rental payments to be made under the lease, the gross proceeds of the sale are at least equal to the fair market value of the subject property, and the sale of the assets and application of proceeds is permitted by the covenant restricting asset sales.
- The CC V issuers' restricted subsidiaries may not enter into restrictions on their abilities to make dividends or distributions or transfer assets to the CC V issuers except under documents governing debt, asset sales, leases and like transactions permitted by the indenture.
- The restricted subsidiaries of the CC V issuers are generally not permitted to guarantee or pledge assets to secure debt of the CC V issuers, unless the guarantying subsidiary issues a guarantee of the CC V notes, and waives any rights of reimbursement, indemnity or subrogation arising from the guarantee transaction for at least one year.
- The CC V issuers and their 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. Restricted subsidiaries of the CC V issuers are not permitted to issue equity interests if as a result, the issuing subsidiary would no longer be a restricted subsidiary.
- The indentures also restrict the ability of the CC V issuers and their restricted subsidiaries to enter into certain transactions with affiliates involving over \$2.5 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 consideration in excess of \$10 million with affiliates without receiving an independent opinion as to the fairness of the transaction to the holders of the CC V notes.

*Summary of Restrictive Covenants under Renaissance Notes.* The limitations on incurrence of debt contained in the indenture governing the Renaissance notes permit Renaissance Media Group and its restricted subsidiaries to incur additional debt, so long as they are not in default under the indenture:

- if, after giving pro forma effect to the incurrence, Renaissance Media Group could meet a leverage ratio (ratio of consolidated debt to four times consolidated EBITDA from the most recent quarter) of 6.75 to 1.0,

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and, regardless of whether the leverage ratio could be met,

- up to the greater of \$200 million or 4.5 times Renaissance Media Group's consolidated annualized EBITDA,
- up to an amount equal to 5% of Renaissance Media Group's consolidated total assets to finance the purchase of new assets,
- up to 200% of the net cash proceeds of new equity issuances and capital contributions, and 160% of the fair market value of new assets contributed to capital or received as consideration for new equity issuances, in each case received after the issue date of the Renaissance notes and not allocated to make restricted payments, 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 indenture governing the Renaissance notes permits us to incur debt under one of the categories above, and reclassify the debt into a different category.

- Under the indenture governing the Renaissance notes, Renaissance Media Group and its restricted subsidiaries are permitted to pay dividends on equity interests, repurchase interests, make restricted investments, or make other specified restricted payments only if Renaissance Media Group could incur \$1.00 of additional debt under the debt incurrence test, which requires that Renaissance Media Group meet the 6.75 to 1.0 leverage ratio after giving effect to the transaction of the indebtedness covenant and that no default exists or would occur as a consequence thereof. If those conditions are met, Renaissance Media Group and its restricted subsidiaries are permitted to make restricted payments in an aggregate amount not to exceed the result of 100% of Renaissance Media Group's consolidated EBITDA, minus 130% of its consolidated interest expense, plus 100% of new cash equity proceeds received by Renaissance Media Group and not allocated to the indebtedness covenant, plus returns on certain investments, all cumulatively from June 1998. Renaissance Media Group and its restricted subsidiaries may make permitted investments up to \$2 million in related businesses and other specified permitted investments, restricted payments up to \$10 million, dividends up to 6% each year of the net cash proceeds of public equity offerings, and other specified restricted payments without meeting the foregoing test.
- Renaissance Media Group and its restricted subsidiaries are not permitted to grant liens on their assets other than specified permitted liens, unless corresponding liens are granted to secure the Renaissance notes. Permitted liens include liens securing debt permitted to be incurred under credit facilities, liens securing debt incurred under the incurrence of indebtedness test, in amounts up to the greater of \$200 million or 4.5 times Renaissance Media Group's consolidated EBITDA, liens as deposits for acquisitions up to 10% of the estimated purchase price, liens securing permitted financings of new assets, liens securing debt permitted to be incurred by restricted subsidiaries, and specified liens incurred in the ordinary course of business.
- Renaissance Media Group and the issuers of the Renaissance notes are generally not permitted to sell or otherwise dispose of all or substantially all of their assets or merge with or into other companies unless their consolidated net worth after any such transaction would be no greater than their consolidated net worth immediately prior to the transaction, or unless Renaissance Media Group could incur \$1.00 of additional debt under the debt incurrence test, which would require them to meet a leverage ratio of 6.75 to 1.00 after giving effect to the transaction.
- Renaissance Media Group and its subsidiaries may generally not otherwise sell assets or, in the case of subsidiaries, equity interests, unless they receive consideration at least equal to the fair market value of the assets, consisting of at least 75% cash, temporary cash investments or assumption of debt. Charter Holdings and its restricted subsidiaries are then required within 12 months after any asset sale either to commit to use the net cash proceeds over a specified threshold either to acquire assets used in their own or related businesses or use the net cash proceeds to repay debt, or to offer to repurchase the Renaissance notes with any remaining proceeds.
- Renaissance Media Group and its restricted subsidiaries may generally not engage in sale and leaseback transactions unless the lease term does not exceed three years or the proceeds are applied in accordance with the covenant limiting asset sales.



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- Renaissance Media Group's restricted subsidiaries may generally not enter into restrictions on their abilities to make dividends or distributions or transfer assets to Renaissance Media Group except those not more restrictive than is customary in comparable financings.
- The restricted subsidiaries of Renaissance Media Group are not permitted to guarantee or pledge assets to secure debt of the Renaissance Media Group or its restricted subsidiaries, unless the guarantying subsidiary issues a guarantee of the Renaissance 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.
- Renaissance Media Group and its restricted subsidiaries are generally not permitted to issue or sell equity interests in restricted subsidiaries, except sales of common stock of restricted subsidiaries so long as the proceeds of the sale are applied in accordance with the asset sale covenant, and issuances as a result of which the restricted subsidiary is no longer a restricted subsidiary and any remaining investment in that subsidiary is permitted by the covenant limiting restricted payments.
- The indentures also restrict the ability of Renaissance Media Group and its restricted subsidiaries to enter into certain transactions with affiliates involving consideration in excess of \$2 million without a determination by the disinterested members of the board of directors that the transaction is on terms no less favorable than arms-length, or transactions with affiliates involving over \$4 million with affiliates without receiving an independent opinion as to the fairness of the transaction to Renaissance Media Group.

All of these covenants are subject to additional specified exceptions. In general, the covenants of our subsidiaries' credit agreements are more restrictive than those of our indentures.

Our subsidiaries' indentures include various events of default. A failure by Charter Holdings, Charter Capital or any of their restricted subsidiaries to pay any indebtedness (other than under the Charter Holdings notes) 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 Charter Holdings indentures. Each of the indentures governing Charter Communications, Inc.'s convertible senior notes includes a substantially similar provision for Charter Communications, Inc., and its significant subsidiaries. As a result, an event of default related to the failure to make a principal payment when due or the acceleration of the indebtedness under the credit facilities of our subsidiaries or the CC V and Renaissance indentures could cause a cross-default under the Charter Holdings indentures and the indentures governing Charter Communications, Inc.'s convertible senior notes. See "— Certain Trends and Uncertainties — Acceleration of Indebtedness of Subsidiaries" and "— Certain Trends and Uncertainties — Restrictive Covenants."

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. The CC V indenture contains events of default that include a cross-default to acceleration of, or failure to make payments when due or within the applicable grace period, by CC V Holdings, CC V Holdings Finance or any restricted subsidiary, on any indebtedness of \$5 million or more. As a result, an event of default related to the failure to make a payment when due or the acceleration of the indebtedness under the CC VIII Operating credit facility could cause a cross-default under the CC V indenture. See "— Certain Trends and Uncertainties — Acceleration of Indebtedness of Subsidiaries."

The indentures governing the Charter Holdings notes will not permit Charter Holdings to make distributions to Charter Communications Holding Company or to Charter Communications, Inc. so that Charter Communications, Inc. can pay interest or principal on the convertible senior notes, unless Charter Holdings can meet a leverage ratio of 8.75 to 1.0, and there is no default under the Charter Holdings indentures. Charter Holdings did not meet that leverage ratio for the quarter ended December 31, 2002. The CC V and the Renaissance indentures also impose restrictions on the ability of CC V Holdings and Renaissance, respectively, to make distributions to Charter Holdings to make payments on the Charter Holdings notes. The indentures governing the Charter Holdings notes do permit Charter Holdings and its subsidiaries to make payments to Charter Communications Holding Company to the extent of its outstanding unsubordinated intercompany debt to Charter Communications Holding Company, which had an aggregate principal amount of approximately \$73 million as of December 31, 2002. That amount is only sufficient to enable Charter Communications, Inc. to make interest payments on its convertible senior notes through December, 2003, and is not sufficient to enable Charter Communications, Inc. to make interest payments beginning in April, 2004 or to repay all or any portion of its convertible senior notes at maturity. See "— Certain Trends and Uncertainties — Restrictive Covenants."



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### *Funding Commitment of Vulcan Inc.*

In February 2003, we received a proposal from Paul Allen, Chairman of our board of directors, offering to provide a backup credit facility of up to \$300 million to certain of our subsidiaries to provide assistance in ensuring that we had sufficient liquidity to meet certain leverage ratio covenants under existing credit facilities. Our board of directors formed a special committee to evaluate this proposal. This Special Committee retained financial and legal advisors to assist it.

On April 11, 2003, the Special Committee approved the terms of a backup facility and recommended that our board approve the transaction. On April 11, 2003, our board of directors approved the facility. The Special Committee received an opinion as to the fairness of the facility to us from a financial point of view, and we received a separate opinion as to the fairness of the transaction which was provided to the trustees on behalf of the holders of our bonds to the extent required under our bond indentures.

Effective April 14, 2003, we entered into a commitment letter with Vulcan Inc., which is an affiliate of Paul Allen, pursuant to which Vulcan Inc. or an affiliate (the "lender") would lend initially to Charter Communications VII, LLC an aggregate amount of up to \$300 million, which amount includes a subfacility of up to \$100 million for the issuance of letters of credit. The borrower would be able to draw under the facility or have letters of credit issued, in each case within five business days of the end of each quarter ending on or prior to March 31, 2004. The loans and letters of credit could only be used to repay loans, or replace letters of credit, under our operating subsidiaries' credit facilities to the extent required to comply with the leverage ratios under those credit facilities or to create cushions in excess of the minimum amount necessary to comply with such ratios. The facility would be guaranteed by us and certain of our subsidiaries and would be secured by a lien on our corporate headquarters in St. Louis and certain corporate aircraft. We would be required to use our commercially reasonable efforts to form a new interim holding company (CCH II, LLC) as a subsidiary of Charter Holdings and to cause Charter Holdings to transfer to it the equity interests in Charter Operating, CC VI Holdings, LLC, Charter Communications VII, LLC and CC V Holdings, LLC, which transfer we refer to as the equity contribution. The equity interests to be transferred in the equity contribution have been pledged as security for the loans under the Charter Operating credit facility. We would also be required to use our commercially reasonable efforts to obtain the consent of the lenders under the Charter Operating credit facility to the grant to the lender of a second priority lien on the equity interests transferred to CCH II, LLC. Upon the equity contribution, CCH II, LLC would become the borrower under the facility.

In addition to the liens on our corporate headquarters, on the corporate aircraft and on the equity interests transferred pursuant to the equity contribution, the facility would also be secured on a pari passu basis by liens or security interests granted on any assets or properties (other than assets or properties of CCH II, LLC, which shall secure the facility on a first priority basis, subject to the prior lien in favor of the lenders under Charter Operating credit facility on the equity interests transferred pursuant to the equity contribution) to secure any indebtedness of us or any of our subsidiaries (other than the operating company credit facilities and other ordinary and customary exceptions to be determined).

The interest rate on the loans would be initially 13% per annum, reducing to 12% per annum at such time as CCH II, LLC became the borrower under the facility. If the borrower were unable to receive funds from our operating subsidiaries to pay such interest the borrower would be able to pay interest by delivering additional notes to the lender in the amount of the accrued interest calculated at the rate of 15% per annum, reducing to 14% per annum for any issuance after CCH II, LLC became the borrower under the facility. Such additional notes would bear interest at the same rate as, and otherwise be on the same terms as, the notes issued to represent the original loans under the facility. Upon the occurrence of an event of default, the interest rate would be increased by 2% per annum over the interest rate otherwise applicable.

If letters of credit are issued pursuant to the facility, the borrower would pay a letter of credit fee of 8% per annum of the face amount of the letter of credit.

The borrower would pay the lender a facility fee of 1.5% of the amount of the facility, payable over three years (with 0.5% being earned upon execution of the commitment letter and 1.0% being earned upon execution of the definitive documentation). In addition to the facility fee, the borrower would pay a commitment fee on the undrawn portion of the facility in the amount of 0.5% per annum commencing upon execution of the definitive documentation.

The borrower would have the right to terminate the facility at any time that no loans or letters of credit are outstanding, although any fees earned prior to termination would remain payable. No amortization payments would be required prior to maturity. The facility would mature on November 12, 2009, provided that at such time as CCH II, LLC became the borrower under the facility the maturity date would become March 1, 2007. The loan may not be prepaid prior to March 31, 2004, but the borrower would have the right to make prepayments at any time after March 31, 2004, without the payment of any premium or penalty. The borrower would be required to offer to

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purchase outstanding notes evidencing the loans under the facility with the proceeds of certain asset sales and debt issuances.

The definitive documentation would contain customary representations, covenants, events of default and indemnification provisions, including the following:

- A restriction on indebtedness covenant that would (i) prohibit additional indebtedness of Charter Communications VII, LLC, the borrower, CC VI Holdings, LLC and CC VIII, LLC, (ii) restrict indebtedness of our subsidiaries that are subject to the credit facilities, except indebtedness under the credit facilities and other exceptions to be determined (including indebtedness permitted under the current credit facilities) and, in each case, subject to protection of the structural seniority of the facility, and (iii) require that most of our subsidiaries guarantee the facility on a senior basis.
- A restriction on the sale of assets covenant that would restrict sales of assets outside the ordinary course of business by our subsidiaries that hold the real estate and aircraft collateral securing the facility, Charter Operating, CC VI Holdings, LLC, Charter Communications VII, LLC, CC V Holdings, LLC and their respective subsidiaries, except for sales of assets by Charter Operating, CC VI Operating, Falcon and CC VIII Operating (which we refer to as the operating companies) to the extent permitted by the current operating company credit facilities and subject to compliance with the offer to purchase requirement described above, except that sales or issuances of equity interests in the operating companies or their subsidiaries to us and our subsidiaries will not be permitted except to other operating companies and their subsidiaries. The restriction on sale of assets covenant would also prohibit sales of assets by CCH II, LLC, except that cash distributions would be permitted to pay interest on certain indebtedness and management fees.
- A restriction on the creation of holding companies covenant that would protect the structural seniority of the facility as to all indebtedness of us and our subsidiaries, except for indebtedness under the operating company credit facilities, the indenture governing the CC V notes and other ordinary and customary exceptions to be determined. The covenant would prohibit the creation of new holding companies by the borrower, Charter Operating, CC V Holdings, LLC, CC VI Holdings, LLC, Charter Communications VII, LLC and their respective subsidiaries. The covenant would permit the creation of additional holding companies as direct or indirect subsidiaries of Charter Holdings so long as 100% of the equity interests in Charter Operating, CC V Holdings, LLC, CC VI Holdings, LLC and Charter Communications VII, LLC have been contributed to CCH II, LLC prior to the formation of any such holding companies. The covenant would not restrict the creation of holding companies that are our subsidiaries and parent companies of Charter Holdings (or CCH II, LLC, after the equity contribution), so long as before any equity interests are offered to any person other than a wholly-owned subsidiary of Charter Communications Holding Company, they are first offered to the lender. All new holding company subsidiaries of ours will guarantee the facility on a senior basis. No transfer by Charter Holdings of its equity interests in Charter Operating, CC V Holdings, LLC, CC VI Holdings, LLC, and Charter Communications VII, LLC will be permitted except to CCH II, LLC. After the equity contribution, Charter Operating, CC V Holdings, LLC, CC VI Holdings, LLC, and Charter Communications VII, LLC would be direct wholly-owned subsidiaries of CCH II, LLC, and CCH II, LLC would not be permitted to transfer such equity interests.
- A right of first offer on issuances of equity by us or our subsidiaries covenant that would prohibit the issuance of any equity interests of us or any of our subsidiaries to any person (other than CCH II, LLC) unless the lender is first offered the opportunity to acquire such equity interests on the same (or, in the case of issuances for other than cash, economically equivalent) terms to be provided to any other person or entity, and the lender declines to acquire such interests for 30 days after such offer is made. This will be subject to customary exceptions, including for issuance of options to employees.
- A restriction on liens covenant that would (a) require the granting of liens on the assets of CCH II, LLC and the subsidiaries holding the real estate and aircraft collateral securing the facility and would otherwise prohibit the creation of any other liens on the assets of CCH II, LLC or such subsidiaries; except that the equity interests of Charter Operating and other entities owned by CCH II, LLC may be subject to a first priority lien in favor of the lenders under the Charter Operating credit facility, (b) to the extent not prohibited by the operating company credit facilities, restrict the creation of liens by CC V Holdings, LLC, CC VI Holdings, LLC and Charter Communications VII, LLC and their respective subsidiaries, and (c)

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require that we and our subsidiaries (other than CCH II, LLC, Charter Operating, CC V Holdings, LLC, CC VI Holdings, LLC and Charter Communications VII, LLC and their respective subsidiaries) secure the facility as provided in the commitment letter and attached term sheet.

- A restriction on investments and acquisitions covenant that would restrict investments and acquisitions by CCH II, LLC, Charter Operating, CC V Holdings, LLC, CC VI Holdings, LLC and Charter Communications VII, LLC and their respective subsidiaries but would permit investments by operating companies in other operating companies and other investments, in each case, to the extent permitted by the operating company credit facilities; except that, notwithstanding the foregoing, investments in us and our subsidiaries (other than CCH II, LLC and its subsidiaries) would be prohibited except for guarantees of the facility and investments by Charter Communications VII, LLC in Charter Holdings from the proceeds of any loans to Charter Communications VII, LLC.
- A restriction on significant modifications or restructurings of existing indebtedness covenant that would permit amendments and refinancings of the operating company credit facilities and the CC V notes, so long as such amendments or modifications do not (a) modify the dividend covenants, (b) the change of control defaults or covenants in any manner that increases the threshold for control, (c) the financial covenants (subject to the right of the operating companies to modify existing financial covenant ratios or to give effect to the impact of accounting adjustments on such financial covenants), or (d) the transaction with affiliates covenants (to the extent relating to the facility, the equity contribution or the other transactions contemplated by the commitment letter and term sheet relating to the facility), in each case, (1) in a manner that is materially adverse to the lender and (2) restricts, limits or impairs (x) the ability of the operating companies to distribute funds to CCH II, LLC, CC VI Holdings, LLC, Charter Communications VII, LLC, or CC VIII, LLC, or (y) the operation or effectiveness of covenants and structural protections contained in the facility.
- A restriction on dividends and redemptions covenant that would prohibit dividends, distributions and redemptions by (a) CCH II, LLC, Charter Operating, CC V Holdings, LLC, CC VI Holdings, LLC and Charter Communications VII, LLC and their respective subsidiaries prior to the assumption of the loans by CCH II, LLC, (b) CCH II, LLC and its subsidiaries after the assumption of the loans by CCH II, LLC, if 100% of the equity interests of Charter Operating are contributed to CCH II, LLC prior to the assumption of the loans by CCH II, LLC, and (c) CCH II, LLC, Charter Operating and their respective subsidiaries after the assumption of the loans by CCH II, LLC, if 100% of the equity interests of Charter Operating are not contributed to CCH II, LLC prior to the assumption of the loans by CCH II, LLC; except that distributions to pay interest on indebtedness of us, Charter Holdings, Charter Communications Holding Company and, subject to compliance with the restrictions on the creation of holding companies covenant, new holding companies that are parents of CCH II, LLC (without duplication) and management fees will be permitted to the extent permitted under the operating company credit facilities so long as (a) no default or event of default under the facility shall have occurred and be continuing and (b) the total leverage ratio and interest coverage ratio (in each case modeled after the comparable ratios under the credit facilities, with appropriate adjustments) at the time of such distribution is less than (in the case of the total leverage ratio) or greater than (in the case of the interest coverage ratio) an amount to be determined.

The definitive documentation relating to the facility would contain a total leverage covenant and an interest coverage covenant, in each case modeled after the comparable covenants in the operating company credit facilities, with appropriate adjustments to be determined. The total leverage ratio and interest coverage ratio will be calculated for (x) Charter Communications VII, LLC, CC VI Holdings, LLC and CC V Holdings, LLC prior to the equity contribution and (y) CCH II, LLC subsequent to the equity contribution. When Charter Operating is contributed to CCH II, LLC, appropriate adjustments will be made to the total leverage ratio and interest coverage ratio.

The definitive documentation relating to the facility will contain events of default that are usual and customary for transactions of this nature or reasonably required by the lender for this transaction in particular, including, but not limited to, the following (but subject to customary exceptions, qualifications and grace periods): (i) the failure of the borrower to pay principal, interest or fees on the loans or other amounts under the facility when due; (ii) a default in (x) the payment of principal when due, (y) the payment of interest when due after giving effect to any applicable grace period or (z) a non-payment default which causes, or permits the holders of indebtedness to cause, after giving any required notice, such indebtedness to become due prior to its stated maturity, in each case, under any instrument or instruments governing indebtedness of us or any of our subsidiaries; (iii) final judgments aggregating in excess of a threshold amount to be agreed rendered against us or any of our subsidiaries; (iv) certain events of bankruptcy, insolvency or reorganization with respect to us or any of our subsidiaries; (v) misrepresentations in the definitive documentation relating to the facility; (vi) change of control (to be defined but,

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in any event, to exclude any change of control caused by lender (or any of its affiliates other than us and our subsidiaries); (vii) defaults under material agreements or material loss of licenses; or (viii) non-compliance with any covenant in the definitive documentation relating to the facility.

We would be required to pay all reasonable out-of-pocket costs of the lender associated with the facility whether or not any funds are drawn under the facility; except that expenses to be reimbursed through the date of execution of the definitive documentation shall not exceed \$1,000,000.

We and our subsidiaries would indemnify the lender and its officers, directors, employees, affiliates and agents collectively and hold them harmless from and against all reasonable costs, expenses (including reasonable fees, disbursements and other charges of counsel) and liabilities of any such indemnified person arising out of or relating to those matters set forth in the definitive documentation relating to the facility, including, without limitation, any claim or any litigation or other proceedings (regardless of whether any such indemnified person is a party thereto) that relate to the facility, the formation of CCH II, LLC or any transactions connected therewith (including, without limitation, the equity contribution), except that no indemnified person will be indemnified for such costs, expenses and liabilities (a) arising from its gross negligence or willful misconduct as determined by a court of competent jurisdiction in a final and nonappealable decision, or (b) to the extent they relate to the duties owed by an indemnified person or any of its affiliates as a director or stockholder of us including any claims that arise out of any claim that the transactions contemplated hereby involve interested director transactions.

The facility is subject to the negotiation and execution of definitive documentation by June 30, 2003. If the parties have not executed the definitive documentation by that date, the facility will terminate. Once the documentation has been executed, the borrower's ability to draw on the facility would be subject to certain conditions, such as the use of other available funds for covenant compliance purposes, evidence of compliance with financial covenants, accuracy of representations and warranties, no material adverse change having occurred, there being no default under other credit facilities and indentures, and receipt of financial statements. Although we believe that we will be able to satisfy those conditions, there can be no assurance that we will be able to do so or that if we fail to do so we will be able to negotiate waivers of such conditions.

### **Related Party Transactions**

See "Item 13. Certain Relationships and Related Transactions — Business Relationships" for information regarding related party transactions and transactions with other parties with whom we or our related parties may have a relationship that enables the parties to negotiate terms of material transactions that may not be available from other, more clearly independent parties, on an arm's length basis.

### **Certain Trends and Uncertainties**

The following discussion highlights a number of trends and uncertainties, in addition to those discussed elsewhere in this Annual Report and in other documents that we file with the SEC, that could materially impact our business, results of operations and financial condition.

*Liquidity.* Our business requires significant cash to fund capital expenditures, debt service costs and ongoing operations. Our ongoing operations will depend on our ability to generate cash and to secure financing in the future. We have historically funded liquidity and capital requirements through cash flows from operations, borrowings under the credit facilities of our subsidiaries, issuances of debt securities by us and our subsidiaries and our issuances of equity securities. We believe, however, that we have limited access to the debt or equity markets at this time in light of general economic conditions, our substantial leverage, the business condition of the cable, telecommunications and technology industry, our current credit rating and recent downgrades of our outstanding debt and liquidity ratings, and pending litigation and investigations. See "-Substantial Leverage" below.

Our ability to conduct operations is dependent on our continued access to credit pursuant to our subsidiaries' credit facilities. Our total potential borrowing availability under the current credit facilities of our subsidiaries totaled \$1.4 billion as of December 31, 2002, although the actual availability at that time was only \$944 million because of limits imposed by covenant restrictions. Our access to those funds is subject to our satisfaction of the covenants in those credit facilities and the indentures governing our and our subsidiaries' public debt. We may not be able to comply with all of the financial ratios and restrictive covenants in our subsidiaries' credit facilities. If there is an event of default under our subsidiaries' credit facilities, such as the failure to maintain the applicable required financial ratios, we would be unable to borrow under these credit facilities, which could materially adversely impact our ability to operate our business and to make payments under our debt instruments. In addition, an event of default under our credit facilities and indentures, if not waived, could result in the acceleration of those debt obligations,

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which would in turn result in the acceleration of other debt obligations, and could result in exercise of remedies by our creditors and could force us to seek the protection of the bankruptcy laws.

In addition, as the principal amounts owing under our various debt obligations become due, sustaining our liquidity and access to capital will become more difficult over time. It is unclear whether we will have access to sufficient capital to satisfy our principal repayment obligations which are scheduled to come due in 2005 and thereafter. We do not expect that cash flows from operations will be sufficient, on their own, to permit us to satisfy these obligations. In addition, because of our corporate structure, Charter Communications, Inc., a holding company, has less access to capital than certain of its operating subsidiaries and therefore Charter Communications, Inc.'s ability to repay its senior notes is subject to additional uncertainties.

If our business does not generate sufficient cash flow from operations, and sufficient future distributions are not available to us from borrowings under our credit facilities or from other sources of financing, we may not be able to repay our debt, grow our business, respond to competitive challenges, or to fund our other liquidity and capital needs. As a means of enhancing our liquidity, we are currently attempting to cut costs, reduce capital expenditures and are exploring sales of assets.

If we need to seek alternative sources of financing, there can be no assurance that we will be able to obtain the requisite financing or that such financing, if available, would not have terms that are materially disadvantageous to our existing debt and equity holders. Although Mr. Allen and his affiliates have purchased equity from us and our subsidiaries in the past, there is no obligation for Mr. Allen or his affiliates to purchase equity or, except as described above under "Funding Commitment of Vulcan Inc.," with respect to the commitment letter, contribute or lend funds to us or to our subsidiaries in the future. We recognize the interim nature of this facility and continue to evaluate our options and to consider steps to address our leverage. We have hired an independent consulting firm to assist us in evaluating alternatives.

If, at any time, additional capital or capacity is required beyond amounts internally generated or available through existing credit facilities or in traditional debt or equity financings, we would consider:

- requesting waivers or amendments with respect to our credit facilities, which might not be granted on terms favorable to us or at all;
- further reducing our expenses and capital expenditures, which would likely impair our ability to increase revenue;
- selling assets;
- issuing debt securities which may have structural or other priorities over our existing high-yield debt; or
- issuing equity securities that would be dilutive to existing shareholders.

Although there are no current plans to do so, we also may consider transactions to reduce our leverage, including seeking to exchange currently outstanding debt for debt with a lower principal amount or, if opportunities arise, acquiring our outstanding debt in the market.

If the above strategies were not successful, ultimately, 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 all principal and interest payments to which they are contractually entitled.

For more information, see the section above entitled "Liquidity and Capital Resources."

*Substantial Leverage.* We and our subsidiaries have a significant amount of debt. As of December 31, 2002, our total debt was approximately \$18.7 billion. Our long-term debt begins to mature in the fourth quarter of 2003, when approximately \$66 million of principal is due on the CC V bonds, and subsequently in October 2005 when Charter Communications, Inc.'s \$750 million of 5.75% convertible senior notes will mature. In subsequent years, substantial additional amounts will become due under our remaining obligations. If current debt levels increase, the related risks that we now face will intensify, including a potential further deterioration of our existing credit ratings. Moody's downgraded our debt once in October 2002, and again in January 2003. Standard & Poor's also downgraded our debt in January 2003. We believe that as a result of our significant levels of debt, current market conditions and recent downgrades to our debt securities, we have limited access to the debt and equity markets at this time. Our difficulty in accessing these markets will impact our ability to obtain future financing for operations, to fund our planned capital expenditures and to react to changes in our business. If our business does not generate

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sufficient cash flow from operations, and sufficient future distributions are not available to us from borrowings under our credit facilities or from other sources of financing, we may not be able to repay our debt, grow our business, respond to competitive challenges, or to fund our other liquidity and capital needs. 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 all principal and interest payments to which they are contractually entitled. For more information, see the section above entitled "Liquidity and Capital Resources."

*Restrictive Covenants.* The credit facilities of our subsidiaries and the indentures governing the publicly held notes of our subsidiaries contain a number of significant covenants that could adversely impact our business. In particular, the credit facilities and indentures of our subsidiaries restrict our subsidiaries' ability to:

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

Furthermore, in accordance with our subsidiaries' credit facilities, a number of our subsidiaries are required to maintain specified financial ratios and meet financial tests. These financial ratios decrease over time and will become more difficult to maintain during the latter half of 2003 and thereafter. The ability to comply with these provisions may be affected by events beyond our control. The breach of any of these covenants will result in a default under the applicable debt agreement or instrument and could trigger acceleration of the debt under the applicable agreement, and in certain cases under other agreements governing our long-term indebtedness. Any default under our credit facilities or indentures governing our outstanding debt might adversely affect our growth, our financial condition and our results of operations and the ability to make payments on the publicly held notes of Charter Communications, Inc. and our subsidiaries and the credit facilities of our subsidiaries. For more information, see the section above entitled "Liquidity and Capital Resources."

*Acceleration of Indebtedness of Our Subsidiaries.* In the event of a default under our subsidiaries' credit facilities or public notes, our subsidiaries' creditors could elect to declare all amounts borrowed, together with accrued and unpaid interest and other fees, to be due and payable. In such event, our subsidiaries' credit facilities and indentures will not permit our subsidiaries to distribute funds to Charter Communications Holding Company or Charter Communications, Inc. to pay interest or principal on our public notes. If the amounts outstanding under such credit facilities or public notes are accelerated, all of our subsidiaries' debt and liabilities would be payable from our subsidiaries' assets, prior to any distribution of our subsidiaries' assets to pay the interest and principal amounts on our public notes. In addition, the lenders under our credit facilities could foreclose on their collateral, which includes equity interests in our subsidiaries, and exercise other rights of secured creditors. In any such case, we might not be able to repay or make any payments on our public notes. Additionally, an acceleration or payment default under our credit facilities would cause a cross-default in the indentures governing the Charter Holdings notes and our convertible senior notes and would trigger the cross-default provision of the Charter Operating Credit Agreement. Any default under any of our subsidiaries' credit facilities or public notes might adversely affect the holders of our public notes and our growth, financial condition and results of operations and could force us to examine all options, including seeking the protection of the bankruptcy laws.

*Charter Communications, Inc.'s Public Notes are Structurally Subordinated to all Liabilities of our Subsidiaries.* The borrowers and guarantors under the Charter Operating credit facilities, the CC VI Operating credit facilities, the Falcon credit facilities and the CC VIII Operating credit facilities are our indirect subsidiaries. A number of our subsidiaries are also obligors under other debt instruments, including Charter Holdings, which is a co-issuer of senior notes and senior discount notes issued in March 1999, January 2000, January 2001, May 2001 and January 2002. As of December 31, 2002, our total debt was approximately \$18.7 billion, \$17.3 billion of which would have been structurally senior to the Charter Communications, Inc. public notes. In a liquidation, the lenders under all of our subsidiaries' credit facilities and the holders of the other debt instruments and all other creditors of our subsidiaries will have the right to be paid before us from any of our subsidiaries' assets.

If we caused a subsidiary to make a distribution to enable us to make payments in respect of our public notes, and such transfer were deemed a fraudulent transfer or an unlawful distribution, the holders of our public notes could be

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required to return the payment to (or for the benefit of) the creditors of our subsidiaries. In the event of the bankruptcy, liquidation or dissolution of a subsidiary, following payment by such subsidiary of its liabilities, such subsidiary may not have sufficient assets remaining to make any payments to us as an equity holder or otherwise and may be restricted by bankruptcy and insolvency laws from making any such payments. This adversely affects our ability to make payments to the holders of our public notes.

*Securities Litigation and Government Investigations.* As previously reported, a number of Federal Class Actions were filed against us and certain of our former and present officers and directors alleging violations of securities laws. In addition, a number of other lawsuits have been filed against us in other jurisdictions. A shareholders derivative suit was filed in the United States District Court for the Eastern District of Missouri, and several class action lawsuits were filed in Delaware state court against us and certain of our directors and officers. Finally, two derivative suits were filed in Missouri state court against us, our current directors and our former independent auditor; these actions were consolidated during the fourth quarter of 2002. The federal derivative suit, the Delaware class actions and the consolidated derivative suit each allege that the defendants breached their fiduciary duties.

In August of 2002, we became aware of a grand jury investigation being conducted by the United States Attorney's Office for the Eastern District of Missouri into certain of our accounting and reporting practices focusing on how we reported customer numbers, refunds that we sought from programmers and our reporting of amounts received from digital set-top terminal manufacturers for advertising. We have been advised by the U.S. Attorney's Office that no member of the Board of Directors, including our Chief Executive Officer, is a target of the investigation. We are fully cooperating with the investigation. In November 2002, we received an informal, non-public inquiry from the Staff of the Securities and Exchange Commission concerning our prior reporting of our customers and policies and procedures relating to our disconnection of customers. The SEC has subsequently issued a formal order of investigation dated January 23, 2003, and subsequent document subpoenas. See "Item 3. Legal Proceedings".

Due to the inherent uncertainties of litigation and investigations, we cannot predict the ultimate outcome of these proceedings. In addition, our restatement may lead to additional allegations in the pending securities class and derivative actions against us, or to additional claims being filed or to investigations being expanded or commenced. These proceedings, and our actions in response to these proceedings, could result in substantial costs, substantial potential liabilities and the diversion of management's attention, all of which could affect adversely the market price of our Class A common stock and our publicly-traded notes, as well as our ability to meet future operating and financial estimates and to execute our business and financial strategies.

*Competition.* The industry in which we operate is highly competitive. In some instances, we compete against companies with fewer regulatory burdens, easier access to financing, greater personnel resources, greater brand name recognition and long-standing 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.

In particular, we face competition within the subscription television industry, which includes providers of paid television service employing technologies other than cable, such as direct broadcast satellite, also known as DBS. Competition from DBS, including intensive marketing efforts and aggressive pricing, has had an adverse impact on our ability to retain customers. Local telephone companies and electric utilities can compete in this area, and they increasingly may do so in the future. The subscription television industry also faces competition from broadcast companies distributing television broadcast signals without assessing a subscription fee and from other communications and entertainment media, including conventional radio broadcasting services, newspapers, movie theaters, the Internet, live sports events and home video products. With respect to our Internet access services, we face competition, including intensive marketing efforts and aggressive pricing, from telephone companies and other providers of "dial-up" and digital subscriber line technology, also known as DSL. Further loss of customers to DBS or other alternative video and data services could have a material negative impact on our business.

*Variable Interest Rates.* At December 31, 2002, excluding the effects of hedging, approximately 42% of our debt bears interest at variable rates that are linked to short-term interest rates. In addition, a significant portion of our existing debt, assumed debt or debt we might arrange in the future will bear interest at variable rates. If interest rates rise, our costs relative to those obligations will also rise. As of December 31, 2002 and December 31, 2001, the weighted average rate on the bank debt was approximately 5.6% and 6.0%, respectively, the weighted average rate on the high-yield debt was approximately 10.2% and 10.1%, respectively, and the weighted average rate on the convertible debt was approximately 5.3%, resulting in a blended weighted average rate of 7.9% and 7.6%, respectively. Approximately 79% of our debt was effectively fixed including the effects of our interest rate hedge agreements as of December 31, 2002 as compared to approximately 82% at December 31, 2001.



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*Integration of Operations.* In the past, we experienced rapid growth from acquisitions of a number of smaller cable operators and the rapid rebuild and rollout of advanced services. This activity has placed and is expected to continue to place a significant strain on our management, operations and other resources. Our future success will depend in part on our ability to successfully integrate the operations acquired. The failure to implement management, operating or financial systems necessary to successfully integrate acquired operations, including headend and call center consolidation, completion of planned upgrades and standardization of operating procedures, could have a material adverse effect on our business, results of operations and financial condition. In addition, our ability to properly manage our operations will be impacted by our ability to attract, retain and incentivize experienced, qualified, professional management.

*Services.* We expect that a substantial portion of our near term growth will be achieved through revenues from high-speed data services, digital video, bundled service packages, and to a lesser extent other services that take advantage of cable's broadband capacity. The technology involved in our product and service offerings generally requires that we have permission to use intellectual property and that such property not infringe on rights claimed by others. We may not be able to offer these advanced services successfully to our customers or provide adequate customer service and these advanced services may not generate adequate revenues. Also, if the vendors we use for these services are not financially viable over time, we may experience disruption of service and incur costs to find alternative vendors. In addition, if it is determined that the product being utilized infringes on the rights of others, we may be sued or be precluded from using the technology.

*Increasing Programming Costs.* 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. This escalation may continue, and we may not be able to pass programming cost increases on to our customers. The inability to pass these programming cost increases on to our customers would have an adverse impact on our cash flow and operating margins.

*Class A Common Stock and Public Notes Price Volatility.* The market price of our Class A common stock and the publicly-traded notes issued by us and our subsidiaries has been and is likely to continue to be highly volatile. We expect that the price of our securities may fluctuate in response to various factors, including the factors described throughout this section and various other factors which may be beyond our control. These factors beyond our control could include: financial forecasts by securities analysts; new conditions or trends in the cable or telecommunications industry; general economic and market conditions and specifically, conditions related to the cable or telecommunications industry; any further downgrade of our debt ratings; announcement of the development of improved or competitive technologies; the use of new products or promotions by us or our competitors; changes in accounting rules; new regulatory legislation adopted in the United States; and any action taken or requirements imposed by Nasdaq if our Class A common stock trades below \$1.00 per share for over 30 consecutive trading days.

In addition, the securities market in general, and the Nasdaq National Market and the market for cable television securities in particular, have experienced significant price fluctuations. Volatility in the market price for companies may often be unrelated or disproportionate to the operating performance of those companies. These broad market and industry factors may seriously harm the market price of our Class A common stock and our subsidiaries' public notes, regardless of our operating performance. In the past, securities litigation has often commenced following periods of volatility in the market price of a company's securities, and recently such purported class action lawsuits were filed against us. See "Item 3. Legal Proceedings".

*Economic Slowdown; Global Conflict.* It is difficult to assess the impact that the general economic slowdown and global conflict will have on future operations. However, the economic slowdown has resulted and the slowdown and the war could continue to result in reduced spending by customers and advertisers, which could reduce our revenues and operating cash flow, and also could affect our ability to collect accounts receivable and maintain customers. In addition, any prolonged military conflict would materially and adversely affect our revenues from our systems providing services to military installations. If we experience reduced operating revenues, it could negatively affect our ability to make expected capital expenditures and could also result in our inability to meet our obligations under our financing agreements. These developments could also have a negative impact on our financing and variable interest rate agreements through disruptions in the market or negative market conditions.

*Long-Term Indebtedness — Change of Control Payments.* We may not have the ability to raise the funds necessary to fulfill our obligations under the Charter Communications, Inc. convertible senior notes or the public notes and credit facilities of our subsidiaries following a change of control. Under the indentures governing the Charter Communications, Inc. convertible senior notes, upon the occurrence of specified change of control events, including certain specified dispositions of our stock by Mr. Allen, we are required to offer to repurchase all of the outstanding



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Charter Communications, Inc. convertible senior notes. However, we may not have sufficient funds at the time of the change of control event to make the required repurchase of the Charter Communications, Inc. convertible senior notes and our subsidiaries are limited in their ability to make distributions or other payments to us to fund any required repurchase. In addition, a change of control under our subsidiaries' credit facilities and indentures governing their public notes would require the repayment of borrowings under those credit facilities and indentures. Because such credit facilities and public notes are obligations of our subsidiaries, the credit facilities and the public notes would have to be repaid by our subsidiaries before their assets could be available to us to repurchase the Charter Communications, Inc. convertible senior notes. Our failure to make or complete a change of control offer would place us in default under the Charter Communications, Inc. convertible senior notes. The failure of our subsidiaries to make a change of control offer or repay the amounts outstanding under their credit facilities would place them in default of these agreements and could result in a default under the indentures governing the Charter Communications, Inc. convertible senior notes.

*Regulation and Legislation.* Cable systems are extensively regulated at the federal, state, and local level, including rate regulation of basic service and equipment and municipal approval of franchise agreements and their terms, such as franchise requirements to upgrade cable plant and meet specified customer service standards. 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 the Federal Communications Commission were to require cable systems to carry both the analog and digital versions of local broadcast signals or multiple channels added by digital broadcasters. The Federal Communications Commission is currently conducting a proceeding in which it is considering this channel usage possibility, although it recently issued a tentative decision against such dual carriage. In addition, the carriage of new high-definition broadcast and satellite programming services over the next few years may consume significant amounts of system capacity without contributing to proportionate increases in system revenue.

There is also uncertainty whether local franchising authorities, state regulators, the Federal Communications Commission, or the U.S. Congress will impose obligations on cable operators to provide unaffiliated Internet service providers with regulated access to cable plant. If they were to do so, and the obligations were found to be lawful, it could complicate our operations in general, and our Internet operations in particular, from a technical and marketing standpoint. These access obligations could adversely impact our profitability and discourage system upgrades and the introduction of new products and services. Multiple federal courts have now struck down open-access requirements imposed by several different franchising authorities as unlawful. In March 2002, the Federal Communications Commission officially classified cable's provision of high-speed Internet service in a manner that makes open access requirements unlikely. At the same time, the Federal Communications Commission initiated a rulemaking proceeding that leaves open the possibility that the Commission may assert regulatory control in the future. As we offer other advanced services over our cable system, we are likely to face additional calls for regulation of our capacity and operation. These regulations, if adopted, could adversely affect our operations.

The Federal Communications Commission's March 2002 ruling also held that Internet access service provided by cable operators was not subject to franchise fees assessed by local franchising authorities. A number of local franchise authorities and Internet service providers have appealed this decision. The matter is scheduled to be argued in May 2003. As a result of this ruling, we have stopped collecting franchise fees for cable modem service.

### **Interest Rate Risk**

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, 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.

At December 31, 2002 and 2001, we had outstanding \$3.4 billion and \$3.3 billion and \$520 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 our exposure to credit loss. See "Item 7A. Quantitative and Qualitative Disclosures About Market Risk," for further information regarding the fair values and contract terms of our interest rate agreements.

## Recently Issued Accounting Standards

Statement of Financial Accounting Standards (SFAS) No. 143, "Accounting for Asset Retirement Obligations," addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. SFAS No. 143 is effective for fiscal years beginning after June 15, 2002. We will adopt SFAS No. 143 on January 1, 2003. We do not expect the adoption of SFAS No. 143 to have a material impact on our financial condition or results of operations.

In April 2002, the Financial Accounting Standards Board (FASB) issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." SFAS No. 145 provides for the rescission of several previously issued accounting standards, new accounting guidance for the accounting for certain lease modifications and various technical corrections that are not substantive in nature to existing pronouncements. We will adopt SFAS No. 145 beginning January 1, 2003, except for the provisions relating to the amendment of SFAS No. 13, which will be adopted for transactions occurring subsequent to May 15, 2002. We do not expect the adoption of SFAS No. 145 to have a material impact on our consolidated financial statements.

In June 2002, the Financial Accounting Standards Board issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." SFAS 146 requires that a liability for costs associated with an exit or disposal activity be recognized when the liability is incurred rather than when a company commits to such an activity and also establishes fair value as the objective for initial measurement of the liability. SFAS No. 146 will be adopted by us for exit or disposal activities that are initiated after December 31, 2002. Adoption of SFAS No. 146 will not have a material impact on our consolidated financial statements.

In December 2002, the Financial Accounting Standards Board (FASB) issued SFAS No. 148, "Accounting for Stock-Based Compensation — Transition and Disclosure." SFAS No. 148 amends SFAS No. 123 to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, it amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based compensation and the effect of the method used on reported results. SFAS No. 148 was adopted by us beginning January 1, 2003. On January 1, 2003, we also adopted SFAS 123, "Accounting for Stock-Based Compensation" on the prospective method under which we 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.

### **Item 7A. Quantitative and Qualitative Disclosures about Market Risk.**

#### **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, 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.

As of December 31, 2002 and 2001, long-term debt totaled approximately \$18.7 billion and \$16.3 billion, respectively. This debt was comprised of approximately \$7.8 billion and \$6.7 billion of debt under our subsidiaries' credit facilities, \$9.5 billion and \$8.2 billion of high-yield debt and approximately \$1.4 billion and \$1.4 billion of debt related to our convertible senior notes at December 31, 2002 and 2001, respectively. As of December 31, 2002 and 2001, the weighted average rate on the bank debt was approximately 5.6% and 6.0%, respectively, the weighted average rate on the high-yield was approximately 10.2% and 10.1%, respectively, while the weighted average rate on the convertible debt was approximately 5.3%, resulting in a blended weighted average rate of 7.9% and 7.6%, respectively. Approximately 79% of our debt was effectively fixed including the effects of our interest rate hedge agreements as of December 31, 2002 as compared to approximately 82% at December 31, 2001. The fair value of our total fixed-rate debt was \$4.4 billion and \$9.5 billion at December 31, 2002 and 2001, respectively. The fair

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value of variable-rate debt approximated the carrying value of \$6.4 billion and \$6.7 billion at December 31, 2002 and 2001, respectively. The fair value of fixed-rate debt and variable rate debt is based on quoted market prices.

We have certain interest rate derivative instruments that have been designated as cash flow hedging instruments. Such instruments are those which effectively convert variable interest payments on 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. We have formally documented, designated and assessed the effectiveness of transactions that receive hedge accounting. For the year ended December 31, 2002, other expense includes \$14 million of losses, 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 are reported in accumulated other comprehensive loss. For the years ended December 31, 2002 and 2001, a loss of \$65 million and \$39 million, respectively, related to derivative instruments designated as cash flow hedges was recorded in accumulated other comprehensive loss and minority interest. 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, we believe 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 or expense. For the years ended December 31, 2002 and 2001, we recorded other expense of \$101 million and \$48 million 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 December 31, 2002 (dollars in millions):

	2003	2004	2005	2006	2007	Thereafter	Total	Fair Value at
<b>Debt</b>								
Fixed Rate	\$ 67	\$ 1	\$ 750	\$ 632	\$ 600	\$9,853	\$11,903	\$4,374
Average Interest Rate	11.84%	7.50%	5.75%	4.75%	8.25%	10.51%	9.80%	
Variable Rate	\$ 169	\$ 192	\$ 460	\$1,358	\$2,048	\$3,562	\$ 7,789	\$6,367
Average Interest Rate	3.55%	4.46%	5.60%	6.22%	6.75%	7.75%	6.92%	
<b>Interest Rate Instruments</b>								
Variable to Fixed Swaps	\$ 435	\$ 715	\$ 990	\$ 873	\$ 400	\$ —	\$ 3,413	\$ (258)
Average Pay Rate	8.12%	7.45%	7.15%	7.33%	7.33%	—	7.40%	
Average Receive Rate	4.12%	4.70%	5.87%	6.53%	6.86%	—	5.69%	

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 December 31, 2002.

At December 31, 2002 and 2001, we had outstanding \$3.4 billion and \$3.3 billion and \$520 million and \$520 million, respectively, in notional amounts of interest rate swaps and collars, respectively. The collar agreements are structured so that if LIBOR falls below 5.3%, we pay 6.7%. If the LIBOR rate is between 5.3% and 8.0%, we pay LIBOR. If LIBOR falls between 8.0% and 9.9%, the LIBOR rate is capped at 8.0%. If rates go above 9.9%, the cap is removed. The fair value of the collar agreements is a liability of \$34 million at December 31, 2002.

We do not hold collateral for these instruments and are therefore subject to credit loss in the event of nonperformance by the counter party to the interest rate exchange agreement. However the counterparties are banks and we do not anticipate nonperformance by any of them on the interest rate exchange agreement.

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**Item 8. *Financial Statements and Supplementary Data.***

Our consolidated financial statements, the related notes thereto, and the reports of independent auditors are included in this Annual Report beginning on page F-1.

**Item 9. *Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.***

Previously reported in our Current Report on Form 8-K, dated April 26, 2002.

**PART III****Item 10. Directors and Executive Officers of the Registrant.****Directors**

The persons listed below are directors of Charter Communications, Inc. All of our directors are elected annually.

<u>Directors</u>	<u>Position(s)</u>
Paul G. Allen	Chairman of the Board of Directors
Marc B. Nathanson	Director
Ronald L. Nelson	Director
Nancy B. Peretsman	Director
John H. Tory	Director
William D. Savoy	Director
Carl E. Vogel	Director, President and Chief Executive Officer
Larry W. Wangberg	Director

The following sets forth certain biographical information as of February 28, 2003 with respect to the directors listed above.

**Paul G. Allen**, 50, has been Chairman of the Board of Directors of Charter Communications, Inc. since July 1999, and Chairman of the Board of Directors of Charter Investment (a predecessor to, and currently an affiliate of, Charter Communications, Inc.) since December 1998. Mr. Allen, co-founder of Microsoft Corporation, has been a private investor for more than 15 years, with interests in over 50 technology, telecommunications, content and biotech companies. Mr. Allen's investments include Vulcan Inc., Vulcan Productions, Inc., the Portland Trail Blazers NBA and Seattle Seahawks NFL franchises, and investments in TechTV Inc., DreamWorks LLC, and Oxygen Media. In addition, he is a director of TechTV Inc., Vulcan Programming Inc., Vulcan Ventures, Vulcan Inc. (f/k/a Vulcan Northwest), Vulcan Cable III and numerous privately held companies.

**Marc B. Nathanson**, 57, has been a director of Charter Communications, Inc. since January 2000. 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 served as Vice-Chairman and as a director of Charter Communications, Inc. pursuant to a letter agreement that expired in November 2002. See "Item 11. Executive Compensation - - Employment and Consulting Arrangements."

**Ronald L. Nelson**, 50, has been a director of Charter Communications, Inc. since November 1999. Mr. Nelson is a founding member of DreamWorks LLC, an entertainment production company, where he has served in executive management from 1994 through January 1, 2003, and currently is engaged as a non-exclusive consultant. Prior to that time, during his 15 years at Paramount Communications Inc., he served in a variety of operating and executive positions. He currently serves as a member of the board of directors of Advanced Tissue Sciences, Inc. and Centre Pacific, L.L.C., a registered investment advisor. Mr. Nelson has a B.S. degree from the University of California at Berkeley and an M.B.A. degree from the University of California at Los Angeles.

**Nancy B. Peretsman**, 48, has been a director of Charter Communications, Inc. since November 1999. Ms. Peretsman has been a managing director and executive vice president of Allen & Company, LLC (formerly known as Allen & Company Incorporated), an investment bank unrelated to Paul G. Allen, since 1995. From 1983 to 1995, she was an investment banker at Salomon Brothers Inc., where she was a managing director since 1990. She is a director of Priceline.com Incorporated and several privately held companies. She has a B.A. degree from Princeton University and an M.B.A. degree from Yale University.

**William D. Savoy**, 38, has been a director of Charter Communications, Inc. since July 1999 and a director of Charter Investment since December 1998. Since 1990, Mr. Savoy has been an officer and a director of many affiliates of Mr. Allen, including president and a director of Vulcan Ventures Incorporated, and president of Vulcan Inc., Vulcan

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Programming Inc. and Vulcan Cable III Inc. Mr. Savoy also serves on the advisory board of DreamWorks LLC and as a director of drugstore.com, RCN Corporation, TechTV Inc., Digeo, Inc. and Oxygen Media LLC. Mr. Savoy holds a B.S. degree in computer science, accounting and finance from Atlantic Union College.

**John H. Tory**, 47, has been a director of Charter Communications, Inc. since December 2001. Mr. Tory is the Chairman and Co-Chief Executive Officer of Rogers Cable Inc., Canada's largest broadband cable operator, and has been the Chief Executive Officer of Rogers Cable since April 1999. 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 a number of Canadian companies, including Rogers Cable Inc., Rogers Media Inc., Cara Operations Limited and the Toronto Blue Jays Baseball Club. Mr. Tory was educated at University of Toronto Schools, Trinity College (University of Toronto) and Osgoode Hall Law School.

**Carl E. Vogel**, 45, has been a director, President and Chief Executive Officer of Charter Communications, Inc. since October 2001. Mr. Vogel has more than 20 years experience in telecommunications and the subscription television business. Prior to joining Charter, he was a senior vice president of Liberty Media Corp. from November 1999 until October 2001, and chief executive officer of Liberty Satellite and Technology, a distributor of Internet data and other content via satellite, from April 2000 until October 2001. Prior to joining Liberty, Mr. Vogel was an executive vice president and chief operating officer of field operations for AT&T Broadband and Internet Services with responsibility for managing operations of all of AT&T's cable broadband properties from June 1999 until November 1999. From June 1998 to June 1999, when the business of Primestar Inc. was sold, Mr. Vogel served as chief executive officer of Primestar Inc., a national provider of subscription television services, and from 1997 to 1998, he served as chief executive officer of Star Choice Communications. From 1994 through 1997, Mr. Vogel served as the President and Chief Operating Officer of EchoStar Communications. He began his career at Jones Intercable in 1983. Mr. Vogel serves as a director and member of the Executive Committee of the National Cable Television Association, CableLabs and Digeo, Inc. and serves as a director of Women in Cable and Telecommunications. Mr. Vogel holds a B.S. degree in finance and accounting from St. Norbert College. His employment agreement provides that he will serve on the Board of Directors of Charter Communications, Inc. See "Item 11. Executive Compensation — Employment and Consulting Arrangements."

**Larry W. Wangberg**, 60, has been a director of Charter Communications, Inc. since January 2002. Mr. Wangberg has been a director of TechTV Inc., a cable television network, since 1997, and also served as Chairman and Chief Executive Officer through July 2002. Prior to joining TechTV Inc., 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 TechTV Inc., Autodesk Inc., and ADC Telecommunications. Mr. Wangberg holds a bachelor's degree in mechanical engineering and a master's degree in industrial engineering, both from the University of Minnesota.

### **Executive Officers**

The following persons are executive officers of Charter Communications, Inc.:

<u>Executive Officers</u>	<u>Position</u>
Paul G. Allen	Chairman of the Board of Directors
Carl E. Vogel	President and Chief Executive Officer
Margaret A. Bellville	Executive Vice President – Chief Operating Officer
Paul E. Martin	Senior Vice President and Principal Accounting Officer
Steven A. Schumm	Executive Vice President – Chief Administrative Officer and Interim Chief Financial Officer
Curtis S. Shaw	Senior Vice President, General Counsel and Secretary
Stephen E. Silva	Executive Vice President – Corporate Development and Chief Technology Officer

Information regarding our executive officers who do not also act as directors as of March 1, 2003 is set forth below.

**Margaret A. Bellville**, 49, Executive Vice President and Chief Operating Officer. Before joining Charter in December, 2002, Ms. Bellville was President and Chief Executive Officer of Incanta Inc., a technology-based streaming content company from 2001 to 2002. Incanta Inc. filed for bankruptcy in April 2002. Prior to that, she worked for six years at Cox Communications, beginning in 1995 as Vice President of Operations, she advanced to

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Executive Vice President of Operations. Ms. Bellville joined Cox from Century Communications, where she served as Senior Vice President. Before that, Ms. Bellville served seven years with GTE Wireless in a variety of management and executive-level roles. A graduate of the State University of New York in Binghamton, Ms. Bellville is also a graduate of Harvard Business School's Advanced Management Program. She currently serves on the Cable and Television Association for Marketing Education Foundation.

**Paul E. Martin**, 42, Senior Vice President — Principal Accounting Officer. Prior to his promotion to his current position on April 22, 2002, Mr. Martin was Vice President and Corporate Controller of Charter from March 2000. Prior to joining Charter in March 2000, Mr. Martin was Vice President and Controller for Operations and Logistics for Fort James Corporation, a manufacturer of paper products. From 1995 to February 1999, Mr. Martin was Chief Financial Officer of Rawlings Sporting Goods Company, Inc. Mr. Martin received a B.S. degree in accounting from the University of Missouri — St. Louis.

**Steven A. Schumm**, 50, Executive Vice President, Chief Administrative Officer and Interim Chief Financial Officer. Prior to joining Charter Investment, Inc. (a predecessor of, and currently an affiliate of, Charter Communications, Inc.) in 1998, Mr. Schumm was a partner of Ernst & Young LLP for 14 years. Mr. Schumm joined Ernst & Young in 1974 and served in a variety of capacities during his years with the firm. At the time he left to join Charter Investment, Inc. he was managing partner of Ernst & Young's St. Louis office and a member of the Ernst & Young National Tax Committee. Mr. Schumm earned a B.S. degree from Saint Louis University.

**Curtis S. Shaw**, 54, Senior Vice President, General Counsel and Secretary. Prior to joining Charter Investment in 1997, Mr. Shaw served as corporate counsel to NYNEX from 1988 through 1996. Since 1973, Mr. Shaw has practiced as a corporate lawyer, specializing in mergers and acquisitions, joint ventures, public offerings, financings, and federal securities and antitrust law. Mr. Shaw received a B.A. degree from Trinity College and a J.D. degree from Columbia University School of Law.

**Stephen E. Silva**, 43, Executive Vice President — Chief Technology Officer. Mr. Silva joined Charter Investment in 1995, as director, billing services. Prior to his promotion to Executive Vice President and Chief Technology Officer in October 2001, he was Senior Vice President — Corporate Development and Technology since September 1999. Mr. Silva previously served in various management positions at U.S. Computer Services, Inc., a billing service provider specializing in the cable industry. He is a member of the board of directors of TV Gateway, LLC.

### **Section 16(a) Beneficial Ownership Reporting Compliance**

Section 16 of the Exchange Act requires our directors and certain of our officers, and persons who own more than 10% of our common stock, to file initial reports of ownership and reports of changes in ownership with the Securities and Exchange Commission. Such persons are required by Securities and Exchange Commission regulation to furnish us with copies of all Section 16(a) forms they file. Based solely on our review of the copies of such forms furnished to us and written representations from these officers and directors, we believe that all Section 16(a) filing requirements were met during the year ended December 31, 2002, with the exception of a Form 4 due July 11, 2002, filed on behalf of our director, Ronald Nelson, that was filed late in connection with a single transaction.

### **Code of Conduct**

In January, 2003, we adopted a Code of Conduct for our employees, including all executive officers, and established a hotline and website for reporting alleged violations of the code of conduct, established procedures for processing complaints and implemented educational programs to inform our employees regarding the Code of Conduct. A copy of our Code of Conduct is attached as Exhibit 14.1 to this Annual Report.

### **Item 11. Executive Compensation.**

#### **Summary Compensation Table**

The following table sets forth information regarding the compensation paid for services rendered to executive officers of Charter Communications, Inc. for the fiscal years ended December 31, 2000, 2001 and 2002, including the Chief Executive Officer during 2002, each of the other four most highly compensated executive officers as of December 31, 2002, and two other highly compensated executive officers who served during 2002 but were not executive officers on December 31, 2002.

Name and Principal Position	Year Ended Dec. 31	Annual Compensation			Compensation Award		
		Salary (\$)	Bonus\$(1)	Other Annual Compensation \$(2)	Restricted Stock Awards\$(3)	Securities Underlying Options (#)	All Other Compensation \$(4)
Carl E. Vogel (5)	2002	980,769	330,000(7)	214,961(13)	—	1,000,000	10,255(16)
President and Chief Executive Officer	2001	207,692	546,000(7)	—	513,000	3,400,000	8,996(16)
Steven A. Schumm	2002	436,058	588,000(8)	—	—	300,000	5,255
Executive Vice President, Chief Administrative Officer and Interim Chief Financial Officer	2001	435,000	402,000(8)	—	—	165,000	5,250
	2000	410,000	444,000(8)	—	—	—	2,040
David L. McCall (6)	2002	314,423	181,500(9)	—	—	300,000	4,255
Senior Vice President of Operations – Eastern Division	2001	300,000	413,150(9)	—	366,450	300,000	5,250
	2000	225,000	283,625(9)	—	—	25,000	4,237
Curtis S. Shaw	2002	249,711	281,500(10)	—	—	100,000	3,096
Senior Vice President, General Counsel and Secretary	2001	245,000	236,000(10)	—	—	149,000	5,250
	2000	225,000	240,500(10)	—	—	25,000	5,250
Stephen E. Silva	2002	294,231	196,000(11)	—	—	150,000	5,255
Executive Vice President Corporate Development and Chief Technology Officer	2001	235,385	381,000(11)	—	347,760	290,000	5,250
	2000	185,000	177,000(11)	—	—	40,000	4,249
David G. Barford (6)	2002	343,269	181,500(12)	—	—	200,000	5,255
Executive Vice President and Chief Operating Officer	2001	330,769	495,875(12)	91,739(14)	449,625	1,135,000	5,250
	2000	255,000	250,500(12)	—	—	40,000	4,249
Kent D. Kalkwarf (6)	2002	350,000	181,500(12)	86,233(15)	—	300,000	3,063
Executive Vice President and Chief Financial Officer	2001	330,769	495,875(12)	—	449,625	1,160,000	5,250
	2000	225,000	250,500(12)	—	—	40,000	5,250

- (1) For the officers specified in footnote 3 below, the bonus amount for 2001 includes the value of the vested portion of grants of restricted stock during 2001 under the Charter Communications 2001 Stock Incentive Plan, calculated based on the fair market values of the vested shares on the grant date, which pursuant to the terms of the plan is the average of the high and low price. These restricted stock grants made in 2001 were immediately vested as to twenty-five percent (25%) of the shares, with the remaining shares vesting in 36 equal monthly installments commencing approximately 15 months from the grant date. Also, where indicated, includes “stay” bonus in form of principal and interest forgiven under employee’s promissory note, as more fully described in “- Employment and Consulting Arrangements.” Unless otherwise indicated, includes only bonus for services rendered in the applicable fiscal year. For 2002, the bonus amount shown includes a “stay” bonus representing the principal and interest forgiven under employee’s promissory note.
- (2) Includes other non-cash compensation, unless the aggregate amount does not exceed the lesser of \$50,000 or 10% of such officer’s total annual salary and bonus shown in the table.
- (3) Includes the unvested portion of grants of restricted stock during 2001 under the Charter Communications 2001 Stock Incentive Plan, calculated based on the closing market price of the vested shares on the grant date. The total grant amounts, including both vested and unvested portions, were as follows: (i) Carl E. Vogel, 50,000 shares as of October 8, 2001, (ii) David C. McCall, 35,000 shares as of September 28, 2001, (iii) Stephen E. Silva, 36,000 shares as of October 18, 2001, (iv) David G. Barford, 50,000 shares as of September 28, 2001, (v) Kent D. Kalkwarf, 50,000 shares as of September 28, 2001. The restricted shares were immediately vested as to twenty-five percent (25%) of the shares, with the remaining shares vesting in 36 equal monthly installments commencing approximately 15 months from the grant date. Pursuant to the terms of these employees’ restricted stock agreement, each is entitled to any cash and/or stock dividends on the unvested restricted shares. The value as of the date of grant based on the closing market price of those shares that were vested immediately is disclosed in the “Bonus” column of the table. At December 31, 2002 based on a per share closing market price of \$1.18 for Charter Communications, Inc. Class A



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common stock, the aggregate number (and value) for each of the officers holding outstanding unvested restricted stock was: Mr. Vogel: 36,459 shares (\$43,022); Mr. McCall: 25,521 shares (\$30,115); Mr. Silva: 26,250 shares (\$30,975); Mr. Barford: 35,417 shares (\$41,792); and Mr. Kalkwarf: 35,417 shares (\$41,792).

- (4) Except as noted for Mr. Vogel below, in note 15, these amounts consist solely of matching contributions under Charter Communications, Inc.'s 401(k) plan, except the 2002 amounts also includes \$255 for each person paid as premiums for supplemental life insurance available to executives.
- (5) Mr. Vogel became the Chief Executive Officer of Charter Communications, Inc. in October 2001.
- (6) Mr. McCall terminated his employment, January 31, 2003. As of December 31, 2002, neither Mr. Barford nor Mr. Kalkwarf served as an executive officer, and in January 2003, their employment was terminated. See "- Employment and Consulting Arrangements" for additional information.
- (7) Includes: (i) \$171,000, representing the value based on the fair market value on October 8, 2001, the original grant date, of 12,500 shares of Class A common stock, the vested portion of Mr. Vogel's restricted stock grant; (ii) a one-time signing bonus of \$250,000; and (iii) \$330,000 and \$125,000 awarded as a bonus for services performed in 2002 and 2001, respectively.
- (8) Includes a "stay" bonus representing the principal and interest forgiven under employee's promissory note, amounting to \$363,000, \$342,000 and \$321,000, respectively for 2002, 2001 and 2000; and \$225,000, \$60,000 and \$123,000 awarded as a bonus for services performed in 2002, 2001 and 2000, respectively.
- (9) Includes: (i) \$122,150 for 2001, representing the value based on the fair market value on October 30, 2001, the original grant date, of 8,750 shares of Class A common stock, the vested portion of Mr. McCall's restricted stock grant; (ii) a "stay" bonus representing the principal and interest forgiven under employee's promissory note, amounting to \$181,500, \$171,000 and \$160,500, respectively for 2002, 2001 and 2000; and (iii) \$120,000 and \$123,125 awarded as a bonus for services performed in 2001 and 2000, respectively.
- (10) Includes a "stay" bonus representing the principal and interest forgiven under employee's promissory note, amounting to \$181,500, \$171,000 and \$160,500 for 2002, 2001 and 2000, respectively; and \$100,000, \$65,000 and \$80,000 awarded as a bonus for services performed in 2002, 2001 and 2000, respectively.
- (11) Includes: (i) \$116,000 for 2001, representing the value based on the fair market value on October 18, 2001, the original grant date, of 9,000 shares of Class A common stock, the vested portion of Mr. Silva's restricted stock grant; (ii) a "stay" bonus representing the principal and interest forgiven under employee's promissory note, amounting to \$121,000, \$114,000 and \$107,000, respectively for 2002, 2001 and 2000; and (iii) \$75,000, \$150,000 and \$70,000 awarded as a bonus for services performed in 2002, 2001 and 2000, respectively.
- (12) Includes: (i) \$149,875 for 2001, representing the value based on the fair market value on September 28, 2001, the original grant date, of 12,500 shares of Class A common stock, the vested portion of the employee's restricted stock grant; (ii) a "stay" bonus representing the principal and interest forgiven under employee's promissory note, amounting to \$181,500, \$171,000 and \$160,500, respectively for 2002, 2001 and 2000; and (iii) \$175,000 and \$90,000 awarded as a bonus for services performed in 2001 and 2000, respectively.
- (13) Includes \$100,000 attributed to personal use and commuting in the corporate airplane and \$114,961 for purchase of a car.
- (14) Includes \$12,000 attributed to personal use of corporate airplane and \$79,739 for purchase of a car.
- (15) Includes \$3,000 attributed to personal use of corporate airplane and \$83,233 for purchase of a car.
- (16) Includes (i) for 2002, \$255 paid as premiums for supplemental life insurance available for executives and \$10,000 as reimbursement for tax advisory services; and (ii) for 2001, \$7,500 as reimbursement for legal expenses and \$1,486 paid by us for COBRA expenses.

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**2002 Option Grants**

The following table shows individual grants of options made to individuals named in the Summary Compensation Table during 2002. All such grants were made under the 2001 Stock Incentive Plan and the exercise price was based upon the fair market value of the Class A common stock.

Name	Number of Securities Underlying Options Granted (#)(1)	% of Total Options Granted to Employees In 2002	Exercise Price (\$/Sh)	Expiration Date	Potential Realizable Value at Assumed Annual Rate of Stock Price Appreciation For Option Term (2)	
					5% (\$)	10% (\$)
Carl E. Vogel	1,000,000	7.62%	2.85	07/23/12	1,792,350	4,542,166
Steven A. Schumm	300,000	2.29%	2.85	07/23/12	537,705	1,362,650
David L. McCall	300,000(3)	2.29%	2.85	07/23/12	537,705	1,362,650
Curtis S. Shaw	100,000	0.76%	2.85	07/23/12	179,235	454,217
Stephen E. Silva	150,000	1.14%	2.85	07/23/12	268,852	681,325
David G. Barford	200,000(3)	1.52%	2.85	07/23/12	288,835	797,551
Kent D. Kalkwarf	300,000(3)	2.29%	2.85	07/23/12	537,705	1,362,650

- (1) Options are transferable under limited conditions, primarily to accommodate estate planning purposes. These options vest annually in five equal installments commencing on the first anniversary following the grant date of July 23, 2002.
- (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.
- (3) These employees have terminated employment, and as a result we believe that their options have expired and these options have no potential realizable value to these individuals. Mr. Barford and Mr. Kalkwarf have disputed that their options have expired.

**2002 Aggregated Option Exercises and Option Value Table**

The following table sets forth, for the individuals named in the Summary Compensation Table, information concerning options, including the number of securities for which options were exercised during 2002 and for which options were held at December 31, 2002, 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 Charter Communications, Inc. Class A common stock on December 31, 2002) and the value of unexercised options as of December 31, 2002:

Name	Shares Acquired on Exercise (#)	Value Realized (\$)	Number of Securities Underlying Unexercised Options at December 31, 2002 (#)(1)		Value of Unexercised In-the-Money Options at December 31, 2002 (\$)(2)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Carl E. Vogel	—	—	920,833	3,479,167	—	—
Steven A. Schumm	—	—	654,350	593,331	—	—
Curtis S. Shaw	—	—	208,082	265,918	—	—
Stephen E. Silva	—	—	224,416	420,584	—	—
David L. McCall	—	—	245,832	579,168	—	—
David G. Barford	—	—	494,332	1,080,668	—	—
Kent D. Kalkwarf	—	—	500,582	1,199,418	—	—

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

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Communications, Inc. Class A common stock.

- (2) Based on a per share market value (closing price) of \$1.18 as of December 31, 2002, for Charter Communications, Inc. Class A common stock, no options held by the named persons were “in-the-money.”

### **Option/Stock Incentive Plans**

We grant stock options, restricted stock and other incentive compensation pursuant to 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 Communications Holding Company to current and prospective employees and consultants of Charter Communications Holding Company and its affiliates and current and prospective non-employee directors of Charter Communications, Inc. Membership units received upon exercise of any options are immediately exchanged for shares of Charter Communications, Inc. 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/or shares of restricted stock (not to exceed 3,000,000 shares) as each term is defined in the 2001 Stock Incentive Plan. Employees, officers, consultants and directors of Charter Communications, Inc. 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.

Together, the plans allow for the issuance of up to an aggregate of 90,000,000 shares of Charter Communications, Inc. Class A common stock (or units exchangeable for Charter Communication, Inc. Class A common stock). The aggregate shares available reflects an October 2002 amendment to the 2001 Stock Incentive Plan approved by the board of directors of Charter Communications, Inc. to increase available shares by 30,000,000 shares. However, this amendment is subject to shareholder approval and any grants with respect to these additional shares will not be exercisable unless and until our shareholders approve the amendment. 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, 2002, 295,322 shares had been issued under the plans upon exercise of options, 70,686 had been issued upon vesting of restricted stock grants, and 159,064 shares are subject to future vesting under restricted stock agreements. Of the remaining 89,474,928 shares covered by the plans, as of December 31, 2002, 53,632,148 were subject to outstanding options (33% of which are vested) and 35,842,780 remain eligible for future grant.

The board of directors of Charter Communications, Inc. appointed Nancy B. Peretsman and Ronald L. Nelson as members of the Option Plan Committee to administer and authorize grants and awards under the 2001 Stock Incentive Plan to any eligible individuals. The Option Plan Committee will determine 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 Option Plan Committee also has the power to accelerate the vesting of any grant or extend the term thereof.

Upon a change of control, the Option Plan 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 units 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.

Unless sooner terminated by the board of directors of Charter Communications, Inc., the 2001 Stock Incentive Plan will terminate on February 12, 2011, and no option or award can be granted thereafter.

### **Director Compensation**

Mr. Vogel, who acted as President and Chief Executive Officer in 2002, was the only director that was also an employee during 2002. He did not receive any additional compensation for serving as a director or attending any meeting of the board of directors during 2002. All directors of Charter Communications, Inc. are entitled to

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reimbursement for costs incurred in connection with attendance at board and committee meetings and may receive additional compensation to be determined. Under the Amended and Restated By-laws of Charter Communications, Inc., all directors are entitled to indemnification from Charter Communications, Inc. 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 Communications, Inc. and/or its subsidiaries.

Mr. Vogel is party to an employment agreement with Charter Communications, Inc., which is summarized in “-Employment and Consulting Arrangements.”

Marc B. Nathanson entered into a letter agreement with Charter Communications, Inc. for a term that expired in November 2002. Under this agreement, Mr. Nathanson served as Vice-Chairman and as a director of Charter Communications, Inc. During the term of this agreement, Mr. Nathanson received a benefit equal to approximately \$200,000 per year, which Charter Communications, Inc. paid to a company controlled by Mr. Nathanson.

### Employment Arrangements

*Employment Agreements.* Messrs. Vogel and Silva each are currently employed by Charter Communications, Inc. under separate employment agreements that were executed in 2001 and terminate on December 31, 2005. Of the other individuals named in the Summary Compensation Table, Messrs. McCall, Barford and Kalkwarf are no longer employees of Charter Communications, Inc., but each of them served in 2002 under the terms of an employment agreement executed in 2001.

The following table lists the position, salary and bonus of each employee and the stock options and restricted stock shares received by each employee under his agreement:

Name	Position	Annual Base Salary	Stock Options Received	Restricted Shares Received	Annual Bonus
Carl E. Vogel	President and Chief Executive Officer	\$1,000,000	3,400,000	50,000	Up to \$500,000
Stephen E. Silva	Executive Vice President – Corporate Development and Chief Technology Officer	\$ 300,000	—	36,000	50% of base, according to Executive Bonus Policy; Discretionary Bonus
David L. McCall	Former Senior Vice President of Operations – Eastern Division	\$ 300,000	—	35,000	40% of base, according to Executive Bonus Policy; Discretionary Bonus
David G. Barford	Former Executive Vice President and Chief Operating Officer	\$ 350,000	750,000	50,000	50% of base, according to Executive Bonus Policy; Discretionary Bonus
Kent D. Kalkwarf	Former Executive Vice President and Chief Financial Officer	\$ 350,000	750,000	50,000	50% of base, according to Executive Bonus Policy

The options and restricted shares generally vested 25% on the grant date, with the remainder to vest in 36 equal monthly installments beginning on or about the 15th month after the grant date. Generally, the agreements provide that if the employee is terminated without cause, then a specified portion of the remaining unvested options and restricted stock will vest immediately.

The agreements provide that the employee is entitled to participate in any disability insurance, pension or other benefit plan afforded to employees generally or to executives of Charter Communications, Inc. Mr. Vogel’s agreement provides that he will be reimbursed by Charter Communications, Inc. for the cost of term life insurance in the amount of \$5 million, although he declined this reimbursement in 2001 and 2002. The other four agreements provide that, to the extent Charter Communications, Inc. does not provide life insurance in an amount at least equal to the unpaid amount of the employee’s base salary through the end of the term of his agreement, Charter Communications, Inc. will continue to pay his estate an amount equal to his base salary in installments through the end of the term. Each of the agreements contain non-solicitation and confidentiality provisions applicable to each employee. Mr. Vogel is entitled to reimbursement of the cost of a car in accordance with his agreement. Mr. Vogel’s agreement provides that he is entitled to the reimbursement of fees and dues for his membership in a country club of his choice, which he declined in 2001 and 2002, and reimbursement for up to \$10,000 per year for tax, legal and financial planning services. The base salary of any employee may be increased at the discretion of the board of directors of Charter Communications, Inc.

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Each agreement provides that, if it is terminated by Charter Communications, Inc. without cause or by the employee for good reason (including due to a change in control of Charter Communications, Inc.), Charter Communications, Inc. will pay to the applicable employee an amount equal to the aggregate base salary due to the employee for the remaining term and a full prorated bonus for the year in which the termination occurs. Also, in addition to the indemnification provisions which apply to all employees under our Bylaws, each agreement provides that Charter Communications, Inc. will indemnify and hold harmless each employee 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 the applicable employee of his duties.

Mr. Vogel's agreement provides for automatic one-year renewals and that Charter Communications, Inc. will cause him to be elected to the Charter Communications, Inc. board of directors without any additional compensation.

### **Stay Bonuses.**

Certain of our executive officers have received "stay bonuses" in the form of three-year or two-year promissory notes. For the three-year notes, one-third of the original outstanding principal amount of each of these notes and interest was forgiven at the end of each of the first three anniversaries of the issue date, as long as the employee was still employed; for the two-year notes, the principal and interest was forgiven at the first two anniversaries. Generally, the promissory notes provided for interest at 7% per year. The amount forgiven during any year has been included as "bonus" compensation to the employee and is reflected in the "bonus" column of the "Summary Compensation Table." In 2002, all the remaining principal and accrued interest on these notes was forgiven in accordance with the terms of the notes, so that at December 31, 2002, these notes were no longer outstanding.

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

In 2002, the Compensation Committee of Charter Communications, Inc. was comprised of Messrs, Paul G. Allen, William D. Savoy, and Marc B. Nathanson. In 2002, Nancy B. Peretsman and Ronald L. Nelson served as the Option Plan Committee that administered the 1999 Charter Communications Option Plan and the Charter Communications, Inc. 2001 Stock Incentive Plan.

No member of the Compensation Committee or the Option Plan Committee was an officer or employee of Charter Communications, Inc. or any of its subsidiaries except for Mr. Allen, who served as a non-employee chairman. Also, Mr. Nathanson was an officer of certain subsidiaries of Charter prior to their acquisition by Charter in 1999. Transactions between Charter Communications, Inc. and members of the Compensation Committee are more fully described in "- Director Compensation" and in "Item 13. Certain Relationships and Related Transactions — Other Relationships."

None of the executive officers of Charter Communications, Inc. serve on the compensation committee of any other company that has an executive officer currently serving on the board of directors, Compensation Committee or Option Plan Committee of Charter Communications, Inc. None of the executive officers of Charter Communications, Inc. served as a director of another entity, one of whose executive officers served on the Compensation Committee or Option Plan Committee of Charter Communications, Inc. or any of its affiliates. Mr. Allen is a director of DreamWorks LLC (which employed Mr. Nelson as an executive officer through January 1, 2003, and currently has engaged Mr. Nelson as a non-exclusive consultant) and is the 100% owner and a director of Vulcan Inc. and certain of its affiliates, which employ Mr. Savoy as an executive officer. Mr. Allen also is a director of and indirectly owns 98% of TechTV, of which Mr. Wangberg, one of our directors, is a director.

### **Item 12. Security Ownership of Certain Beneficial Owners and Management.**

#### **Beneficial Ownership of Securities**

The following table sets forth certain information regarding beneficial ownership of Charter Communications, Inc.'s Class A common stock as of February 28, 2003 by:

- each of the directors of Charter Communications, Inc.
- the current chief executive officer and the other individuals named in the Summary Compensation Table;
- all directors and current executive officers of Charter Communications, Inc. as a group; and
- each person known by us to own beneficially 5% or more of the outstanding Charter Communications, Inc. Class A common stock.

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

- each holder of Charter Communications, Inc. Class A common stock is entitled to one vote per share; and
- each holder of Charter Communications, Inc. Class B common stock is entitled to ten votes per share of Class B common stock held by such holder and its affiliates and ten votes per membership unit of share of Class B Common Stock for which membership units in Charter Communications Holding Company held by such holder and its affiliates are exchangeable.

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)	Class A Shares Receivable on Exercise of Convertible Sr. Notes
Paul G. Allen (7)	20,763,453		10,000	
Charter Investment (8)				
Vulcan Cable III (9)				
Carl E. Vogel	67,708	32,292	1,204,166	34,786
John H. Tory	4,300		40,000	
Marc B. Nathanson (10)	7,802,085		50,000	231,911
Ronald L. Nelson (11)	55,000		50,000	
Nancy B. Peretsman	60,000		50,000	46,382
William D. Savoy (12)			50,000	115,955
Larry W. Wangberg	3,000		40,000	
Steven A. Schumm (13)	12,440		712,778	4,638
Curtis S. Shaw	5,000		239,333	
Stephen E. Silva	54,750	23,250	260,583	
All current directors and executive officers as a group (13 persons)	28,838,736	55,542	2,948,109	435,991
David G. Barford (15)				
Kent D. Kalkwarf (16)				
David L. McCall (14)				
Comcast Corporation (17)			24,273,943	
Mark Cuban (18)	15,618,500			
FMR Corp. (19)	25,964,516			1,396,668
Wallace R. Weitz & Company (20)	42,005,509			1,576,994

[Additional columns below]

[Continued from above table, first column(s) repeated]

Name and Address of Beneficial Owner	Number of Class B Shares Owned	Class B Shares Issuable upon Exchange or Conversion of Units (4)	% of Equity (4)(5)	% of Voting Power (5)(6)
Paul G. Allen (7)	50,000	339,132,031	56.8%	92.6%
Charter Investment (8)		222,818,858	43.1%	*
Vulcan Cable III (9)		116,313,173	28.3%	*
Carl E. Vogel			*	*
John H. Tory			*	*
Marc B. Nathanson (10)			2.7%	*
Ronald L. Nelson (11)			*	*
Nancy B. Peretsman			*	*
William D. Savoy (12)		1,167,552	*	*
Larry W. Wangberg			*	*
Steven A. Schumm (13)			*	*
Curtis S. Shaw			*	*
Stephen E. Silva			*	*
All current directors and executive officers as a group (13 persons)	50,000	339,132,031	58.3%	92.8%
David G. Barford (15)			*	*
Kent D. Kalkwarf (16)			*	*
David L. McCall (14)			*	*
Comcast Corporation (17)			7.6%	*
Mark Cuban (18)			5.3%	*
FMR Corp. (19)			8.8%	*

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\* 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 2001 Stock Incentive Plan, as to which the applicable employee has sole voting power but not investment power.

(3) Includes shares of Class A common stock issuable upon exercise of options vested on or before April 16, 2003 under the 1999 Charter Communications Option Plan and the 2001 Stock Incentive Plan.

(4) Beneficial ownership is determined in accordance with Rule 13d-3. The beneficial owners of Charter Communications, Inc. Class B common stock, Charter Communications Holding Company membership units, CC VIII, LLC membership units and convertible senior notes of Charter Communications, Inc. are deemed to be beneficial owners of an equal number of shares of Charter Communications, Inc. 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. An issue has arisen as to whether the documentation for the Bresnan transaction was correct and complete with regard to the ultimate ownership of the CC VIII membership interests following the consummation of the Bresnan put transaction. See

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“Item 13. Certain Relationships and Related Transactions — Transactions Arising Out of Mr. Allen’s Investment in Charter Communications, Inc. and Its Subsidiaries — Equity Put Rights – Bresnan.”

- (5) The calculation of this percentage assumes for each person that:
- 294,527,595 shares of Class A common stock are issued and outstanding as of February 28, 2003;
  - 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 5.75% or 4.75% convertible senior notes;
  - 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 April 29, 2003; 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 Communications Holding Company, which are immediately exchanged on a one-for-one basis for shares of Charter Communications, Inc. 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 Communications Holding Company owned by each of Vulcan Cable III and Charter Investment have not been exchanged for shares of Class A common stock).
- (7) The total listed includes:
- 222,818,858 membership units in Charter Communications Holding Company held by Charter Investment; and
  - 116,313,173 membership units in Charter Communications Holding Company held by Vulcan Cable III.
- The listed total excludes 24,273,943 shares of Class A common stock issuable upon exchange of units of Charter Communications Holding Company, LLC, which may be issuable to Mr. Allen upon the closing of his purchase of the membership interests in CC VIII, LLC that have been “put” to Mr. Allen for purchase by May 2003. An issue has arisen regarding the ultimate ownership of such CC VIII, LLC membership interests following the consummation of such put transaction. See “Item 13. Certain Relationships and Related Transactions — Transactions Arising Out of Mr. Allen’s Investment in Charter Communications, Inc. and Its Subsidiaries - Equity Put Rights – Bresnan.”
- The address of this person is: 505 Fifth Avenue South, Suite 900, Seattle, WA 98104.
- (8) Includes 222,818,858 membership units in Charter Communications Holding Company 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 Communications Holding Company 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) Includes 91,090 shares owned by the Nathanson Family Trust, as to which Mr. Nathanson disclaims beneficial ownership.
- (11) Includes 10,000 shares as to which Mr. Nelson disclaims beneficial ownership.



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- (12) Includes 1,167,552 shares issuable upon exchange of membership units that may be acquired by Mr. Savoy upon exercise of options from Vulcan Cable III that have vested or will vest by April 29, 2003.
- (13) Includes 1,000 shares for which Mr. Schumm has shared investment and voting power.
- (14) Mr. McCall's stock options expire in April, 2003.
- (15) We believe that the vested stock options shown in the table expired in March 2003. The table does not reflect stock options for 1,061,042 shares that were not vested as of the date of termination and have been cancelled, and 34,375 shares of unvested restricted stock that have been forfeited following Mr. Barford's termination in January 2003, both of which are disputed by Mr. Barford.
- (16) We believe that the vested stock options shown in the table expired in March 2003. The table does not reflect stock options for 1,179,792 shares that were not vested as of the date of termination and have been cancelled, and 34,375 shares of unvested restricted stock that have been forfeited following Mr. Kalkwarf's termination in January 2003, both of which are disputed by Mr. Kalkwarf.
- (17) Pursuant to holder's Form 13G filed with the SEC on January 27, 2003, the named holder and its affiliates beneficially own, with shared voting and investment power, Class A shares issuable upon exchange of 24,273,943 membership units in CC VIII, LLC. In April 2002, the holders exercised their right to put their CC VIII membership interests to Mr. Allen, and this transaction is scheduled to close in May 2003. See "Item 13. Certain Relationships and Related Transactions – Transactions Arising Out of Mr. Allen's Investment in Charter Communications, Inc. and Its Subsidiaries – Equity Put Rights – Bresnan." The holders' address is: 1500 Market Street, Philadelphia, Pennsylvania 19102-2148.
- (18) The equity ownership reported in this table is based upon holder's Form 13G filed October 17, 2002. The address of this person is: 5424 Deloache, Dallas, Texas 75220.
- (19) The equity ownership reported in this table, for both the named holder and its controlling shareholders, the Edward C. Johnson 3d family, is based upon holders' Form 13G filed with the SEC on February 13, 2003. Of the shares reported, there is sole power to dispose all of the 27,361,184 shares beneficially owned; and there is sole power to vote 5,604,316 shares and no power to vote 21,756,868 shares (including the shares issuable upon conversion of notes). The address of this person is: 82 Devonshire Street, Boston, Massachusetts 02109.
- (20) The equity ownership reported in this table, for both the named holder and its president and primary owner, Wallace R. Weitz, is based upon holders' Form 13G filed with the SEC on January 16, 2003, and reflects the holders' ownership in its capacity as an investment advisor and not ownership for its own account. The address of this person is: 1125 South 103rd Street, Suite 600, Omaha, Nebraska 68124-6008.

### Securities authorized for issuance under equity compensation plans

The following information is provided as of December 31, 2002 with respect to equity compensation plans:

Plan Category	Number of Securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans
Equity compensation plans approved by security holders	53,632,148(1)	\$14.22	35,842,780(2)
Equity compensation plans not approved by security holders (3)	186,385	\$20.46	—
<b>TOTAL</b>	<b>53,818,533</b>	<b>\$14.23</b>	<b>35,842,780</b>

- (1) This total does not include 159,064 shares issued pursuant to restricted stock grants made under our 2001 Stock Incentive Plan, which were subject to vesting based on continued employment.
- (2) Includes 30,000,000 shares added to the 2001 Stock Incentive Plan pursuant to a plan amendment approved by the board of directors on October 29, 2002. This amendment is subject to shareholder approval, and no options with respect to these additional shares will be exercisable until shareholder approval is obtained.
- (3) Includes shares of Class A common stock to be issued upon exercise of options granted pursuant to an individual compensation agreement with a consultant. For a narrative description of the material features of the individual

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compensation agreement with the consultant, please see Note 20 included in the consolidated financial statements included in this Annual Report.

### **Item 13. *Certain Relationships and Related Transactions.***

The following sets forth certain transactions in which we are involved in which our directors, executive officers and affiliates 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 us.* A large number of the transactions described below arise out of Mr. Allen's direct and indirect (through Charter Investment, or the Vulcan entities, each of which Mr. Allen controls) investment in Charter Communications, Inc. and its subsidiaries. These include transactions that we believe naturally result from our organizational structure, history and organizational documents, 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 a material interest.* Due to Mr. Allen's extensive investment activity in the areas of technology and media, we have a number of commercial relationships with third parties in which Mr. Allen has an interest.
- *Other Miscellaneous Transactions.* We also have a limited number of transactions in which certain of our other officers, directors and principal shareholders have an interest.

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 following chart 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>
Intercompany Management Arrangements	Paul G. Allen	The subsidiaries of Charter Communications Holding Company paid Charter Communications, Inc. \$9 million for services rendered in 2002.
Mutual Services Agreement	Paul G. Allen	Charter Communications, Inc. paid Charter Communications Holding Company, LLC \$70 million for services rendered in 2002.
Management Agreement	Paul G. Allen	No fees were paid, although total management fees payable to Charter Investment, exclusive of interest, were \$14 million at the end of 2002.
Tax Provisions of Charter Communications Holding's Operating Agreement	Paul G. Allen	The operating agreement of Charter Communications Holding Company, LLC allocates certain tax losses to entities controlled by Paul Allen.
Channel Access Agreement	Paul G. Allen	At Vulcan Ventures request, we will provide Vulcan Ventures with exclusive rights for carriage on eight of our digital cable channels as partial consideration of a prior capital contribution of \$1.325 billion.
Equity Put Rights	Paul G. Allen	Certain sellers of cable systems that we acquired have the right, as described below, to put to Paul Allen equity in us (in the case of Rifkin and Falcon), Charter Communications Holding Company (in the case of Rifkin) and CC VIII, LLC (in the case of Bresnan) that they were issued in connection with such acquisitions.

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Transaction	Interested Related Party	Description of Transaction
Funding Commitment of Vulcan Inc.	Paul G. Allen	Effective April 14, 2003, we entered into a commitment letter with Vulcan Inc., which is an affiliate of Paul Allen, pursuant to which Vulcan Inc. agreed to lend, or cause an affiliate to lend initially to Charter Communications VII, LLC an aggregate amount of up to \$300 million, which amount includes a subfacility of up to \$100 million for the issuance of letters of credit.
High Speed Access Corp. Asset Purchase Agreement	Paul G. Allen	Our subsidiary purchased certain assets of High Speed Access for \$78 million, plus the delivery of 37,000 shares of High Speed Access Series D preferred stock and certain warrants. In connection with the transaction, High Speed Access also purchased 38,000 shares of its Series D preferred stock from Vulcan Ventures for \$8 million, and all of Vulcan Ventures' shares of High Speed Access common stock.
High Speed Access Corp.	Paul G. Allen	We granted a royalty free right to use intellectual property purchased by Charter Communications Holding Company, LLC, received approximately \$4 million in management fees and \$17 million in revenues and paid approximately \$2 million under agreements that have terminated.
TechTV Carriage Agreement	Paul G. Allen William D. Savoy Larry W. Wangberg	We received \$4 million from TechTV under the Carriage Agreement in 2002 and paid TechTV \$0.2 million.
Oxygen Media Corporation Carriage Agreement	Paul G. Allen	We paid Oxygen Media \$6 million under the Carriage Agreement in exchange for programming in 2002. We received \$2 million from Oxygen Media related to marketing support provided to customers, along with warrants to purchase 2.4 million shares of Oxygen Media common stock.
Portland Trail Blazers Carriage Agreement	Paul G. Allen	We paid \$1 million in connection with the cable broadcast of certain Trail Blazers basketball games in 2002.
Action Sports Cable Network Carriage Agreement	Paul G. Allen	We paid \$1 million for rights to carry its programming in 2002.
Click2learn, Inc. Software License Agreement	Paul G. Allen	We paid approximately \$250,000 under the Software License Agreement in 2002.
Digeo, Inc. Broadband Carriage Agreement	Paul G. Allen William D. Savoy Carl E. Vogel	We paid Digeo \$3 million for customized development of the i-channels and the local content tool kit. We received no revenues under the Broadband Carriage Agreement in 2002.
ADC Telecommunications Inc.	Larry W. Wangberg	We paid \$759,600 to purchase certain access/network equipment in 2002.
HDNet and HDNet Movies Network	Mark Cuban	We recently signed an agreement to carry two around-the-clock, high-definition networks, HDNet and HDNet Movies.
Office lease agreement	David L. McCall	We paid \$117,600 in 2002 under an office lease agreement to a partnership controlled by Mr. McCall.
Construction Services	David L. McCall	We paid \$644,800 in 2002 to a construction company controlled by Mr. McCall's brother and \$3 million to

Lease Arrangements

Marc B. Nathanson

a construction company controlled by Mr. McCall's son. We paid approximately \$76,000 in 2002 to companies controlled by Mr. Nathanson under a warehouse lease agreement.

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<u>Transaction</u>	<u>Interested Related Party</u>	<u>Description of Transaction</u>
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.  We also earned \$1 million in 2002 by providing management services to the Enstar limited partnerships.
Indemnification Advances	Directors and current and former officers named in certain legal proceedings	We invoiced our insurance carrier an aggregate of approximately \$2.5 million, net of our \$2.5 million deductible, as advancement of advances of costs incurred in 2002 under indemnification arrangements.

The following sets forth more details regarding the transactions summarized above.

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

As noted above, a number of our related party transactions arise out of Mr. Allen's investment in Charter Communications, Inc. and its subsidiaries, whether directly as a result of an investment transaction or as a result of our organizational structure, history and organization documents. In that regard, some of these transactions are with Charter Investment, Inc. and Vulcan Ventures (both owned 100% by Mr. Allen) and Charter Communications Holding Company, LLC (approximately 53.5 percent owned by affiliates of Mr. Allen). See "Item 1 — Business – Organizational Chart" for more information regarding the ownership by Mr. Allen and certain of his affiliates.

#### *Intercompany Management Arrangements.*

Charter Communications, Inc. has entered into management arrangements with Charter Communications Holding Company and certain of its subsidiaries. Under these agreements, Charter Communications, Inc. provides management services for the cable television systems owned or operated by its subsidiaries. These management agreements provide for reimbursement to Charter Communications, Inc. for all costs and expenses incurred by it attributable to the ownership and operation of the managed cable systems ("Company Expenses"), plus an additional management fee to cover additional costs incurred that are not in the nature of Company Expenses (such as corporate overhead, administration and salary expense). The management agreements covering the CC VI and CC VII companies limit the management fee portion payable to Charter Communications, Inc. to 5% of gross revenues. Under the arrangement covering all of our other operating subsidiaries, there is no limit on the dollar amount or percentage of revenues payable as management fees, except for CC VIII, where the operating agreement limits management fees payable to amounts allowed under the CC VIII Credit Agreement. However, the total amount paid by Charter Communications Holding Company and all of its subsidiaries is limited to the amount necessary to reimburse Charter Communications, Inc. 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. The expenses subject to reimbursement include any fees Charter Communications, Inc. is obligated to pay under the mutual services agreement described below. Payment of management fees by Charter Communications, Inc.'s operating subsidiaries is subject to certain restrictions under the credit facilities of such subsidiaries. In the event any portion of the management fee due and payable is not paid, it is deferred by Charter Communications, Inc. and accrued as a liability of such subsidiaries. Any deferred amount of the management fee will bear interest at the rate of 10% per annum, compounded annually, from the date it was due and payable until the date it is paid. For the year ended December 31, 2002, Charter Communications, Inc. received a total of \$9 million as management fees from Charter Communications Holding Company and its subsidiaries. The accounts and balances related to these fees eliminate in consolidation.

#### *Mutual Services Agreement*

Charter Communications, Inc., Charter Communications Holding Company and Charter Investment 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 Communications, Inc. Each of the parties will indemnify and hold harmless the other

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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 year ended December 31, 2002, Charter Communications, Inc. paid \$70 million to Charter Communications Holding Company for services rendered pursuant to the mutual services agreement. All such amounts are reimbursable to Charter Communications, Inc. pursuant to a management arrangement with our subsidiaries. See "- Management Arrangements." The accounts and balances related to these services eliminate in consolidation. Charter Investment no longer provides services pursuant to this agreement.

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

Prior to November 12, 1999, Charter Investment 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 Charter Investment, with interest payable on unpaid amounts. For the year ended December 31, 2002, Charter Communications, Inc.'s subsidiaries did not pay any fees to Charter Investment to reduce management fees payable. As of December 31, 2002, total management fees payable to Charter Investment were \$14 million, exclusive of any interest that may be charged.

### *Charter Communications Holding Company Limited Liability Agreement — Taxes*

The amended and restated limited liability company agreement of Charter Communications Holding Company contains special provisions regarding the allocation of tax losses and profits among its members — Vulcan Cable III, Charter Investment and us. In some situations, these provisions may cause us to pay more tax than would otherwise be due if Charter Communications Holding Company had allocated profits and losses among its members based generally on the number of common membership units. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies and Estimates."

### *Vulcan Ventures Channel Access Agreement*

Vulcan Ventures Incorporated, an entity controlled by Mr. Allen, Charter Communications, Inc., Charter Investment and Charter Communications Holding Company are parties to an agreement dated September 21, 1999 regarding the right of Vulcan Ventures to use up to eight of our digital cable channels in consideration of 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 television systems with local and to the extent available, national control of the digital product owned, operated, controlled or managed by us 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 we will pay the programmer, if possible, a fee per digital customer. If such fee arrangement is not achieved, then we and the programmer shall enter into a standard programming agreement. The initial term of 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. As of December 31, 2002, Vulcan Ventures did not 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*

#### *Bresnan*

As part of the Bresnan acquisition in February 2000, CC VIII, an indirect limited liability company subsidiary of Charter Communications, Inc., issued Class A Preferred Membership Interests (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, now owned by Comcast Corporation (the Comcast Sellers). The CC VIII Interest is entitled to a 2% priority return on its initial capital amount and such priority return is entitled to preferential distributions from available cash and upon liquidation of CC VIII. The CC VIII Interest generally does not share in the profits and losses of CC VIII at present. The Comcast Sellers have the right at their option to exchange the CC VIII Interest for shares of Charter Communications, Inc. Class A common stock. Charter Communications, Inc. does not have the right to force such an exchange. In connection with the Bresnan acquisition, Mr. Allen granted the Comcast Sellers the right to sell to Mr. Allen the CC VIII Interest (or any Charter Communications, Inc. Class A common stock that the Comcast Sellers

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would receive if they exercised their exchange right) for approximately \$630 million plus 4.5% interest annually from February 2000 (the Comcast Put Right). In April 2002, in accordance with such put agreement, the Comcast Sellers notified Mr. Allen of their exercise of the Comcast Put Right in full, and the parties agreed to consummate the sale in April 2003, although the parties also agreed to negotiate in good faith possible alternatives to the closing. On April 9, 2003, the parties agreed to extend the closing for up to thirty days. If the sale to Mr. Allen is consummated, Mr. Allen would become the holder of the CC VIII Interest (or, if previously exchanged by the current holders, any Charter Communications, Inc. Class A common stock issued to the current holders upon such exchange). If the CC VIII Interest is transferred to Mr. Allen, then, subject to the matters referenced in the next paragraph, Mr. Allen generally thereafter would be allocated his pro rata share (based on number of membership interests outstanding) of profits or losses of CC VIII. In the event of a liquidation of CC VIII, Mr. Allen would not be entitled to any priority distributions (except with respect to the 2% priority return, as to which such priority would continue), and Mr. Allen's share of any remaining distributions in liquidation would be equal to 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 the date of the transfer of the CC VIII Interest to Mr. Allen.

An issue has arisen 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. Our Board of Directors has formed a Special Committee comprised of Messrs. Tory, Wangberg and Nelson to investigate and take any other appropriate action on behalf of Charter Communications, Inc. with respect to this matter. Specifically, the Special Committee is considering whether it should be the position of Charter Communications, Inc. that Mr. Allen should be required to contribute the CC VIII Interest to Charter Communications Holding Company in exchange for Charter Communications Holding Company membership units, immediately after his acquisition of the CC VIII Interest upon consummation of the Comcast Put Right. To the extent it is ultimately determined that Mr. Allen must contribute the CC VIII Interest to Charter Communications Holding Company following consummation of the Comcast Put Right, the Special Committee may also consider what additional steps, if any, should be taken with respect to the further disposition of the CC VIII Interest by Charter Communications Holding Company. If necessary, following the completion of the Special Committee's investigation of the facts and circumstances relating to this matter, the Special Committee and Mr. Allen have agreed to a non-binding mediation process to resolve any dispute relating to this matter as soon as practicable, but without any prejudice to any rights of the parties if such dispute is not resolved as part of the mediation.

### *Rifkin*

On September 14, 1999, Mr. Allen and Charter Communications Holding Company 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 Communications Holding Company. This put agreement permits these holders to compel Charter Communications Holding Company 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 annum from September 14, 1999. Mr. Allen has guaranteed the redemption obligation of Charter Communications Holding Company. These units were put to Charter Communications Holding Company for redemption, and are expected to be redeemed on April 18, 2003 for an aggregate price of approximately \$3.9 million.

Mr. Allen also is 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 Communications, Inc. Under this put agreement, such holders have the right to sell to Mr. Allen any or all of such shares of 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. This put agreement terminates on November 12, 2003, subject to early termination for certain events. At March 31, 2003, this put agreement applied to an aggregate of approximately 0.8 million shares of Class A common stock.

### *Falcon*

Mr. Allen also is 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 Communications, Inc. Under the Falcon put agreement, such holders have 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. The Falcon put agreement terminates on November 12, 2003, subject to early termination for certain events. On March 31, 2003, the Falcon put agreement applied to an aggregate of approximately 7.5 million shares of Class A common stock. See "Item 12. Security Ownership of Certain Beneficial Owners and Management" above.

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### *Funding Commitment of Vulcan Inc.*

Effective April 14, 2003, we entered into a commitment letter with Vulcan Inc., which is an affiliate of Paul Allen, pursuant to which Vulcan Inc. agreed to lend, or cause an affiliate to lend initially to Charter Communications VII, LLC an aggregate amount of up to \$300 million, which amount includes a subfacility of up to \$100 million for the issuance of letters of credit. “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources – Funding Commitment of Vulcan Inc.”

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

As described under “Third Party Business Relationships in which Mr. Allen has 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 Communications, Inc. and Charter Communications Holding Company, 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; the joint venture to develop a digital video recorder set-top terminal; the investment in Cable Sports Southeast, LLC, a provider of regional sports programming; as an owner of the business of Interactive Broadcaster Services Corporation (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 Communications, Inc.’s initial public offering in November 1999. This restriction will remain in effect until all of the shares of Charter Communications, Inc.’s high-vote Class B common stock have been converted into shares of Class A common stock due to Mr. Allen’s equity ownership falling below specified thresholds.

Should Charter Communications, Inc. or Charter Communications Holding Company or any of their subsidiaries wish to pursue, or allow their subsidiaries to pursue, a business transaction outside of this scope, it must first offer Mr. Allen the opportunity to pursue the particular business transaction. If he decides not to pursue the business transaction and consents to Charter Communications, Inc. or its subsidiaries engaging in the business transaction, they will be able to do so. In any such case, the restated certificate of incorporation of Charter Communications, Inc. and the amended and restated limited liability company agreement of Charter Communications Holding Company 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 telephony, and data over cable television systems owned, operated or managed by Charter Communications, Inc., Charter Communications Holding Company or any of their subsidiaries from time to time.

Under Delaware corporate law, each director of Charter Communications, Inc., including Mr. Allen, is generally required to present to Charter Communications, Inc., 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 Communications, Inc. 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 engage under our restated certificate of incorporation. We have not instituted any formal plan or arrangement to address potential conflicts of interest.

The restrictive provisions of our organizational documents described above may limit our ability to take advantage of attractive business opportunities. Consequently, our ability to offer new products and services outside of the cable transmission business and enter into new businesses could be adversely affected, resulting in an adverse effect on our growth, financial condition and results of operations.

### **Third Party Business Relationships in which Mr. Allen has an Interest**

As previously noted, Mr. Allen’s extensive investment in the areas of media and technology has resulted in our having 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. Mr. Savoy is also a vice president and a director of Vulcan Ventures. The various cable, media, Internet and telephony companies in which Mr. Allen has invested may mutually benefit one another. The agreements governing our relationship with Digeo, Inc. are an example of a



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cooperative business relationship among his affiliated companies. 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.

Mr. Allen and his affiliates have made, and in the future likely will make, numerous investments outside of us and our business. We cannot assure you that, in the event that we or any of our subsidiaries enter into transactions in the future with any affiliate of Mr. Allen, such transactions will be on terms as favorable to us as terms we might have obtained from an unrelated third party.

### *High Speed Access*

High Speed Access Corp. has been a provider of high-speed Internet access services over cable modems. During the period from 1997 to 2000, certain Charter Communications entities entered into Internet-access related service agreements, and both Vulcan Ventures, an entity owned by Mr. Allen, and certain of our subsidiaries made equity investments in High Speed Access.

On February 28, 2002, our subsidiary, CC Systems, purchased from High Speed Access the contracts and associated assets, and assumed related liabilities, that served our customers, including a customer contact center, network operations center and provisioning software. At the closing, certain of our subsidiaries paid \$78 million to High Speed Access and delivered 37,000 shares of High Speed Access's Series D convertible preferred stock and all of the warrants to buy High Speed Access common stock owned by Charter Communications Holding Company (which had been acquired pursuant to two network services agreements which were cancelled in connection with this transaction, as described below), and High Speed Access purchased 38,000 shares of its Series D Preferred Stock from Vulcan Ventures for \$8 million. Additional purchase price adjustments were made as provided in the asset purchase agreement. Charter Communications Holding Company obtained a fairness opinion from a qualified investment-banking firm regarding the valuation of the assets purchased. Concurrently with the closing of the transaction, High Speed Access also purchased all of its common stock held by Vulcan Ventures.

In conjunction with the High Speed Access asset purchase, on February 28, 2002, Charter Communications Holding Company granted High Speed Access the right to use certain intellectual property sold by High Speed Access to Charter Communications Holding Company. High Speed Access does not pay any fees under the agreement. The domestic portion of the license terminated on June 30, 2002, and the international portion of the license will expire on February 2, 2005. Prior to closing the asset purchase, Charter Communications, Inc. performed certain management services formerly performed by High Speed Access, for which it received \$4 million in January and February 2002.

Concurrently with the asset purchase, all of the other agreements between our subsidiaries and High Speed Access Corp., (other than the license agreement described above), namely the programming content agreement, the services agreement, the systems access agreement, the 1998 network services agreement and the May 2000 network services agreement, were terminated. The revenues we earned from High Speed Access for the year ended December 31, 2002 were approximately \$17 million. In addition, for the year ended December 31, 2002, we paid High Speed Access approximately \$2 million under the 1998 network services agreement and the 2000 network services agreement, representing a per customer fee to High Speed Access according to agreed pricing terms and compensation for services exceeding certain minimum thresholds.

Immediately prior to the asset purchase, Vulcan Ventures beneficially owned approximately 37%, and we beneficially owned approximately 13%, of the common stock of High Speed Access (including the shares of common stock which could be acquired upon conversion of the Series D preferred stock, and upon exercise of the warrants owned by Charter Communications Holding Company). Following the consummation of the asset purchase, neither we nor Vulcan Ventures beneficially owned any securities of, or were otherwise affiliated with, High Speed Access.

### *TechTV*

TechTV Inc. operates a cable television channel which broadcasts shows about technology. Pursuant to a carriage agreement terminating in 2008, TechTV has provided us with programming for broadcast via our cable television systems. Carriage fee amounts per customer are determined based on the percentage of customers in a particular system receiving the services. These fees will be waived for systems with higher penetration levels until December 31, 2003, and were waived for systems with lower penetration levels through April 30, 2001. In certain circumstances, we are entitled to a percentage of TechTV's net product revenues from infomercials and home shopping and attributed to our carriage of the service. Additionally, we receive incentive payments for channel launches through December 31, 2003. TechTV may not offer its services to any other cable operator which serves the same or fewer number of

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customers at a more favorable rate or on more favorable carriage terms. For the year ended December 31, 2002, we received \$4 million from TechTV and paid \$0.2 million to them under the carriage agreement.

Vulcan Programming, which is 100% owned by Mr. Allen, owned a 98% equity interest in TechTV as of December 31, 2002. Mr. Savoy is the president and director of Vulcan Programming. Mr. Wangberg, one of our directors, is a director of TechTV. Both Messrs. Allen and Savoy are directors of TechTV.

### *Oxygen Media Corporation*

Oxygen Media LLC (Oxygen) provides programming content aimed at the female audience for distribution over cable television systems. On July 22, 2002, Charter Communications Holding Company entered into a carriage agreement with Oxygen, whereby Charter Communications Holding Company agreed to carry programming content from Oxygen, pursuant to which we currently make it available to approximately 5 million of our customers. The term of the carriage agreement is retroactive to February 1, 2000, the date of launch of Oxygen programming by Charter Communications Holding Company and runs for a period of five years from that date. As the number of customers receiving the Oxygen programming increases, Charter Communications Holding Company receives volume discounts. For the year ended December 31, 2002, we paid Oxygen approximately \$6 million for programming content.

In addition, Oxygen pays Charter Communications Holding Company marketing support fees for customers launched after the first year of the term of the carriage agreement up to an amount of \$4 million. We have recognized \$2 million of revenue related to the marketing support provided for the year ended December 31, 2002.

Concurrently with the execution of the programming agreement, we entered into an equity issuance agreement pursuant to which Oxygen's parent company, Oxygen Media Corporation (Oxygen Media), granted a subsidiary of Charter Communications Holding Company a warrant to purchase 2.4 million shares of common stock of Oxygen Media for an exercise price of \$22.00 per share. Charter Communications Holding Company will also receive unregistered shares of Oxygen Media common stock with a fair market value on the date of issuance of \$34 million, on or prior to February 2, 2005 with the exact date to be determined by Oxygen Media.

Mr. William Savoy, a director of Charter Communications, Inc. and Charter Communications Holding Company, serves on the board of directors of Oxygen. As of December 31, 2002, through Vulcan Programming, Mr. Allen owns an approximate 31% interest in Oxygen (51% assuming exercise of all warrants held by Vulcan Programming but no exercise of warrants or options by other holders).

Marc Nathanson has an indirect beneficial interest of less than 1% in Oxygen.

### *Portland Trail Blazers and Action Sports Cable Network*

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. After our acquisition of the Falcon cable systems in November 1999, we continued to operate under the terms of these agreements until their termination on September 30, 2001. 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. We paid approximately \$1 million for the year ended December 31, 2002 in connection with the cable broadcast of Portland Trail Blazers basketball games under the October 1996 cable television agreement.

On July 1, 2001, Charter Communications Holding Company, LLC and Action Sports Cable Network (Action Sports), which is 100% owned by Mr. Allen, entered into a new carriage agreement for a five year term, which became effective on October 1, 2001 with the expiration of the previous agreement. Under the July 2001 carriage agreement, Charter Communications Holding Company, LLC pays Action Sports a fixed fee for each customer receiving the Action Sports programming, which covers sporting events in the Pacific Northwest, including the Portland Trail Blazers, the Seattle Seahawks, a National Football League football team, and the Portland Fire, a Women's National Basketball Association basketball team. On November 5, 2002, the Action Sports Cable Network (Action Sports), which is 100% owned by Mr. Allen, announced that it was discontinuing its business following its failure to obtain an acceptable carriage agreement with AT&T Cable, the cable television provider in Portland, Oregon. Action Sports service was terminated on November 5, 2002 and Charter Communications Holding Company, LLC ceased carriage of the service. We paid Action Sports \$1 million for rights to carry its

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programming for the year ended December 31, 2002. We believe that the failure of this network will not materially affect our business or results of operations.

### *Click2learn*

Charter Communications Holding Company executed a Software License Agreement with Click2learn, Inc. effective as of June 30, 2002. Since October 1999 Charter Communications Holdings Company has purchased professional services, software and maintenance from Click2learn, Inc. a company which provides enterprise software for organizations seeking to capture, manage and disseminate knowledge throughout their extended enterprise. As of December 31, 2002, Mr. Allen owned an approximate 27% interest in Click2learn, Inc. including 616,120 shares held of record by Vulcan Ventures, Inc. and 387,096 shares issuable upon exercise of a warrant issued to Vulcan Ventures, Incorporated. Mr. Allen is the sole shareholder of Vulcan Ventures, Inc. and may be deemed to have shared voting and investment power with respect to such shares. Mr. Allen is the founder of Click2learn, Inc. For the year ended December 31, 2002, we paid approximately \$250,000 to Click2learn.

### *Digeo, Inc.*

Vulcan Ventures, an entity controlled by Mr. Allen, owns an approximate 49% interest in Digeo, Inc. (Digeo). The Digeo™ product is designed to blend the power of the Internet with the convenience of the television. Through the use of an advanced digital set-top terminal, customers will be able to access Internet-based streaming media on the television, including both local and national news, sports and entertainment. The Digeo product is a “portal,” which is an Internet web site that serves as a user’s initial point of entry to the World Wide Web. By offering selected content, services and links to other web sites and a portal guide, it directs users through the World Wide Web. In addition, the portal generates revenues from advertising on its own web pages and by sharing revenues generated by linked or featured web sites. Digeo has a license agreement with Microsoft for software used in the Digeo set-top companion. Fees under this license agreement are passed on to us through our agreement with Digeo.

On March 2, 2001, Charter Communications, Inc. finalized a carriage agreement with Digeo Interactive, LLC (Digeo Interactive), which will function as its television-based Internet portal. The agreement runs for 25 years, and provides for an exclusive relationship for the first six of those years. In connection with the execution of the carriage agreement on March 2, 2001, our wholly owned subsidiary, Charter Communications Ventures, LLC, received an equity interest in Digeo funded by Vulcan Ventures Incorporated’s contribution of approximately \$21.2 million, which is subject to a priority return of capital to Vulcan up to the amount so funded. Vulcan also agreed to make, through January 24, 2004, certain additional contributions through Digeo Broadband Holdings, LLC to acquire Digeo equity in order to maintain Charter Venture’s pro rata interest in Digeo in the event of certain future Digeo equity financings by the founders of Digeo. These additional equity interests will also be subject to a priority return of capital to Vulcan up to the amount so contributed. In May, 2002, Vulcan contributed an additional \$60 million to Digeo, Inc., \$15 million of which was contributed on Charter Ventures’ behalf, subject to Vulcan’s aforementioned priority return.

On September 27, 2001, Charter Communications, Inc. and Digeo amended the March 2001 carriage agreement. Pursuant to the amendment, Digeo Interactive, a subsidiary of Digeo, will provide the content for enhanced Wink interactive television services, known as Charter Interactive Channels (sometimes referred to as “i-channels”), to Charter Communications, Inc. In order to provide the i-channels, Digeo Interactive sublicensed certain Wink technologies to Charter Communications, Inc. We will share in the revenues generated by the i-channels. Currently, our digital customers who receive i-channels receive the service at no additional charge.

On September 28, 2002, Charter Communications, Inc. entered into an amendment to its Broadband Carriage Agreement with Digeo Interactive. This amendment supersedes the amendment previously entered into on September 27, 2001, and covers the development of future features to be included on the Basic iTV service provided by Digeo and Digeo’s development of an interactive “toolkit” to enable Charter Communications, Inc. to develop interactive local content. Furthermore, Charter Communications, Inc. may request that Digeo manage local content for a fee. The amendment provides for Charter Communications, Inc. to pay for development of the Basic iTV service as well as license fees for customers who receive the service, and for Charter Communications, Inc. and Digeo to split certain revenues earned from the service.

In 2002, we paid Digeo \$3 million for customized development of the i-channels and the local content tool kit. We received no revenues under the Broadband Carriage Agreement in 2002.

We are now utilizing Digeo to develop an advanced broadband media center for our customers. The anticipated media center will include an integrated set-top terminal that includes a cable converter, an industry standard high speed cable modem, and a digital video recording (DVR/PVR) hard drive with connectivity to other consumer

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electronics devices (such as stereos, MP3 players, and digital cameras) and capable of networking in the home with PC's and other computing devices. The DVR capability will enable customers to store video and audio files, and to pause, schedule, rewind and store television programs. We anticipate that TV-based Internet access will be a future enhancement to the media center rather than being launched as a separate product. We began an initial trial of the first version of its advanced media center in the third quarter of 2002 in St. Louis. The development and usage fees for the advanced media center have not yet been negotiated.

Messrs. Allen, Savoy and Vogel are directors of Digeo. Mr. Savoy serves on the compensation committee of Digeo. Each of Mr. Savoy and Mr. Vogel owns options to purchase 10,000 shares of Digeo common stock.

### **Other Miscellaneous Relationships**

#### *ADC Telecommunications Inc.*

We purchase certain equipment for use in our business from ADC Telecommunications, which provides broadband access and network equipment. Mr. Wangberg serves as a director for ADC Telecommunications. For the year ended December 31, 2002, we have paid \$759,600 to ADC under this arrangement.

#### *HDNet and HDNet Movies Network*

On January 10, 2003 we signed an agreement to carry two around-the-clock, high-definition networks, HDNet and HDNet Movies. HDNet Movies delivers a commercial-free schedule of full-length feature films converted from 35mm to high-definition, including titles from an extensive library of Warner Bros. Films. HDNet Movies will feature a mix of theatrical releases, made-for-TV movies, independent films and shorts. The HDNet channel features a variety of HDTV programming, including live sports, sitcoms, dramas, action series, documentaries, travel programs, music concerts and shows, special events, and news features including the popular HDNet World Report. HDNet also offers a selection of classic and recent television series, as a result of a recently announced transaction with Paramount. We believe that entities controlled by Mr. Cuban owned approximately 96.9% of HDNet as of December 31, 2002. As of December 31, 2002, Mark Cuban, co-founder and president of HDNet, owned approximately 5.3% equity interest in Charter Communications Inc.

#### *Affiliate Leases and Agreements*

David L. McCall, who served as Senior Vice President — Operations — Eastern Division during 2002, is a partner in a partnership that leases office space to us under a lease agreement which expires December 31, 2010. The partnership received approximately \$117,600 pursuant to such lease and related agreements for the year ended December 31, 2002. In addition, during 2002 we paid approximately \$644,800 for construction services to a construction company controlled by Mr. McCall's brother under a construction agreement which expires December 31, 2003. We also paid \$3 million during 2002 for construction services to a construction company controlled by Mr. McCall's son under several agreements, the last of which expires January 31, 2004.

Companies controlled by Mr. Nathanson, a director of Charter Communications, Inc., leased certain warehouse space in Riverside, California, to our subsidiaries. For the year ended December 31, 2002, aggregate rent paid for the Riverside warehouse space was approximately \$76,000, under a lease agreement which expired March 15, 2003.

#### *Purchase of Certain Enstar Limited Partnership Systems; Management Fees*

In April 2002, Interlink Communications Partners, LLC, Rifkin Acquisition Partners, LLC and Charter Communications Entertainment I, LLC, each an indirect, wholly-owned subsidiary of Charter Holdings, completed the cash purchase of certain assets of Enstar Income Program II-2, L.P., Enstar Income/Growth Program Six-A, L.P., Enstar Income Program IV-1, L.P., Enstar Income Program IV-2, L.P., and Enstar Income Program IV-3, L.P., serving in the aggregate approximately 21,600 customers, for a total cash sale price of approximately \$48 million. In September 2002, Charter Communications Entertainment I, LLC purchased all of Enstar Income Program II-1, L.P.'s Illinois cable television systems, serving approximately 6,400 customers, for a cash sale price of \$15 million. Enstar Communications Corporation, a direct subsidiary of Charter Communications Holdings Company, is a general partner of the Enstar limited partnerships but does not exercise control over them. The purchase prices were allocated to assets acquired based on fair values, including \$44 million assigned to franchises.

In addition, Enstar Cable Corporation, the manager of the Enstar limited partnerships through a management agreement, engaged Charter Communications Holding Company to manage the Enstar limited partnerships. Pursuant to the management agreement, Charter Communications Holding Company provides management services to the Enstar limited partnerships in exchange for management fees. The Enstar limited partnerships also purchase basic and

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premium programming for their systems at cost from Charter Communications Holding Company. For the year ended December 31, 2002, Charter Communications Holding Company earned \$1 million by providing management services to the Enstar limited partnerships.

All of the executive officers of Charter Communications, Inc., Charter Communications Holding Company and Charter Holdings act as officers of Enstar Communications Corporation.

### *Indemnification Advances*

Pursuant to Charter Communications, Inc.'s Amended and Restated By-laws (and the employment agreements of certain of our current and former officers), we are obligated (subject to certain limitations) to indemnify and hold harmless, to the fullest extent permitted by law, any officer or director against all expense, liability and loss (including, among other things, attorneys' fees) reasonably incurred or suffered by such officer or director 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 or an officer of Charter Communications, Inc. In addition, we are obligated to pay, as an advancement of our indemnification obligation, the expenses (including attorneys' fees) incurred by any officer or director 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, we invoiced our insurance carrier an aggregate of \$2.48 million, net of our \$2.5 million deductible, for costs incurred by certain of our directors and current and former officers in connection with their defense of actions described herein in "Item 3. Legal Proceedings."

## **PART IV**

### **Item 14. Controls and Procedures**

Within 90 days prior to the filing date of this report, management, including our Chief Executive Officer and interim Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures with respect to the information generated for use in this Annual Report. The evaluation was based in part upon reports and affidavits provided by a number of executives. Based upon, and as of the date of that evaluation, our Chief Executive Officer and interim Chief Financial Officer concluded that the disclosure controls and procedures were effective to provide reasonable assurances that information required to be disclosed in the reports we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Commission's rules and forms.

There were no significant changes in our internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation.

In designing and evaluating the disclosure controls and procedures, our management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable, not absolute, assurance of achieving the desired control objectives and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based upon the above evaluation, Charter Communications, Inc.'s management believes that its controls do provide such reasonable assurances.

### **Item 15. Exhibits, Financial Statement Schedules, and Reports on Form 8-K.**

(a) The following documents are filed as part of this Annual Report:

(1) Financial Statements.

A listing of the financial statements, notes and reports of independent public accountants required by Item 8 begins on page F-1 of this Annual Report.

(2) Financial Statement Schedules.

No financial statement schedules are required to be filed by Items 8 and 14(d) because they are not required or are not applicable, or the required information is set forth in the applicable financial statements or notes thereto.

(3) The index to the Exhibits is on page 108.

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We agree to furnish to the SEC, upon request, copies of any long-term debt instruments that authorize an amount of securities constituting 10% or less of the total assets of Charter Communications, Inc. and its subsidiaries on a consolidated basis.

### (b) Reports on Form 8-K

With respect to any information furnished under Item 9 of any Report on Form 8-K listed below, the reference to such report in this Item 15(b) is not intended to, and shall not, cause such information to be deemed "filed" under the Exchange Act.

On October 1, 2002, the registrant filed a current report on Form 8-K dated October 1, 2002 to announce its projected operating cash flow and revenue expectations for third quarter 2002.

On October 22, 2002, the registrant filed a current report on Form 8-K dated October 22, 2002 to announce that David G. Barford, Executive Vice President and Chief Operating Officer, went on paid leave status.

On October 23, 2002, the registrant filed a current report on Form 8-K dated October 22, 2002 to respond to speculation resulting from an earlier press release dated October 22, 2002.

On October 25, 2002, the registrant filed a current report on Form 8-K dated October 24, 2002 to report the issuance of a press release relating to a confidential conference call with its credit facility lenders in which preliminary information on third quarter 2002 revenue, cash flow and revenue generating unit growth was discussed.

On November 5, 2002, the registrant filed a current report on Form 8-K dated November 5, 2002 to report 2002 third quarter financial results.

On November 15, 2002, the registrant filed a current report on Form 8-K dated November 15, 2002 to announce it had filed with the Securities and Exchange Commission (SEC) a five day extension in which to file the third quarter Form 10-Q reports for itself and its subsidiaries Charter Communications Holdings, LLC; CC V Holdings, LLC (Avalon Cable) and Renaissance Media Group LLC.

On December 3, 2002, the registrant filed a current report on Form 8-K dated December 2, 2002 to announce the resignation of Bill Shreffler, Senior Vice President of Operations for the Midwest Division.

On December 5, 2002, the registrant filed a current report on Form 8-K dated December 4, 2002 to announce that its President and CEO, Carl Vogel has selected Margaret A. "Maggie" Bellville as Executive Vice President of Operations.

On December 10, 2002, the registrant filed a current report on Form 8-K dated December 10, 2002 to announce changes in its operating structure.

On December 23, 2002, the registrant filed a current report on Form 8-K dated December 10, 2002 to announce a number of changes related to its senior management.

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, Charter Communications, Inc. has duly caused this Annual Report to be signed on its behalf by the undersigned, thereunto duly authorized.

CHARTER COMMUNICATIONS, INC.,  
Registrant

By: /s/ Carl E. Vogel

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Carl E. Vogel  
*President and Chief Executive Officer*

Date: April 14, 2003

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of Charter Communications, Inc. and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Paul G. Allen</u> Paul G. Allen	Chairman of the Board of Directors	April 14, 2003
<u>/s/ Carl E. Vogel</u> Carl E. Vogel	President, Chief Executive Officer, Director (Principal Executive Officer)	April 14, 2003
<u>/s/ Steven A. Schumm</u> Steven A. Schumm	Executive Vice President and Chief Administrative Officer and interim Chief Financial Officer (Principal Financial Officer)	April 14, 2003
<u>/s/ Paul E. Martin</u> Paul E. Martin	Senior Vice President and Controller (Principal Accounting Officer)	April 14, 2003
<u>/s/ Marc B. Nathanson</u> Marc B. Nathanson	Director	April 14, 2003
<u>/s/ Ronald L. Nelson</u> Ronald L. Nelson	Director	April 14, 2003
<u>/s/ Nancy B. Peretsman</u> Nancy B. Peretsman	Director	April 14, 2003
<u>/s/ William D. Savoy</u> William D. Savoy	Director	April 14, 2003
<u>/s/ John H. Tory</u> John H. Tory	Director	April 14, 2003
<u>/s/ Larry W. Wangberg</u> Larry W. Wangberg	Director	April 14, 2003

## Certifications

I, Carl E. Vogel, certify that:

1. I have reviewed this annual report on Form 10-K of Charter Communications, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
  - c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: April 14, 2003

/s/ Carl E. Vogel

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Carl E. Vogel  
Chief Executive Officer



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I, Steven A Schumm, certify that:

1. I have reviewed this annual report on Form 10-K of Charter Communications, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
  - c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: April 14, 2003

/s/ Steven A. Schumm

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Steven A. Schumm  
Chief Administrative Officer and  
interim Chief Financial Officer

**Exhibit Index**

(Exhibits are listed by numbers corresponding to the Exhibit Table of Item 601 in Regulation S-K).

<b>Exhibit</b>	<b>Description</b>
2.1(a)	Purchase and Contribution Agreement, entered into as of June 1999, by and among BCI (USA), LLC, William Bresnan, Blackstone BC Capital Partners L.P., Blackstone BC Offshore Capital Partners L.P., Blackstone Family Investment Partnership III L.P., TCID of Michigan, Inc. and TCI Bresnan LLC and Charter Communications Holding Company, LLC (Incorporated by reference to Exhibit 2.11 to Amendment No. 2 to the registration statement on Form S-1 of Charter Communications, Inc. filed on September 28, 1999 (File No. 333-83887)).
2.1(b)	First Amendment to Purchase and Contribution Agreement dated as of February 14, 2000, by and among BCI (USA), LLC, William J. Bresnan, Blackstone BC Capital Partners L.P., Blackstone BC Offshore Capital Partners, L.P., Blackstone Family Media III L.P. (as assignee of Blackstone Family Investment III, L.P.), TCID of Michigan, Inc., TCI Bresnan, LLC and Charter Communications Holding Company, LLC. (Incorporated by reference to Exhibit 2.11(a) to the current report on Form 8-K filed by Charter Communications, Inc. on February 29, 2000 (File No. 000-27927)).
2.2(a)	Asset Purchase Agreement, dated as of February 26, 2001, among Marcus Cable of Alabama, L.L.C., on the one hand, and TCI of Selma, Inc., TCI of Lee County, Inc., TCI Cablevision of Alabama, Inc., Alabama T.V. Cable, Inc. and TCI Southeast, Inc., on the other hand (Incorporated by reference to Exhibit 2.14(a) to the annual report of Form 10-K of Charter Communications, Inc. filed on March 6, 2001 (File No. 000-27927)).
2.2(b)	Reorganization Agreement, dated as of February 26, 2001, among Charter Communications, Inc., on the one hand, and TCI TKR of Alabama, Inc. and TCI Southeast, Inc., on the other hand (Incorporated by reference to Exhibit 2.14(b) to the annual report of Form 10-K of Charter Communications, Inc. filed on March 6, 2001 (File No. 000-27927)).
2.2(c)	Asset Purchase Agreement, dated as of February 26, 2001, among Falcon Cable Systems Company II, L.P., on the one hand, and AT&T Broadband, LLC, Communication Services, Inc., Ohio Cablevision Network, Inc., TCI Cablevision of California, Inc. and TCI Washington Associates, L.P., on the other hand (Incorporated by reference to Exhibit 2.14(c) to the annual report of Form 10-K of Charter Communications, Inc. filed on March 6, 2001 (File No. 000-27927)).
2.2(d)	Reorganization Agreement, dated as of February 26, 2001, among Charter Communications, Inc., on the one hand, and TCI Cablevision of Nevada, Inc. and TCI West, Inc., on the other hand (Incorporated by reference to Exhibit 2.14(d) to the annual report of Form 10-K of Charter Communications, Inc. filed on March 6, 2001 (File No. 000-27927)).
2.2(e)	Asset Purchase Agreement, dated as of February 26, 2001, among Charter Communications, Inc., Interlink Communications Partners, LLC, Charter Communications, LLC and Falcon Cable Media, on the one hand, and TCI Cable Partners of St. Louis, L.P. and TCI Cablevision of Missouri, Inc., on the other hand (Incorporated by reference to Exhibit 2.14(e) to the annual report of Form 10-K of Charter Communications, Inc. filed on March 6, 2001 (File No. 000-27927)).
2.2(f)	Asset Purchase Agreement, dated as of February 26, 2001, among Charter Communications Entertainment I, LLC, on the one hand, and St. Louis Tele-Communications, Inc., TCI Cable Partners of St. Louis, L.P., TCI Cablevision of Missouri, Inc., TCI of Illinois, Inc., TCI TKR of Central Florida, Inc. and TCI Holdings, Inc., on the other hand (Incorporated by reference to Exhibit 2.14(f) to the annual report of Form 10-K of Charter Communications, Inc. filed on March 6, 2001 (File No. 000-27927)).
2.2(g)	Agreement Regarding Closing Matters, dated as of February 26, 2001, among Charter Communications, Inc., on behalf of itself, Marcus Cable of Alabama, L.L.C., Falcon Cable Systems Company II, L.P., Interlink Communications Partners, LLC, Charter Communications, LLC, Falcon Cable Media, and Charter Communications Entertainment I, LLC, on the one hand, and AT&T Broadband, LLC, on behalf of itself, TCI TKR of Alabama, Inc., TCI of Selma, Inc., TCI of Lee County, TCI Cablevision of Alabama, Inc. and Alabama T.V. Cable, Inc., TCI Southeast, Inc., TCI

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<u>Exhibit</u>	<u>Description</u>
	Cablevision of Nevada, Inc., TCI West, Inc., Communications Services, Inc., Ohio Cablevision Network, Inc., TCI Cablevision of California, Inc., TCI Washington Associates, LP, TCI of Illinois, Inc., TCI Cablevision of Missouri, Inc., St. Louis Tele-Communications, Inc., TCI Cable Partners of St. Louis, L.P., TCI TKR of Central Florida, Inc. and TCI Holdings, Inc., on the other hand (Incorporated by reference to Exhibit 2.14(g) to the annual report of Form 10-K of Charter Communications, Inc. filed on March 6, 2001 (File No. 000-27927)).
2.2(h)	First Amendment to Asset Purchase Agreement, dated as of June 30, 2001, among Marcus Cable of Alabama, L.L.C., on the one hand, and TCI of Selma, Inc., TCI of Lee County, Inc., TCI Cablevision of Alabama, Inc., Alabama T.V. Cable, Inc. and TCI Southeast, Inc., on the other hand (Incorporated by reference to Exhibit 2.1(a) to the quarterly report on Form 10-Q filed by Charter Communications, Inc. on November 14, 2001 (File No. 000-27927)).
2.2(i)	First Amendment to Reorganization Agreement, dated as of June 30, 2001, among Marcus Cable of Alabama, L.L.C., as assignee of Charter Communications, Inc., on the one hand, and TCI TKR of Alabama, Inc. and TCI Southeast, Inc., on the other hand (Incorporated by reference to Exhibit 2.1(b) to the quarterly report on Form 10-Q filed by Charter Communications, Inc. on November 14, 2001 (File No. 000-27927)).
2.2(j)	Assignment Letter Agreement, dated as of June 30, 2001, between Charter Communications, Inc. and Marcus Cable of Alabama, L.L.C. (Incorporated by reference to Exhibit 2.14(h) to the registration statement on Form S-4 of Charter Communications Holdings, LLC and Charter Communications Holdings Capital Corporation filed on July 13, 2001 (File No. 333-65094)).
2.2(k)	First Amendment to Asset Purchase Agreement, dated as of June 30, 2001, among Falcon Cable Systems Company II, L.P., on the one hand, and AT&T Broadband, LLC, Communication Services, Inc., Ohio Cablevision Network, Inc., TCI Cablevision of California, Inc. and TCI Washington Associates, L.P., on the other hand (Incorporated by reference to Exhibit 2.1(c) to the quarterly report on Form 10-Q filed by Charter Communications, Inc. on November 14, 2001 (File No. 000-27927)).
2.2(l)	First Amendment to Reorganization Agreement, dated as of June 30, 2001, among Falcon Cable Systems Company II, L.P., as assignee of Charter Communications, Inc., on the one hand, and TCI Cablevision of Nevada, Inc. and TCI West, Inc., on the other hand (Incorporated by reference to Exhibit 2.1(d) to the quarterly report on Form 10-Q filed by Charter Communications, Inc. on November 14, 2001 (File No. 000-27927)).
2.2(m)	Assignment Letter Agreement, dated as of June 30, 2001, between Charter Communications, Inc. and Falcon Cable Systems Company II, L.P. (Incorporated by reference to Exhibit 2.14(i) to the registration statement on Form S-4 of Charter Communications Holdings, LLC and Charter Communications Holdings Capital Corporation filed on July 13, 2001 (File No. 333-65094)).
2.2(n)	First Amendment to Asset Purchase Agreement, dated as of June 30, 2001, among Charter Communications, Inc., Interlink Communications Partners, LLC, Charter Communications, LLC and Falcon Cable Media, on the one hand, and TCI Cable Partners of St. Louis, L.P. and TCI Cablevision of Missouri, Inc., on the other hand (Incorporated by reference to Exhibit 2.1(e) to the quarterly report on Form 10-Q filed by Charter Communications, Inc. on November 14, 2001 (File No. 000-27927)).
2.2(o)	First Amendment to Asset Purchase Agreement, dated as of June 30, 2001, among Charter Communications Entertainment I, LLC, on the one hand, and St. Louis Tele-Communications, Inc., TCI Cable Partners of St. Louis, L.P., TCI Cablevision of Missouri, Inc., TCI of Illinois, Inc., TCI TKR of Central Florida, Inc. and TCI Holdings, Inc., on the other hand (Incorporated by reference to Exhibit 2.1(f) to the quarterly report on Form 10-Q filed by Charter Communications, Inc. on November 14, 2001 (File No. 000-27927)).
2.2(p)	First Amendment to Agreement Regarding Closing Matters, dated as of June 30, 2001, among Charter Communications, Inc., on behalf of itself, Marcus Cable of Alabama, L.L.C., Falcon Cable Systems Company II, L.P., Interlink Communications Partners, LLC, Charter Communications, LLC, Falcon Cable Media, and Charter Communications Entertainment I, LLC, on the one hand, and AT&T Broadband, LLC, on behalf of itself, TCI TKR of Alabama, Inc., TCI of Selma, Inc., TCI of

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<u>Exhibit</u>	<u>Description</u>
	Lee County, TCI Cablevision of Alabama, Inc. and Alabama T.V. Cable, Inc., TCI Southeast, Inc., TCI Cablevision of Nevada, Inc., TCI West, Inc., Communications Services, Inc., Ohio Cablevision Network, Inc., TCI Cablevision of California, Inc., TCI Washington Associates, LP, TCI of Illinois, Inc., TCI Cablevision of Missouri, Inc., St. Louis Tele-Communications, Inc., TCI Cable Partners of St. Louis, L.P., TCI TKR of Central Florida, Inc. and TCI Holdings, Inc., on the other hand (Incorporated by reference to Exhibit 2.1(g) to the quarterly report on Form 10-Q filed by Charter Communications, Inc. on November 14, 2001 (File No. 000-27927)).
2.3(a)	Asset Purchase Agreement, dated as of September 28, 2001, between High Speed Access Corp. and Charter Communications Holding Company, LLC (including as Exhibit A, the Form of Voting Agreement, as Exhibit B, the form of Management Agreement, as Exhibit C, the form of License Agreement, and as Exhibit D, the Form of Billing Letter Agreement) (Incorporated by reference to Exhibit 10.1 to Amendment No. 6 to Schedule 13D filed by Charter Communications, Inc. and others with respect to High Speed Access Corp., filed on October 1, 2001 (File No. 005-56431)).
2.3(b)	Services and Management Agreement, dated as of September 28, 2001, between High Speed Access Corp. and Charter Communications, Inc. (Incorporated by reference to Exhibit 10.2 to Amendment No. 6 to Schedule 13D filed by Charter Communications, Inc. and others with respect to High Speed Access Corp., filed on October 1, 2001 (File No. 005-56431)).
2.3(c)	License Agreement, dated as of September 28, 2001, between High Speed Access Corp., HSA International, Inc. and Charter Communications Holding Company, LLC. (Incorporated by reference to Exhibit 10.3 to Amendment No. 6 to Schedule 13D filed by Charter Communications, Inc. and others with respect to High Speed Access Corp., filed on October 1, 2001 (File No. 005-56431)).
2.3(d)	Stock Purchase Agreement, dated as of September 28, 2001, by and among Vulcan Ventures Incorporated and Charter Communications Holding Company, LLC. (Incorporated by reference to Exhibit 10.4 to Amendment No. 6 to Schedule 13D filed by Charter Communications, Inc. and others with respect to High Speed Access Corp., filed on October 1, 2001 (File No. 005-56431)).
2.3(e)	Voting Agreement, dated as of September 28, 2001, between High Speed Access Corp, Charter Communications Ventures, LLC, Vulcan Ventures Incorporated and certain directors party thereto (Incorporated by reference to Exhibit 10.5 to Amendment No. 6 to Schedule 13D filed by Charter Communications, Inc. and others with respect to High Speed Access Corp., filed on October 1, 2001 (File No. 005-56431)).
2.3(f)	Assignment and Consent, dated as of December 20, 2001, by and among Vulcan Ventures Incorporated, CC Systems, LLC and Charter Communications Holding Company, LLC. (Incorporated by reference to Exhibit 10.6 to Amendment No. 8 to Schedule 13D filed by Charter Communications, Inc. and others with respect to High Speed Access Corp., filed on December 21, 2001 (File No. 005-56431)).
2.4(a)	Asset Purchase Agreement, dated August 29, 2001, by and between Charter Communications Entertainment I, LLC, Interlink Communications Partners, LLC, and Rifkin Acquisitions Partners, LLC and Enstar Income Program II-1, L.P., Enstar Income Program II-2, L.P., Enstar Income Program IV-3, L.P., Enstar Income/Growth Program Six-A, L.P., Enstar IV/PBD Systems Venture, and Enstar Cable of Macoupin County (Incorporated by reference to Exhibit 2.1 to the current report of Form 8-K filed by Enstar IV-2, L.P. on September 13, 2001 (File No. 000-15706)).
2.4(b)	Letter of Amendment, dated September 10, 2001, by and between Charter Communications Entertainment I, LLC, Interlink Communications Partners, LLC, and Rifkin Acquisitions Partners, LLC and Enstar Income Program II-1, L.P., Enstar Income Program II-2, L.P., Enstar Income Program IV-3, L.P., Enstar Income/Growth Program Six-A, L.P., Enstar IV/PBD Systems Venture, and Enstar Cable of Macoupin County (Incorporated by reference to Exhibit 2.1 to the current report of Form 8-K filed by Enstar IV-2, L.P. on September 13, 2001 (File No. 000-15706)).
2.4(c)	Letter of Amendment, dated April 10, 2002, by and between Charter Communications Entertainment I, LLC, Interlink Communications Partners, LLC, and Rifkin Acquisitions Partners, LLC and Enstar Income Program II-1, L.P., Enstar Income Program II-2, L.P., Enstar Income Program IV-3, L.P., Enstar Income/Growth Program Six-A, L.P., Enstar IV/PBD Systems



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Exhibit	Description
	Venture, and Enstar Cable of Macoupin County (Incorporated by reference to Exhibit 2.1 to the current report on Form 8-K filed by Enstar Income Program IV-1, L.P. on April 22, 2002 (File No. 000-15705)).
2.5	Asset Purchase Agreement, dated April 10, 2002, by and between Charter Communications Entertainment I, LLC, and Enstar Income Program II-1, L.P. (Incorporated by reference to Exhibit 2.2 to the current report on Form 8-K filed by Enstar Income Program II-1, L.P. on April 26, 2002 (File No. 000-14508)).
3.1(a)	Restated Certificate of Incorporation of Charter Communications, Inc. (Originally incorporated July 22, 1999) (Incorporated by reference to Exhibit 3.1 to Amendment No. 3 to the registration statement on Form S-1 of Charter Communications, Inc. filed on October 18, 1999 (File No. 333-83887)).
3.1(b)	Certificate of Amendment of Restated Certificate of Incorporation of Charter Communications, Inc. filed May 10, 2001 (Incorporated by reference to Exhibit 3.1(b) to the annual report of Form 10-K of Charter Communications, Inc. filed on March 29, 2002 (File No. 000-27927)).
3.2	Amended and Restated By-laws of Charter Communications, Inc. as of June 6, 2001 (Incorporated by reference to Exhibit 3.2 to the quarterly report on Form 10-Q filed by Charter Communications, Inc. on November 14, 2001 (File No. 000-27927)).
4.1	Certificate of Designation of Series A Convertible Redeemable Preferred Stock of Charter Communications, Inc. and related Certificate of Correction of Certificate of Designation (Incorporated by reference to Exhibit 3.1 to the quarterly report on Form 10-Q filed by Charter Communications, Inc. on November 14, 2001 (File No. 000-27927)).
4.2	Indenture, dated as of April 9, 1998, by and among Renaissance Media (Louisiana) LLC, Renaissance Media (Tennessee) LLC, Renaissance Media Capital Corporation, Renaissance Media Group LLC and United States Trust Company of New York, as trustee (Incorporated by reference to Exhibit 4.1 to the registration statement on Forms S-4 of Renaissance Media Group LLC, Renaissance Media (Tennessee) LLC, Renaissance Media (Louisiana) LLC and Renaissance Media Capital Corporation filed on June 12, 1998 (File No. 333-56679)).
4.3(a)	Indenture, dated as of December 10, 1998, by and among Avalon Cable of Michigan Holdings, Inc., Avalon Cable LLC and Avalon Cable Holdings Finance, Inc., as issuers and The Bank of New York, as trustee for the Notes (Incorporated by reference to Exhibit 4.1 to Amendment No. 1 to the registration statement on Form S-4 of Avalon Cable LLC, Avalon Cable Holdings Finance, Inc., Avalon Cable of Michigan Holdings, Inc. and Avalon Cable of Michigan, Inc. filed on May 28, 1999 (File Nos. 333-75415 and 333-75453)).
4.3(b)	Supplemental Indenture, dated as of March 26, 1999, by and among Avalon Cable of Michigan Holdings, Inc., Avalon Cable LLC and Avalon Cable Holdings Finance, Inc., as issuers, Avalon Cable of Michigan, Inc., as guarantor, and The Bank of New York, as trustee for the Notes (Incorporated by reference to Exhibit 4.2 to Amendment No. 1 to the registration statement on Form S-4 of Avalon Cable LLC, Avalon Cable Holdings Finance, Inc., Avalon Cable of Michigan Holdings, Inc. and Avalon Cable of Michigan, Inc. filed on May 28, 1999 (File No. 333-75415 and 333-75453)).
4.4	Indenture relating to the 8.250% Senior Notes due 2007, dated as of March 17, 1999, between Charter Communications Holdings, LLC, Charter Communications Holdings Capital Corporation and Harris Trust and Savings Bank (Incorporated by reference to Exhibit 4.1(a) to Amendment No. 2 to the registration statement on Form S-4 of Charter Communications Holdings, LLC and Charter Communications Holdings Capital Corporation filed on June 22, 1999 (File No. 333-77499)).
4.5	Indenture relating to the 8.625% Senior Notes due 2009, dated as of March 17, 1999, among Charter Communications Holdings, LLC, Charter Communications Holdings Capital Corporation and Harris Trust and Savings Bank (Incorporated by reference to Exhibit 4.2(a) to Amendment No. 2 to the registration statement on Form S-4 of Charter Communications Holdings, LLC and Charter Communications Holdings Capital Corporation filed on June 22, 1999 (File No. 333-77499)).

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<u>Exhibit</u>	<u>Description</u>
4.6	Indenture relating to the 9.920% Senior Discount Notes due 2011, dated as of March 17, 1999, among Charter Communications Holdings, LLC, Charter Communications Holdings Capital Corporation and Harris Trust and Savings Bank (Incorporated by reference to Exhibit 4.3(a) to Amendment No. 2 to the registration statement on Form S-4 of Charter Communications Holdings, LLC and Charter Communications Holdings Capital Corporation filed on June 22, 1999 (File No. 333-77499)).
4.7	Indenture relating to the 10.00% Senior Notes due 2009, dated as of January 12, 2000, between Charter Communications Holdings, LLC, Charter Communications Holdings Capital Corporation and Harris Trust and Savings Bank (Incorporated by reference to Exhibit 4.1(a) to the registration statement on Form S-4 of Charter Communications Holdings, LLC and Charter Communications Holdings Capital Corporation filed on January 25, 2000 (File No. 333-95351)).
4.8	Indenture relating to the 10.25% Senior Notes due 2010, dated as of January 12, 2000, among Charter Communications Holdings, LLC, Charter Communications Holdings Capital Corporation and Harris Trust and Savings Bank (Incorporated by reference to Exhibit 4.2(a) to the registration statement on Form S-4 of Charter Communications Holdings, LLC and Charter Communications Holdings Capital Corporation filed on January 25, 2000 (File No. 333-95351)).
4.9	Indenture relating to the 11.75% Senior Discount Notes due 2010, dated as of January 12, 2000, among Charter Communications Holdings, LLC, Charter Communications Holdings Capital Corporation and Harris Trust and Savings Bank (Incorporated by reference to Exhibit 4.3(a) to the registration statement on Form S-4 of Charter Communications Holdings, LLC and Charter Communications Holdings Capital Corporation filed on January 25, 2000 (File No. 333-95351)).
4.10	Indenture relating to 5.75% Convertible Senior Notes due 2005, dated as of October 25, 2000, among Charter Communications, Inc. and BNY Midwest Trust Company as trustee (Incorporated by reference to Exhibit 10.35 to the quarterly report on Form 10-Q filed by Charter Communications, Inc. on November 14, 2000 (File No. 000-27927)).
4.11	Indenture dated as of January 10, 2001 between Charter Communications Holdings, LLC, Charter Communications Holdings Capital Corporation and BNY Midwest Trust Company as Trustee governing 10 3/4% senior notes due 2009 (Incorporated by reference to Exhibit 4.2(a) to the registration statement on Form S-4 of Charter Communications Holdings, LLC and Charter Communications Holdings Capital Corporation filed on February 2, 2001 (File No. 333-54902)).
4.12	Indenture dated as of January 10, 2001 between Charter Communications Holdings, LLC, Charter Communications Holdings Capital Corporation and BNY Midwest Trust Company as Trustee governing 11 1/8% senior notes due 2011 (Incorporated by reference to Exhibit 4.2(b) to the registration statement on Form S-4 of Charter Communications Holdings, LLC and Charter Communications Holdings Capital Corporation filed on February 2, 2001 (File No. 333-54902)).
4.13	Indenture dated as of January 10, 2001 between Charter Communications Holdings, LLC, Charter Communications Holdings Capital Corporation and BNY Midwest Trust Company as Trustee governing 13 1/2% senior discount notes due 2011 (Incorporated by reference to Exhibit 4.2(c) to the registration statement on Form S-4 of Charter Communications Holdings, LLC and Charter Communications Holdings Capital Corporation filed on February 2, 2001 (File No. 333-54902)).
4.14(a)	Indenture dated as of May 15, 2001 between Charter Communications Holdings, LLC, Charter Communications Holdings Capital Corporation and BNY Midwest Trust Company as Trustee governing 9.625% Senior Notes due 2009. (Incorporated by reference to Exhibit 10.2(a) to the current report on Form 8-K filed by Charter Communications, Inc. on June 1, 2001 (File No. 000-27927)).
4.14(b)	First Supplemental Indenture dated as of January 14, 2002 between Charter Communications Holdings, LLC, Charter Communications Holdings Capital Corporation and BNY Midwest Trust Company as Trustee governing 9.625% Senior Notes due 2009 (Incorporated by reference to Exhibit 10.2(a) to the current report on Form 8-K filed by Charter Communications, Inc. on January 15, 2002 (File No. 000-27927)).



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Exhibit	Description
4.14(c)	Second Supplemental Indenture dated as of June 25, 2002 between Charter Communications Holdings, LLC, Charter Communications Holdings Capital Corporation and BNY Midwest Trust Company as Trustee governing 9.625% Senior Notes due 2009 (Incorporated by reference to Exhibit 4.1 to the quarterly report on Form 10-Q filed by Charter Communications, Inc. on August 6, 2002 (File No. 000-27927)).
4.15(a)	Indenture dated as of May 15, 2001 between Charter Communications Holdings, LLC, Charter Communications Holdings Capital Corporation and BNY Midwest Trust Company as Trustee governing 10.000% Senior Notes due 2011. (Incorporated by reference to Exhibit 10.3(a) to the current report on Form 8-K filed by Charter Communications, Inc. on June 1, 2001 (File No. 000-27927)).
4.15(b)	First Supplemental Indenture dated as of January 14, 2002 between Charter Communications Holdings, LLC, Charter Communications Holdings Capital Corporation and BNY Midwest Trust Company as Trustee governing 10.000% Senior Notes due 2011 (Incorporated by reference to Exhibit 10.3(a) to the current report on Form 8-K filed by Charter Communications, Inc. on January 15, 2002 (File No. 000-27927)).
4.15(c)	Second Supplemental Indenture dated as of June 25, 2002 between Charter Communications Holdings, LLC, Charter Communications Holdings Capital Corporation and BNY Midwest Trust Company as Trustee governing 10.000% Senior Notes due 2011 (Incorporated by reference to Exhibit 4.2 to the quarterly report on Form 10-Q filed by Charter Communications, Inc. on August 6, 2002 (File No. 000-27927)).
4.16	Indenture dated as of May 15, 2001 between Charter Communications Holdings, LLC, Charter Communications Holdings Capital Corporation and BNY Midwest Trust Company as Trustee governing 11.750% Senior Discount Notes due 2011. (Incorporated by reference to Exhibit 10.4(a) to the current report on Form 8-K filed by Charter Communications, Inc. on June 1, 2001 (File No. 000-27927)).
4.17	Indenture dated May 30, 2001 between Charter Communications, Inc. and BNY Midwest Trust Company as Trustee governing 4.75% Convertible Senior Notes due 2006. (Incorporated by reference to Exhibit 4.1(b) to the current report on Form 8-K filed by Charter Communications, Inc. on June 1, 2001 (File No. 000-27927)).
4.18(a)	Indenture dated as of January 14, 2002 between Charter Communications Holdings, LLC, Charter Communications Holdings Capital Corporation and BNY Midwest Trust Company as Trustee governing 12.125% Senior Discount Notes due 2012 (Incorporated by reference to Exhibit 10.4(a) to the current report on Form 8-K filed by Charter Communications, Inc. on January 15, 2002 (File No. 000-27927)).
4.18(b)	First Supplemental Indenture dated as of June 25, 2002 between Charter Communications Holdings, LLC, Charter Communications Holdings Capital Corporation and BNY Midwest Trust Company as Trustee governing 12.125% Senior Discount Notes due 2012 (Incorporated by reference to Exhibit 4.3 to the quarterly report on Form 10-Q filed by Charter Communications, Inc. on August 6, 2002 (File No. 000-27927)).
4.19(a)	5.75% Mirror Note in the principal amount of \$650 million dated as of October 30, 2000 made by Charter Communications Holding Company, LLC, a Delaware limited liability company, in favor of Charter Communications, inc., a Delaware corporation (Incorporated by reference to Exhibit 4.4(a) to the quarterly report on Form 10-Q filed by Charter Communications, Inc. on August 6, 2002 (File No. 000-27927)).
4.19(b)	5.75% Mirror Note in the principal amount of \$100 million dated as of November 3, 2000 made by Charter Communications Holding Company, LLC, a Delaware limited liability company, in favor of Charter Communications, inc., a Delaware corporation (Incorporated by reference to Exhibit 4.4(b) to the quarterly report on Form 10-Q filed by Charter Communications, Inc. on August 6, 2002 (File No. 000-27927)).



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<u>Exhibit</u>	<u>Description</u>
4.20	4.75% Mirror Note in the principal amount of \$632.5 million dated as of May 30, 2001, made by Charter Communications Holding Company, LLC, a Delaware limited liability company, in favor of Charter Communications, inc., a Delaware corporation (Incorporated by reference to Exhibit 4.5 to the quarterly report on Form 10-Q filed by Charter Communications, Inc. on August 6, 2002 (File No. 000-27927)).
10.1	Consulting Agreement, dated as of March 10, 1999, by and between Vulcan Northwest Inc., Charter Communications, Inc. (now called Charter Investment Inc.) and Charter Communications Holdings, LLC (Incorporated by reference to Exhibit 10.3 to Amendment No. 4 to the registration statement on Form S-4 of Charter Communications Holdings, LLC and Charter Communications Holdings Capital Corporation filed on July 22, 1999 (File No. 333-77499)).
10.2	Letter Agreement, dated September 21, 1999, by and among Charter Communications, Inc., Charter Investment, Inc., Charter Communications Holding Company, Inc. and Vulcan Ventures Inc. (Incorporated by reference to Exhibit 10.22 to Amendment No. 3 to the registration statement on Form S-1 of Charter Communications, Inc. filed on October 18, 1999 (File No. 333-83887)).
10.3	First Amended and Restated Mutual Services Agreement, dated as of December 21, 2000, by and between Charter Communications, Inc., Charter Investment, Inc. and Charter Communications Holding Company, LLC (Incorporated by reference to Exhibit 10.2(b) to the registration statement on Form S-4 of Charter Communications Holdings, LLC and Charter Communications Holdings Capital Corporation filed on February 2, 2001 (File No. 333-54902)).
10.4	Form of Management Agreement, dated as of November 9, 1999, by and between Charter Communications Holding Company, LLC and Charter Communications, Inc. (Incorporated by reference to Exhibit 10.2(d) to Amendment No. 3 to the registration statement on Form S-1 of Charter Communications, Inc. filed on October 18, 1999 (File No. 333-83887)).
10.5(a)	Amended and Restated Management Agreement, dated March 17, 1999, between Charter Communications Operating, LLC and Charter Communications, Inc. (Incorporated by reference to Exhibit 10.2 to Amendment No. 4 to the registration statement on Form S-4 of Charter Communications Holdings, LLC and Charter Communications Holdings Capital Corporation filed on July 22, 1999 (File No. 333-77499)).
10.5(b)**	Amendment dated November 8, 1999 to Amended and Restated Management Agreement, dated as of March 17, 1999, by and among Charter Investment, Inc., Charter Communications, Inc. and Charter Communications Operating, LLC.
10.5(c)	Second Amendment to Amended and Restated Management Agreement, dated as of March 17, 1999, as amended as of January 1, 2002, by and between Charter Communications Operating, LLC and Charter Communications, Inc. (Incorporated by reference to Exhibit 10.8(c) to the annual report of Form 10-K of Charter Communications, Inc. filed on March 29, 2002 (File No. 000-27927)).
10.6	Management Agreement, dated as of November 12, 1999, by and between CC VI Operating Company, LLC and Charter Communications, Inc. (Incorporated by reference to Exhibit 10.2(d) to Amendment No. 1 to the registration statement on Form S-4 of Charter Communications Holdings, LLC and Charter Communications Holdings Capital Corporation filed on April 18, 2000 (File No. 333-77499)).
10.7	Management Agreement, dated as of November 12, 1999 by and between Falcon Cable Communications, LLC and Charter Communications, Inc. (Incorporated by reference to Exhibit 10.2(e) to Amendment No. 1 to the registration statement on Form S-4 of Charter Communications Holdings, LLC and Charter Communications Holdings Capital Corporation filed on April 18, 2000 (File No. 333-77499)).
10.8	Form of Exchange Agreement, dated as of November 12, 1999 by and among Charter Investment, Inc., Charter Communications, Inc., Vulcan Cable III Inc. and Paul G. Allen (Incorporated by reference to Exhibit 10.13 to Amendment No. 3 to the registration statement on Form S-1 of Charter Communications, Inc. filed on October 18, 1999 (File No. 333-83887)).

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<u>Exhibit</u>	<u>Description</u>
10.9	Exchange Agreement, dated as of February 14, 2000, by and among Charter Communications, Inc., BCI (USA), LLC, William J. Bresnan, Blackstone BC Capital Partners L.P., Blackstone BC Offshore Capital Partners L.P., Blackstone Family Media, III L.P. (as assignee of Blackstone Family Investment III L.P.), TCID of Michigan, Inc., and TCI Bresnan LLC (Incorporated by reference to Exhibit 10.40 to the current report on Form 8-K of Charter Communications, Inc. filed on February 29, 2000 (File No. 000-27927)).
10.10(a)+	Charter Communications Holdings, LLC 1999 Option Plan (Incorporated by reference to Exhibit 10.4 to Amendment No. 4 to the registration statement on Form S-4 of Charter Communications Holdings, LLC and Charter Communications Holdings Capital Corporation filed on July 22, 1999 (File No. 333-77499)).
10.10(b)+	Assumption Agreement regarding Option Plan, dated as of May 25, 1999, by and between Charter Communications Holdings, LLC and Charter Communications Holding Company, LLC (Incorporated by reference to Exhibit 10.13 to Amendment No. 6 to the registration statement on Form S-4 of Charter Communications Holdings, LLC and Charter Communications Holdings Capital Corporation filed on August 27, 1999 (File No. 333-77499)).
10.10(c)+	Form of Amendment No. 1 to the Charter Communications Holdings, LLC 1999 Option Plan (Incorporated by reference to Exhibit 10.10(c) to Amendment No. 4 to the registration statement on Form S-1 of Charter Communications, Inc. filed on November 1, 1999 (File No. 333-83887)).
10.10(d)+	Amendment No. 2 to the Charter Communications Holdings, LLC 1999 Option Plan (Incorporated by reference to Exhibit 10.4(c) to the annual report on Form 10-K filed by Charter Communications, Inc. on March 30, 2000 (File No. 000-27927)).
10.10(e)+	Amendment No. 3 to the Charter Communications 1999 Option Plan (Incorporated by reference to Exhibit 10.14(e) to the annual report of Form 10-K of Charter Communications, Inc. filed on March 29, 2002 (File No. 000-27927)).
10.10(f)**+	Amendment No. 4 to the Charter Communications 1999 Option Plan.
10.11(a)+	Charter Communications, Inc. 2001 Stock Incentive Plan (Incorporated by reference to Exhibit 10.25 to the quarterly report on Form 10-Q filed by Charter Communications, Inc. on May 15, 2001 (File No. 000-27927)).
10.11(b)**+	Amendment No. 1 to the Charter Communications, Inc. 2001 Stock Incentive Plan.
10.11(c)+	Amendment No. 2 to the Charter Communications, Inc. 2001 Stock Incentive Plan (Incorporated by reference to Exhibit 10.10 to the quarterly report on Form 10-Q filed by Charter Communications, Inc. on November 14, 2001 (File No. 000-27927)).
10.11(d)+	Amendment No. 3 to the Charter Communications, Inc. 2001 Stock Incentive Plan effective January 2, 2002 (Incorporated by reference to Exhibit 10.15(c) to the annual report of Form 10-K of Charter Communications, Inc. filed on March 29, 2002 (File No. 000-27927)).
10.11(e)**+	Amendment No. 4 to the Charter Communications, Inc. 2001 Stock Incentive Plan.
10.11(f)**+	Amendment No. 5 to the Charter Communications, Inc. 2001 Stock Incentive Plan.
10.12+	Agreement, dated as of September 24, 2001, by and between Jerald Kent and Charter Communications, Inc. (Incorporated by reference to Exhibit 10.1 to the quarterly report on Form 10-Q filed by Charter Communications, Inc. on November 14, 2001 (File No. 000-27927)).
10.13(a)+	Letter Agreement, dated May 25, 1999, between Charter Communications, Inc. and Marc Nathanson (Incorporated by reference to Exhibit 10.36 to the registration statement on Form S-4 of Charter Communications Holdings, LLC and Charter Communications Holdings Capital Corporation filed on January 25, 2000 (File No. 333-95351)).
10.13(b)**+	Letter Agreement, dated March 27, 2000, between CC VII Holdings, LLC and Marc Nathanson, amending the Letter Agreement dated May 25, 1999.

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<u>Exhibit</u>	<u>Description</u>
10.14+	Employment Agreement, dated as of September 28, 2001, by and between Kent D. Kalkwarf and Charter Communications, Inc. (Incorporated by reference to Exhibit 10.2 to the quarterly report on Form 10-Q filed by Charter Communications, Inc. on November 14, 2001 (File No. 000-27927)).
10.15+	Employment Agreement, dated as of September 28, 2001, by and between David G. Barford and Charter Communications, Inc. (Incorporated by reference to Exhibit 10.3 to the quarterly report on Form 10-Q filed by Charter Communications, Inc. on November 14, 2001 (File No. 000-27927)).
10.16+	Employment Agreement, dated as of October 8, 2001, by and between Carl E. Vogel and Charter Communications, Inc. (Incorporated by reference to Exhibit 10.4 to the quarterly report on Form 10-Q filed by Charter Communications, Inc. on November 14, 2001 (File No. 000-27927)).
10.17+	Employment Agreement, dated as of October 18 2001, by and between Stephen E. Silva and Charter Communications, Inc. (Incorporated by reference to Exhibit 10.5 to the quarterly report on Form 10-Q filed by Charter Communications, Inc. on November 14, 2001 (File No. 000-27927)).
10.18+	Employment Agreement, dated as of October 30, 2001, by and between David L. McCall and Charter Communications, Inc. (Incorporated by reference to Exhibit 10.6 to the quarterly report on Form 10-Q filed by Charter Communications, Inc. on November 14, 2001 (File No. 000-27927)).
10.19***+	Employment offer letter dated December 3, 2002, by and between Charter Communications, Inc. and Margaret Bellville.
10.20+	Employment Agreement, dated as of October 30, 2001, by and between James H. Smith, III and Charter Communications, Inc. (Incorporated by reference to Exhibit 10.7 to the quarterly report on Form 10-Q filed by Charter Communications, Inc. on November 14, 2001 (File No. 000-27927)).
10.21(a)	Credit Agreement, among Charter Communications Operating, LLC and certain lenders and agents named therein, dated as of March 18, 1999, (Incorporated by reference to Exhibit 10.1 to Amendment No. 2 to the registration statement on Form S-4 of Charter Communications Holdings, LLC and Charter Communications Holdings Capital Corporation filed on June 22, 1999 (File No. 333-77499)).
10.21(b)	First Amendment to Credit Agreement, among Charter Communications Operating, LLC, Charter Communications Holdings LLC and certain lenders and agents named therein, dated as of June 28, 1999 (Incorporated by reference to Exhibit 10.1(a) to the registration statement on Form S-4 of Charter Communications Holdings, LLC and Charter Communications Holdings Capital Corporation filed on January 25, 2000 (File No. 333-95351)).
10.21(c)	Second Amendment to Credit Agreement, among Charter Communications Operating, LLC, Charter Communications Holdings LLC and certain lenders and agents named therein dated as of December 14, 1999 (Incorporated by reference to Exhibit 10.1(b) to the registration statement on Form S-4 of Charter Communications Holdings, LLC and Charter Communications Holdings Capital Corporation filed on January 25, 2000 (File No. 333-95351)).
10.21(d)	Third Amendment to Credit Agreement, among Charter Communications Operating, LLC, Charter Communications, LLC and certain lenders and agents named therein, dated as of March 18, 2000 (Incorporated by reference to Exhibit 10.1(c) to the annual report on Form 10-K filed by Charter Communications, Inc. on March 30, 2000 (File No. 000-27927)).
10.21(e)	Credit Agreement, among Charter Communications Operating, LLC, Charter Communications Holdings, LLC and certain lenders and agents named therein, dated as of March 18, 1999, as amended and restated as of January 3, 2002 (Incorporated by reference to Exhibit 99.1 to the current report on Form 8-K filed by Charter Communications, Inc. on January 24, 2002 (File No. 000-27927)).
10.22(a)	Form of Credit Agreement, among Falcon Cable Communications, LLC, certain guarantors and several financial institutions or entities named therein, dated as of June 30, 1998, as amended and restated as of November 12, 1999, (Incorporated by reference to Exhibit 10.36 to Amendment No. 3



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<u>Exhibit</u>	<u>Description</u>
	to the registration statement on Form S-1 of Charter Communications, Inc. filed on October 18, 1999 (File No. 333-83887)).
10.22(b)	Credit Agreement, dated as of June 30, 1998, as amended and restated as of November 12, 1999, as further amended and restated as of September 26, 2001, among Falcon Cable Communications, LLC, certain guarantors, and several financial institutions or entities named therein. (Incorporated by reference to Exhibit 10.8 to the quarterly report on Form 10-Q filed by Charter Communications, Inc. on November 14, 2001 (File No. 000-27927)).
10.23(a)	Amended and Restated Credit Agreement dated as of February 2, 1999, as amended and restated as of February 14, 2000 by and among CC VIII Operating, LLC, as borrower, CC VIII Holdings, LLC, as guarantor, and several financial institutions or entities named therein (Incorporated by reference to Exhibit 10.18(a) to the annual report on Form 10-K filed by Charter Communications, Inc. on March 30, 2000 (File No. 000-27927)).
10.23(b)	Second Amended and Restated Credit Agreement, among CC VIII Operating, LLC, as borrower, CC VIII Holdings, LLC, as guarantor, and several financial institutions or entities named therein, dated as of February 2, 1999, as amended and restated as of January 2, 2001 (Incorporated by reference to Exhibit 10.17 to the annual report on Form 10-K filed by Charter Communications Holdings, LLC and Charter Communications Holdings Capital Corporation on April 2, 2001 (File No. 333-77499)).
10.23(c)	Third Amended and Restated Credit Agreement, among CC VIII Operating, LLC, as borrower, CC VIII Holdings, LLC, as guarantor, and certain lenders and agents named therein, dated as of February 2, 1999, as amended and restated as of January 3, 2002 (Incorporated by reference to Exhibit 99.2 to the current report on Form 8-K filed by Charter Communications, Inc. on January 24, 2002 (File No. 000-27927)).
10.24	Credit Agreement, among CC VI Holdings, LLC, CC VI Operating Company, LLC and several financial institutions or entities named therein, dated as of November 12, 1999, (Incorporated by reference to Exhibit 10.41 to the report on Form 8-K of Charter Communications, Inc. filed on November 29, 1999 (File No. 000-27927)).
10.25	Commitment Letter, dated February 26, 2001, by and among Goldman Sachs Credit Partners, L.P. and Morgan Stanley Senior Funding, Inc., on the one hand, and Charter Communications Holdings, LLC and Charter Communications Holdings Capital Corporation, on the other hand (Incorporated by reference to Exhibit 10.24 to the annual report of Form 10-K of Charter Communications, Inc. filed on March 6, 2001 (File No. 000-27927)).
10.26	Amended and Restated Limited Liability Company Agreement for Charter Communications Holding Company, LLC made as of August 31, 2001 (Incorporated by reference to Exhibit 10.9 to the quarterly report on Form 10-Q filed by Charter Communications, Inc. on November 14, 2001 (File No. 000-27927)).
10.27**	Amended and Restated Limited Liability Company Agreement for CC VIII, LLC, dated as of March 31, 2003.
10.28**	Commitment letter, dated April 14, 2003, from Vulcan Inc. to Charter Communications VII, LLC.
14.1**	Code of Conduct adopted January 28, 2003
21.1**	Subsidiaries of Charter Communications, Inc.
23.1**	Consent of KPMG LLP
99.2**	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Chief Executive Officer).

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Exhibit	Description
99.3**	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Chief Financial Officer).

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\*\* Document Attached

+ Management compensatory plan or arrangement

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## Independent Auditors' Report

To the Board of Directors  
Charter Communications, Inc:

We have audited the accompanying consolidated balance sheets of Charter Communications, Inc. and subsidiaries as of December 31, 2002, 2001 and 2000, and the related consolidated statements of operations, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2002. 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 auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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, Inc. and subsidiaries as of December 31, 2002, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2002 in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 3 to the consolidated financial statements, the Company has restated the consolidated balance sheets as of December 31, 2001 and 2000 and the related consolidated statements of operations, changes in shareholders' equity and cash flows for the years then ended, which consolidated financial statements were previously audited by other independent auditors who have ceased operations.

As discussed in Note 4 to the consolidated financial statements, effective January 1, 2002, the Company adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets."

/s/ KPMG LLP

St. Louis, Missouri  
April 14, 2003

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**CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEET**  
(dollars in millions)

	December 31,		
	2002	2001 (restated)	2000 (restated)
<b>ASSETS</b>			
<b>CURRENT ASSETS:</b>			
Cash and cash equivalents	\$ 321	\$ 2	\$ 131
Accounts receivable, less allowance for doubtful accounts of \$19, \$33 and \$12, respectively	259	292	209
Receivables from related party	8	5	—
Prepaid expenses and other current assets	45	70	87
<b>Total current assets</b>	<b>633</b>	<b>369</b>	<b>427</b>
<b>INVESTMENT IN CABLE PROPERTIES:</b>			
Property, plant and equipment, net of accumulated depreciation of \$2,634, \$1,928 and \$1,150, respectively	7,679	6,914	4,829
Franchises, net of accumulated amortization of \$3,452, \$3,443 and \$2,006, respectively	13,727	18,911	18,835
<b>Total investment in cable properties, net</b>	<b>21,406</b>	<b>25,825</b>	<b>23,664</b>
<b>OTHER ASSETS</b>	<b>345</b>	<b>269</b>	<b>261</b>
<b>Total assets</b>	<b>\$22,384</b>	<b>\$26,463</b>	<b>\$24,352</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>CURRENT LIABILITIES:</b>			
Accounts payable and accrued expenses	\$ 1,405	\$ 1,379	\$ 1,343
<b>Total current liabilities</b>	<b>1,405</b>	<b>1,379</b>	<b>1,343</b>
<b>LONG-TERM DEBT</b>	<b>18,671</b>	<b>16,343</b>	<b>13,061</b>
<b>DEFERRED MANAGEMENT FEES – RELATED PARTY</b>	<b>14</b>	<b>14</b>	<b>14</b>
<b>OTHER LONG-TERM LIABILITIES</b>	<b>1,177</b>	<b>1,682</b>	<b>1,517</b>
<b>MINORITY INTEREST</b>	<b>1,025</b>	<b>4,409</b>	<b>4,546</b>
<b>REDEEMABLE SECURITIES</b>	<b>—</b>	<b>—</b>	<b>1,104</b>
<b>PREFERRED STOCK – REDEEMABLE; \$.001 par value; 1 million shares authorized; 505,664 shares issued and outstanding</b>	<b>51</b>	<b>51</b>	<b>—</b>
<b>SHAREHOLDERS' EQUITY:</b>			
Class A Common stock; \$.001 par value; 1.75 billion shares authorized; 294,620,408, 294,536,830 and 233,702,135 shares issued and outstanding, respectively	—	—	—
Class B Common stock; \$.001 par value; 750 million shares authorized; 50,000 shares issued and outstanding	—	—	—
Preferred stock; \$.001 par value; 250 million shares authorized; no non-redeemable shares issued and outstanding	—	—	—
Additional paid-in capital	4,697	4,694	3,691
Accumulated deficit	(4,609)	(2,092)	(924)
Accumulated other comprehensive loss	(47)	(17)	—
<b>Total shareholders' equity</b>	<b>41</b>	<b>2,585</b>	<b>2,767</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$22,384</b>	<b>\$26,463</b>	<b>\$24,352</b>

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

**CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**(dollars in millions, except per share data)**

	Year Ended December 31,		
	2002	2001	2000
REVENUES	\$ 4,566	\$ (restated) 3,807	\$ (restated) 3,141
COSTS AND EXPENSES:			
Operating (excluding depreciation and amortization and other items listed below)	1,804	1,480	1,185
Selling, general and administrative	966	832	608
Depreciation and amortization	1,437	2,682	2,398
Impairment of franchises	4,638	—	—
Option compensation expense, net	5	(5)	38
Special charges	36	18	—
	<u>8,886</u>	<u>5,007</u>	<u>4,229</u>
Loss from operations	(4,320)	(1,200)	(1,088)
OTHER INCOME (EXPENSE):			
Interest expense, net	(1,506)	(1,313)	(1,042)
Loss on equity investments	(3)	(54)	(19)
Other, net	(118)	(66)	(1)
	<u>(1,627)</u>	<u>(1,433)</u>	<u>(1,062)</u>
Loss before minority interest, income taxes and cumulative effect of accounting change	(5,947)	(2,633)	(2,150)
MINORITY INTEREST	3,179	1,464	1,282
	<u>(2,768)</u>	<u>(1,169)</u>	<u>(868)</u>
INCOME TAX BENEFIT	520	12	10
	<u>(2,248)</u>	<u>(1,157)</u>	<u>(858)</u>
Loss before cumulative effect of accounting change	(2,248)	(1,157)	(858)
CUMULATIVE EFFECT OF ACCOUNTING CHANGE	(266)	(10)	—
	<u>(2,514)</u>	<u>(1,167)</u>	<u>(858)</u>
Net loss	(2,514)	(1,167)	(858)
Dividends on preferred stock – redeemable	(3)	(1)	—
	<u>(2,517)</u>	<u>(1,168)</u>	<u>(858)</u>
LOSS PER COMMON SHARE, basic and diluted	\$ (8.55)	\$ (4.33)	\$ (3.80)
Weighted average common shares outstanding, basic and diluted	294,440,261	269,594,386	225,697,775

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

**CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
(dollars in millions)

	Class A Common Stock	Class B Common Stock	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
BALANCE, December 31, 1999	\$—	\$—	\$3,075	\$ (66)	\$ 2	\$ 3,011
Issuance of common stock related to acquisitions	—	—	178	—	—	178
Redeemable securities reclassified as equity	—	—	693	—	—	693
Unrealized loss on marketable securities available for sale	—	—	—	—	(2)	(2)
Option compensation expense, net (restated)	—	—	16	—	—	16
Loss on issuance of equity by subsidiary (restated)	—	—	(272)	—	—	(272)
Stock options exercised	—	—	1	—	—	1
Net loss (restated)	—	—	—	(858)	—	(858)
BALANCE, December 31, 2000 (restated)	—	—	3,691	(924)	—	2,767
Issuance of common stock related to acquisitions	—	—	2	—	—	2
Net proceeds from issuance of common stock	—	—	1,218	—	—	1,218
Redeemable securities reclassified as equity	—	—	9	—	—	9
Contributions from Charter Investment, Inc. (restated)	—	—	25	—	—	25
Changes in fair value of interest rate agreements	—	—	—	—	(17)	(17)
Option compensation expense, net (restated)	—	—	(3)	—	—	(3)
Loss on issuance of equity by subsidiary (restated)	—	—	(253)	—	—	(253)
Stock options exercised	—	—	5	—	—	5
Dividends on preferred stock — redeemable	—	—	—	(1)	—	(1)
Net loss (restated)	—	—	—	(1,167)	—	(1,167)
BALANCE, December 31, 2001 (restated)	—	—	4,694	(2,092)	(17)	2,585
Issuance of common stock related to acquisitions	—	—	2	—	—	2
Changes in fair value of interest rate agreements	—	—	—	—	(30)	(30)
Option compensation expense, net	—	—	2	—	—	2
Loss on issuance of equity by subsidiary	—	—	(1)	—	—	(1)
Dividends on preferred stock — redeemable	—	—	—	(3)	—	(3)
Net loss	—	—	—	(2,514)	—	(2,514)
BALANCE, December 31, 2002	\$—	\$—	\$4,697	\$(4,609)	\$(47)	\$ 41

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

**CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(dollars in millions)

	Year Ended December 31,		
	2002	2001	2000
		(restated)	(restated)
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net loss	\$(2,514)	\$(1,167)	\$ (858)
Adjustments to reconcile net loss to net cash flows from operating activities:			
Minority interest	(3,179)	(1,464)	(1,282)
Depreciation and amortization	1,437	2,682	2,398
Impairment of franchises	4,638	—	—
Option compensation expense, net	5	(5)	38
Noncash interest expense	395	295	174
Loss on equity investments	3	54	19
Loss on derivative instruments and hedging activities, net	115	50	—
Deferred income taxes	(520)	(12)	(10)
Cumulative effect of accounting change	266	10	—
Changes in operating assets and liabilities, net of effects from acquisitions:			
Accounts receivable	27	(73)	(130)
Prepaid expenses and other current assets	26	(11)	(2)
Accounts payable and accrued expenses	52	125	523
Receivables from and payables to related party, including deferred management fees	(3)	—	(35)
Other operating activities	—	5	(7)
	—————	—————	—————
Net cash flows from operating activities	748	489	828
	—————	—————	—————
<b>CASH FLOWS FROM INVESTMENT ACTIVITIES:</b>			
Purchases of property, plant and equipment	(2,222)	(3,001)	(2,536)
Payments for acquisitions, net of cash acquired	(139)	(1,755)	(1,188)
Purchases of investments	(12)	(3)	(59)
Other investing activities	10	(15)	32
	—————	—————	—————
Net cash flows from investing activities	(2,363)	(4,774)	(3,751)
	—————	—————	—————
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Proceeds from issuance of common stock	2	1,223	—
Borrowings of long-term debt	4,106	7,310	7,505
Repayments of long-term debt	(2,134)	(4,290)	(4,500)
Payments for debt issuance costs	(40)	(87)	(85)
	—————	—————	—————
Net cash flows from financing activities	1,934	4,156	2,920
	—————	—————	—————
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>319</b>	<b>(129)</b>	<b>(3)</b>
<b>CASH AND CASH EQUIVALENTS, beginning of period</b>	<b>2</b>	<b>131</b>	<b>134</b>
	—————	—————	—————
<b>CASH AND CASH EQUIVALENTS, end of period</b>	<b>\$ 321</b>	<b>\$ 2</b>	<b>\$ 131</b>
	—————	—————	—————
<b>CASH PAID FOR INTEREST</b>	<b>\$ 1,103</b>	<b>\$ 994</b>	<b>\$ 772</b>
	—————	—————	—————
<b>NONCASH TRANSACTIONS:</b>			
Reclassification of redeemable securities to equity and minority interest	\$ —	\$ 1,105	\$ 742
Exchange of cable system for acquisition	—	25	—
Issuances of preferred stock – redeemable, as payment for acquisitions	—	51	—
Issuances of equity as partial payments for acquisitions	—	2	1,192

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

**CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2002, 2001 AND 2000**  
**(dollars in millions, except where indicated)**

**1. Organization**

Charter Communications, Inc. (Charter) is a holding company whose primary asset at December 31, 2002 is a 47% controlling common equity interest in Charter Communications Holding Company, LLC (Charter Holdco), which, in turn, is the sole owner of Charter Communications Holdings, LLC (Charter Holdings). Charter, Charter Holdco and its subsidiaries are collectively referred to herein as the "Company." The Company owns and operates cable systems that provide a full range of traditional analog television services to the home, along with advanced broadband services, including television on an advanced digital programming platform and high-speed Internet access. The Company also provides commercial high-speed data, video, telephony and Internet services as well as advertising sales and production services.

**2. Liquidity and Capital Resources**

The Company has incurred losses from operations of \$4.3 billion, \$1.2 billion and \$1.1 billion in 2002, 2001 and 2000, respectively. The Company's net cash flows from operating activities were \$748 million, \$489 million and \$828 million for the years ending December 31, 2002, 2001 and 2000, respectively. In addition, the Company has required significant cash to fund capital expenditures, debt service costs and ongoing operations. Historically the Company has funded liquidity and capital requirements through cash flows from operations, borrowing under the credit facilities of the Company's subsidiaries, and by issuances of debt and equity securities. The mix of funding sources changes from period to period, but for the year ended December 31, 2002, approximately 70% of the Company's funding requirements were from cash flows from operations, 16% was from borrowings under the credit facilities of the Company's subsidiaries and 14% was for the issuance of debt by the Company's subsidiaries.

The Company expects that cash on hand, cash flows from operations and the funds available under the bank facilities and borrowings under the Vulcan Inc. commitment described in Note 10 will be adequate to meet its 2003 cash needs. However, the bank facilities are subject to certain restrictive covenants, portions of which are subject to the operating results of the Company's subsidiaries. The Company's 2003 operating plan maintains compliance with these covenants. If the Company's actual operating results do not maintain compliance with these covenants, or if other events of noncompliance occur, funding under the bank facilities may not be available and defaults on some or potentially all debt obligations could occur. In addition, no assurances can be given that the Company may not experience liquidity problems because of adverse market conditions or other unfavorable events or if the Company does not obtain sufficient additional financing on a timely basis. The Company has arranged additional availability as described in Note 10.

The indenture governing the Charter Holdco notes permits Charter Holdings and its subsidiaries to make payments to the extent of its outstanding unsubordinated intercompany debt to Charter Holdco, which had an aggregate principal amount of approximately \$73 million as of December 31, 2002. That amount is only sufficient to enable Charter to make interest payments on its convertible senior notes through December, 2003, and is not sufficient to enable Charter to make interest payments beginning in April, 2004 or to repay all or any portion of its convertible senior notes at maturity.

Accordingly, Charter will not be able to make interest payments beginning in April, 2004, or principal payments at maturity in 2005 and 2006, with respect to its convertible senior notes unless it can obtain additional financing or it receives distributions or other payments from its subsidiaries. The indentures governing the Charter Holdings notes permit Charter Holdings to make distributions to Charter Holdco only if, at the time of distribution, Charter Holdings can meet a leverage ratio of 8.75 to 1.0, there is no default under the indentures and other specified tests are met.

The Company's long-term financing structure as of December 31, 2002 includes \$7.8 billion of credit facility debt, \$9.5 billion of high-yield debt and \$1.4 billion of convertible subordinated debentures. Approximately \$236 million of this financing matures during 2003. Note 10 discusses the Company's current availability and long-term obligations, interest obligations and provides a schedule of maturity.

**CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**(dollars in millions, except where indicated)**

**3. Restatements of Consolidated Financial Results**

The Company has identified a series of adjustments that have resulted in the restatement of the previously issued financial statements for the years ended December 31, 2001 and 2000. These adjustments also resulted in the restatements of previously announced quarterly results for the first three quarters of fiscal 2002 and each quarter during fiscal 2001 and 2000, as more fully described in Note 28. In summary, the adjustments are grouped into the following categories: (i) launch incentives from programmers; (ii) customer incentives and inducements; (iii) capitalized labor and overhead costs; (iv) customer acquisition costs; (v) rebuild and upgrade of cable systems; (vi) deferred tax liabilities/franchise assets; and (vii) other adjustments. These adjustments reduced revenue for the years ended December 31, 2001 and 2000 by \$146 million and \$108 million, respectively. The Company's consolidated net loss decreased by \$11 million for the year ended December 31, 2001. Net loss increased by \$29 million for the year ended December 31, 2000, primarily due to adjustments related to the original accounting for acquisitions and for elements of the rebuild and upgrade activities. In addition, as a result of certain of these adjustments, the Company's statements of cash flows have been restated. Cash flows from operations for the years ended December 31, 2001 and 2000 were reduced by \$30 million and \$303 million, respectively. The more significant categories of adjustment relate to the following as outlined below.

*Launch Incentives from Programmers.* Amounts previously recognized as advertising revenue in connection with the launch of new programming channels have been deferred and recorded in other long-term liabilities in the year such launch support was provided, and amortized as a reduction of programming costs based upon the relevant contract term. These adjustments decreased revenue by \$118 million and \$76 million for the years ended December 31, 2001 and 2000, respectively. Additionally, for the year ended December 31, 2000, the Company increased marketing expense by \$24 million for other promotional activities associated with launching new programming services previously deferred and subsequently amortized. The corresponding amortization of such deferred amounts reduced programming expenses by \$27 million and \$5 million for the years ended December 31, 2001 and 2000, respectively.

*Customer Incentives and Inducements.* Marketing inducements paid to encourage potential customers to switch from satellite providers to Charter branded services and enter into multi-period service agreements were previously deferred and recorded as property, plant and equipment and recognized as depreciation and amortization expense over the life of customer contracts. These amounts have been restated as a reduction of revenues in the period such inducements were paid. Revenue declined \$19 million and \$2 million for the years ended December 31, 2001 and 2000, respectively. Substantially all of these amounts are offset by reduced depreciation and amortization expense.

*Capitalized Labor and Overhead Costs.* Certain elements of labor costs and related overhead allocations previously capitalized as property, plant and equipment as part of the Company's rebuild activities, customer installations and new service introductions have been expensed in the period incurred. Such adjustments increased operating expenses by \$93 million and \$52 million for the years ended December 31, 2001 and 2000, respectively.

*Customer Acquisition Costs.* Certain customer acquisition campaigns were conducted through third-party contractors in 2000, 2001 and portions of 2002. The costs of these campaigns were originally deferred and recorded as other assets and recognized as amortization expense over the average customer contract life. These amounts have been reported as marketing expense in the period incurred and totaled \$59 million and \$4 million and for the years ended December 31, 2001 and 2000, respectively. The Company discontinued this program in the third quarter of 2002 as contracts for third-party vendors expired. Substantially all of these amounts are offset by reduced depreciation and amortization expense.

*Rebuild and Upgrade of Cable Systems.* In 2000, the Company initiated a three-year program to replace and upgrade a substantial portion of its network. In connection with this plan, the Company assessed the carrying value of, and the associated depreciable lives of, various assets to be replaced. It was determined that \$1 billion of cable distribution system assets, originally treated as subject to replacement, were not part of the original replacement plan but were to be upgraded and have remained in service. The Company also determined that certain assets subject to replacement during the upgrade program were misstated in the allocation of the purchase price of the acquisition. This adjustment is a reduction to property, plant and equipment and increased franchise costs of approximately \$627

**CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2002, 2001 AND 2000**  
**(dollars in millions, except where indicated)**

million as a result of this finding. In addition, the depreciation period for the replacement assets was adjusted to more closely align with the intended service period of these assets rather than the three-year straight-line life originally assigned. As a result, adjustments were recorded to reduce depreciation expense \$330 million and \$119 million in the years ending 2001 and 2000, respectively.

*Deferred Tax Liabilities/Franchise Assets.* Adjustments were made to record deferred tax liabilities associated with the acquisition of various cable television businesses. These adjustments increased amounts assigned to franchise assets by \$1.4 billion with a corresponding increase in deferred tax liabilities of \$1.2 billion. The balance of the entry was recorded to equity and minority interest. In addition, as described above, a correction was made to reduce amounts assigned in purchase accounting to assets identified for replacement over the three-year period of the Company's rebuild and upgrade of its network. This reduced the amount assigned to the network assets to be retained and increased the amount assigned to franchise assets by approximately \$627 million with a resulting increase in amortization expense for the years restated. Such adjustments increased amortization expense by \$130 million and \$121 million, respectively, for the years ended December 31, 2001 and 2000.

*Other Adjustments.* In addition to the items described above, reductions to 2000 revenues include the reversal of certain advertising revenues from equipment vendors. Other adjustments of expenses include expensing certain marketing and customer acquisition costs previously charged against purchase accounting reserves, certain tax reclassifications from tax expense to operating costs, reclassifying management fee revenue from a joint venture to offset losses from investments and adjustments to option compensation expense. The net impact of these adjustments to net loss is an increase of \$38 million and a decrease of \$10 million, respectively, for the years ended December 31, 2001 and 2000.

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**CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2002, 2001 AND 2000**  
**(dollars in millions, except where indicated)**

The following table sets forth the consolidated balance sheet for the Company, showing previously reported and restated amounts, as of December 31, 2001 (in millions):

	As previously reported	As restated
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 2	\$ 2
Accounts receivable, net	290	292
Receivables from related parties	5	5
Prepaid expenses and other current assets	70	70
	<u>          </u>	<u>          </u>
Total current assets	367	369
	<u>          </u>	<u>          </u>
<b>INVESTMENT IN CABLE PROPERTIES:</b>		
Property, plant and equipment, net	7,150	6,914
Franchises, net	17,139	18,911
	<u>          </u>	<u>          </u>
Total investment in cable properties, net	24,289	25,825
	<u>          </u>	<u>          </u>
<b>OTHER ASSETS</b>		
	306	269
	<u>          </u>	<u>          </u>
Total assets	\$24,962	\$26,463
	<u>          </u>	<u>          </u>
<b>CURRENT LIABILITIES:</b>		
Accounts payable and accrued expenses	\$ 1,375	\$ 1,379
	<u>          </u>	<u>          </u>
Total current liabilities	1,375	1,379
	<u>          </u>	<u>          </u>
<b>LONG-TERM DEBT</b>		
	16,343	16,343
	<u>          </u>	<u>          </u>
<b>DEFERRED MANAGEMENT FEES — RELATED PARTY</b>		
	14	14
	<u>          </u>	<u>          </u>
<b>OTHER LONG-TERM LIABILITIES</b>		
	341	1,682
	<u>          </u>	<u>          </u>
<b>MINORITY INTEREST</b>		
	3,976	4,409
	<u>          </u>	<u>          </u>
<b>PREFERRED STOCK — REDEEMABLE</b>		
	51	51
	<u>          </u>	<u>          </u>
<b>SHAREHOLDERS' EQUITY:</b>		
Class A common stock	—	—
Class B common stock	—	—
Preferred stock	—	—
Additional paid-in capital	4,953	4,694
Accumulated deficit	(2,073)	(2,092)
Accumulated other comprehensive loss	(18)	(17)
	<u>          </u>	<u>          </u>
Total shareholders' equity	2,862	2,585
	<u>          </u>	<u>          </u>
Total liabilities and shareholders' equity	\$24,962	\$26,463
	<u>          </u>	<u>          </u>



**CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2002, 2001 AND 2000**  
**(dollars in millions, except where indicated)**

The following table sets forth the consolidated statement of operations for the Company, showing previously reported and restated amounts, for the year ended December 31, 2001 (in millions, except share data):

	As previously reported	As restated
REVENUES	\$ 3,953	\$ 3,807
COSTS AND EXPENSES:		
Operating (excluding depreciation and amortization and other items listed below)	1,326	1,480
Selling, general and administrative	841	832
Depreciation and amortization	3,010	2,682
Option compensation expense, net	(46)	(5)
Special charges	18	18
	5,149	5,007
Loss from operations	(1,196)	(1,200)
OTHER INCOME (EXPENSE):		
Interest expense, net	(1,312)	(1,313)
Loss on equity investments	(54)	(54)
Other, net	(94)	(66)
	(1,460)	(1,433)
Loss before minority interest, income taxes and cumulative effect of accounting change	(2,656)	(2,633)
MINORITY INTEREST	1,478	1,464
Loss before income taxes and cumulative effect of accounting change	(1,178)	(1,169)
INCOME TAX BENEFIT	—	12
Loss before cumulative effect of accounting change	(1,178)	(1,157)
CUMULATIVE EFFECT OF ACCOUNTING CHANGE	—	(10)
Net loss	(1,178)	(1,167)
Dividends on preferred stock – redeemable	(1)	(1)
Net loss applicable to common stock	\$ (1,179)	\$ (1,168)
LOSS PER COMMON SHARE, basic and diluted	\$ (4.37)	\$ (4.33)
Weighted average common shares outstanding, basic and diluted	269,594,386	269,594,386

**CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2002, 2001 AND 2000**  
**(dollars in millions, except where indicated)**

The following table sets forth the consolidated balance sheet for the Company, showing previously reported and restated amounts, as of December 31, 2000 (in millions):

	As previously reported	As restated
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 131	\$ 131
Accounts receivable, net	218	209
Receivables from related parties	6	—
Prepaid expenses and other current assets	78	87
	<u>          </u>	<u>          </u>
Total current assets	433	427
	<u>          </u>	<u>          </u>
<b>INVESTMENT IN CABLE PROPERTIES:</b>		
Property, plant and equipment, net	5,267	4,829
Franchises, net	17,069	18,835
	<u>          </u>	<u>          </u>
Total investment in cable properties, net	22,336	23,664
	<u>          </u>	<u>          </u>
<b>OTHER ASSETS</b>		
	275	261
	<u>          </u>	<u>          </u>
Total assets	\$23,044	\$24,352
	<u>          </u>	<u>          </u>
<b>CURRENT LIABILITIES:</b>		
Accounts payable and accrued expenses	\$ 1,367	\$ 1,343
	<u>          </u>	<u>          </u>
Total current liabilities	1,367	1,343
	<u>          </u>	<u>          </u>
<b>LONG-TERM DEBT</b>		
	13,061	13,061
	<u>          </u>	<u>          </u>
<b>DEFERRED MANAGEMENT FEES — RELATED PARTY</b>		
	14	14
	<u>          </u>	<u>          </u>
<b>OTHER LONG-TERM LIABILITIES</b>		
	285	1,517
	<u>          </u>	<u>          </u>
<b>MINORITY INTEREST</b>		
	4,090	4,546
	<u>          </u>	<u>          </u>
<b>REDEEMABLE SECURITIES</b>		
	1,104	1,104
	<u>          </u>	<u>          </u>
<b>SHAREHOLDERS' EQUITY:</b>		
Class A common stock	—	—
Class B common stock	—	—
Preferred stock	—	—
Additional paid-in capital	4,018	3,691
Accumulated deficit	(895)	(924)
	<u>          </u>	<u>          </u>
Total shareholders' equity	3,123	2,767
	<u>          </u>	<u>          </u>
Total liabilities and shareholders' equity	\$23,044	\$24,352
	<u>          </u>	<u>          </u>

**CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2002, 2001 AND 2000**  
(dollars in millions, except where indicated)

The following table sets forth the consolidated statement of operations for the Company, showing previously reported and restated amounts, for the year ended December 31, 2000 (in millions, except share data):

	As previously reported	As restated
REVENUES	\$ 3,249	\$ 3,141
COSTS AND EXPENSES:		
Operating (excluding depreciation and amortization and other items listed below)	1,036	1,185
Selling, general and administrative	670	608
Depreciation and amortization	2,473	2,398
Option compensation expense, net	41	38
	4,220	4,229
Loss from operations	(971)	(1,088)
OTHER INCOME (EXPENSE):		
Interest expense, net	(1,052)	(1,042)
Loss on equity investments	(19)	(19)
Other, net	(13)	(1)
	(1,084)	(1,062)
Loss before minority interest and income taxes	(2,055)	(2,150)
MINORITY INTEREST	1,226	1,282
Loss before income taxes	(829)	(868)
INCOME TAX BENEFIT	—	10
Net loss	\$ (829)	\$ (858)
LOSS PER COMMON SHARE, basic and diluted	\$ (3.67)	\$ (3.80)
Weighted average common shares outstanding, basic and diluted	225,697,775	225,697,775

The following table sets forth selected consolidated statements of cash flows information for the Company, showing previously reported and restated amounts, for the years ended December 31, 2001 and 2000 (in millions):

	2001		2000	
	As previously reported	As restated	As previously reported	As restated
Net cash from operating activities	\$ 519	\$ 489	\$ 1,131	\$ 828
Net cash from investing activities	(4,809)	(4,774)	(4,054)	(3,751)
Net cash from financing activities	\$ 4,162	\$ 4,156	\$ 2,920	\$ 2,920

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#### **4. Summary of Significant Accounting Policies**

##### *Basis of Consolidation and Presentation*

The consolidated financial statements of the Company include the accounts of Charter, Charter Holdco, Charter Holdings and all of their wholly-owned subsidiaries and those subsidiaries over which Charter exercises voting control. Currently, Charter Holdco is the only subsidiary in which the Company consolidates on the basis of voting control. All significant intercompany accounts and transactions among consolidated entities have been eliminated. All amounts presented for 2000 and 2001 in the financial statements and accompanying notes have been adjusted to reflect the restated results in Note 3.

##### *Use of Estimates*

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. 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 other contingencies. Actual results could differ from those estimates.

##### *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. 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. These 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 overhead costs associated with these support functions. Overhead 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 equipment replacement and betterments, including replacement of cable drops from the pole to the dwelling, are capitalized.

Depreciation is recorded using the straight-line method over management's estimate of the useful lives of the related assets as follows:

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

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*Franchises*

Franchise rights acquired through the purchase of cable systems represent management's estimate of fair value at the date of acquisition and generally are reviewed to determine if the franchise has a finite life or an indefinite life as defined by Statement of Financial Accounting Standards (SFAS) No. 142. On January 1, 2002, the Company adopted SFAS No. 142, which eliminates the amortization of goodwill and indefinite lived intangible assets. Accordingly, beginning January 1, 2002, 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 8). 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.

Prior to the adoption of SFAS No. 142, costs incurred in obtaining and renewing cable franchises were deferred and amortized using the straight-line method over a period of 15 years. Franchise rights acquired through the purchase of cable systems were generally amortized using the straight-line method over a period of 15 years. The period of 15 years was management's best estimate of the useful lives of the franchises and assumed that substantially all of those franchises that expired during the period would be renewed but not indefinitely. The Company evaluated the recoverability of franchises for impairment when events or changes in circumstances indicated that the carrying amount of an asset may not be recoverable. Because substantially all of the Company's franchise rights have been acquired in the past several years, at the time of acquisition management believed the Company did not have sufficient experience with the local franchise authorities to conclude that renewals of franchises could be accomplished indefinitely.

The Company believes that facts and circumstances have changed to enable it to conclude that substantially all of its franchises will be renewed indefinitely, with those franchises where technological or operational factors limit their lives continuing to be amortized. The Company has sufficiently upgraded the technological state of its cable systems and now has sufficient experience with the local franchise authorities where it acquired franchises to conclude substantially all franchises will be renewed indefinitely.

*Other Assets*

Other assets primarily include goodwill, deferred financing costs and investments in equity securities. Costs related to borrowings are deferred and amortized to interest expense using the effective interest method over the terms of the related borrowings. As of December 31, 2002, 2001 and 2000, other assets include \$231 million, \$230 million and \$171 million of deferred financing costs, net of accumulated amortization of \$106 million, \$67 million and \$35 million, respectively.

Investments in equity securities are accounted for at cost, under the equity method of accounting or in accordance with Statement of Financial Accounting Standards (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.

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The following summarizes investment information as of and for the years ended December 31, 2002, 2001 and 2000 (in millions):

	Carrying Value at December 31,			Gain (loss) for the Year Ended December 31,		
	2002	2001	2000	2002	2001	2000
Equity investments, under the cost method	\$ 17	\$ 13	\$ 14	\$ —	\$ (8)	\$(12)
Equity investments, under the equity method	16	12	49	(5)	(42)	(8)
Marketable securities, at market value	—	4	4	2	(4)	1
	<u>\$ 33</u>	<u>\$ 29</u>	<u>\$ 67</u>	<u>\$ (3)</u>	<u>\$ (54)</u>	<u>\$(19)</u>

#### *Valuation of Property, Plant and Equipment*

The Company evaluates the recoverability of property, plant and equipment, for impairment when events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Such events or changes in circumstances could include such factors as 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 poor 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 impairment of property, plant and equipment occurred in 2002, 2001 and 2000.

#### *Derivative Financial Instruments*

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 analog, digital and high-speed data services are recognized when the related services are provided. Advertising sales are recognized 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 collected and paid are reported as revenues and expenses, respectively.

#### *Programming Costs*

The Company has various contracts to obtain analog, digital and premium 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 adjustment based on periodic audits performed by the programmers. Additionally, certain programming contracts contain launch incentives to be paid by the programmers. The Company receives these upfront payments related to the promotion and activation of the programmer's cable television channel and defers recognition of the

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launch incentives over the life of the programming agreement as an offset to programming expense. This offset to programming expense was \$57 million, \$35 million and \$4 million for the years ended December 31, 2002, 2001 and 2000, respectively. Total programming costs paid to programmers were \$1.2 billion, \$951 million and \$763 million for the years ended December 31, 2002, 2001 and 2000, respectively. As of December 31, 2002, 2001 and 2000, the deferred amount of launch incentives, included in other long-term liabilities, totaled \$210 million, \$215 million and \$126 million, respectively.

#### *Advertising Costs*

Advertising costs, including advertising associated with the launch of cable channels, are generally expensed as costs are incurred. Advertising expense was \$74 million, \$52 million and \$60 million for the years ended December 31, 2002, 2001 and 2000, 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 Financial Accounting Standards Board Interpretation No. 28 (FIN 28), *Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans*. Adoption of these provisions will result 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, the fair value method will be applied only to awards granted or modified after January 1, 2003, 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. Management believes the adoption of these provisions will not have a material impact on the consolidated results of operations or financial position of the Company. The ongoing effect on consolidated results of operations or financial position will be dependent upon future stock based compensation awards granted by the Company. Had the Company adopted SFAS No. 123 as of January 1, 2002, using the prospective method, option compensation expense for the year ended December 31, 2002 would have been approximately \$20 million.

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 and loss per share as reported and the pro forma amounts that would have been reported using the fair value method under SFAS 123 for the years presented:

	Year Ended December 31,		
	2002	2001	2000
Net loss applicable to common stock (in millions):	\$(2,517)	\$(1,168)	\$ (858)
Pro forma	(2,571)	(1,226)	(878)
Loss per common shares, basic and diluted:	(8.55)	(4.33)	(3.80)
Pro forma	(8.73)	(4.55)	(3.89)

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, 2002, 2001 and 2000, respectively: risk-free interest rates of 3.6%, 4.7%, and 6.5%; expected volatility of 64.2%, 56.2% and 43.8%; and expected lives of 3.3 years, 3.7 years and 3.5 years, respectively. The valuations assume no dividends are paid.

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*Income Taxes*

The Company recognizes deferred tax assets and liabilities for temporary differences between the financial reporting basis and the tax basis of the Company's 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 22).

*Minority Interest*

Minority interest represents total members' equity of Charter Holdco not owned by Charter, plus preferred membership interests in an indirect subsidiary of Charter held by certain sellers of the Bresnan systems, less redeemable securities. Minority interest totaled \$1.0 billion, \$4.4 billion and \$4.5 billion as of December 31, 2002, 2001 and 2000, respectively, on the accompanying consolidated balance sheets. Gains or losses arising from issuances by Charter Holdco of its membership units are recorded as capital transactions thereby increasing or decreasing shareholders' equity and decreasing or increasing minority interest on the consolidated balance sheets. These gains (losses) totaled (\$1) million, (\$253) million and (\$272) million for the years ended December 31, 2002, 2001 and 2000, respectively, on the accompanying consolidated statements of changes in shareholders' equity. Operating losses are allocated to the minority owners based on their ownership percentage, thereby reducing the Company's net loss.

*Loss per Common Share*

Basic loss per common share is computed by dividing the net loss applicable to common stock by 294,440,261 shares, 269,594,386 shares and 225,697,775 shares for the years ended December 31, 2002, 2001 and 2000, representing the weighted-average common shares outstanding during the respective periods. Diluted loss per common share equals basic loss per common share for the periods presented, as the effect of stock options is antidilutive because the Company incurred net losses. All membership units of Charter Holdco are exchangeable on a one-for-one basis into common stock of Charter at the option of the holders. Should the holders exchange units for shares, the effect would not be dilutive.

*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 distinct geographic regional and 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 regional and divisional operating segments has similar economic characteristics. Accordingly, management has determined that the Company has one reportable segment, broadband services.

**5. Acquisitions**

On February 28, 2002, CC Systems, LLC, a subsidiary of the Company, and High Speed Access Corp. (HSA) closed the Company's acquisition from HSA of the contracts and associated assets, and assumed related liabilities,



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that served certain of the Company's high-speed data customers. At closing, the Company paid \$78 million in cash and delivered 37,000 shares of HSA's Series D convertible preferred stock and all the warrants to buy HSA common stock owned by the Company. An additional \$2 million of purchase price was retained to secure indemnity claims. The purchase price has been allocated to assets acquired and liabilities assumed based on fair values as determined in the fourth quarter of 2002 by a third-party valuation expert, including \$8 million assigned to intangible assets and amortized over an average useful life of three years and \$54 million assigned to goodwill. The finalization of the purchase price did not have a material effect on amortization expense previously reported. During the period from 1997 to 2000, certain subsidiaries of the Company entered into Internet-access related service agreements with HSA, and both Vulcan Ventures and certain of the Company's subsidiaries made equity investments in HSA. (See Note 23 for additional information).

In April 2002, Interlink Communications Partners, LLC, Rifkin Acquisition Partners, LLC and Charter Communications Entertainment I, LLC, each an indirect, wholly-owned subsidiary of Charter Holdings, completed the purchase of certain assets of Enstar Income Program II-2, L.P., Enstar Income Program IV-3, L.P., Enstar Income/Growth Program Six-A, L.P., Enstar Cable of Macoupin County and Enstar IV/PBD Systems Venture, serving in the aggregate approximately 21,600 (unaudited) customers, for a total cash purchase price of \$48 million. In September 2002, Charter Communications Entertainment I, LLC purchased all of Enstar Income Program II-1, L.P.'s Illinois cable television systems, serving approximately 6,400 (unaudited) customers, for a cash purchase price of \$15 million. Enstar Communications Corporation, a direct subsidiary of Charter Holdco, is a general partner of the Enstar limited partnerships but does not exercise control over them. The purchase prices were allocated to assets acquired based on fair values, including \$41 million assigned to franchises and \$4 million assigned to customer relationships amortized over a useful life of three years.

During the second and third quarters in 2001, the Company acquired cable systems in two separate transactions. In connection with the acquisitions, the Company paid aggregate cash consideration of \$1.8 billion, transferred a cable system valued at \$25 million, issued 505,664 shares of Charter Series A Convertible Redeemable Preferred Stock valued at \$51 million, and in the first quarter of 2003 issued 39,595 additional shares of Series A Convertible Redeemable Preferred Stock to certain sellers subject to certain holdback provisions of the acquisition agreement valued at \$4 million. The purchase prices were allocated to assets acquired and liabilities assumed based on fair values, including amounts assigned to franchises of \$1.5 billion.

During 2000, the Company acquired cable systems in five separate transactions for an aggregate purchase price of \$1.2 billion, net of cash acquired, excluding debt assumed of \$963 million. In connection with the acquisitions, Charter issued shares of Class A common stock valued at approximately \$178 million, and Charter Holdco and an indirect subsidiary of Charter Holdco issued equity interests totaling \$385 million and \$629 million, respectively. The purchase prices were allocated to assets and liabilities assumed based on relative fair values, including amounts assigned to franchises of \$3.3 billion.

The transactions described above were accounted for using the purchase method of accounting, and, accordingly, the results of operations of the acquired assets and assumed liabilities have been included in the consolidated financial statements from their respective dates of acquisition. The purchase prices were allocated to assets acquired and liabilities assumed based on fair values.

The summarized operating results of the Company that follow are presented on a pro forma basis as if the following had occurred on January 1, 2000: all acquisitions and dispositions completed during 2000 and 2001; the issuance of Charter Holdings senior notes and senior discount notes in January 2002 and 2001; the issuance of Charter Holdings senior notes and senior discount notes in May 2001; and the issuance of and sale by Charter of convertible senior notes and Class A common stock in May 2001. Adjustments have been made to give effect to amortization of franchises acquired prior to July 1, 2001, interest expense, minority interest, and certain other adjustments. Pro forma results for the year ended December 31, 2002 would not differ significantly from historical results.

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	Year Ended December 31,	
	2001	2000
	(in millions, except per share data)	
Revenues	\$ 3,969	\$ 3,501
Loss from operations	(1,200)	(1,121)
Loss before minority interest	(2,727)	(2,426)
Net loss	(1,251)	(1,134)
Loss per common share, basic and diluted	(4.64)	(5.02)

The unaudited pro forma financial information has been presented for comparative purposes and does not purport to be indicative of the consolidated results of operations had these transactions been completed as of the assumed date or which may be obtained in the future.

#### 6. Allowance for Doubtful Accounts

Activity in the allowance for doubtful accounts is summarized as follows for the years presented (in millions):

	Year Ended December 31,		
	2002	2001	2000
Balance, beginning of year	\$ 33	\$ 12	\$ 11
Acquisitions of cable systems	—	1	1
Charged to expense	108	95	46
Uncollected balances written off, net of recoveries	(122)	(75)	(46)
Balance, end of year	\$ 19	\$ 33	\$ 12

#### 7. Property, Plant and Equipment

Property, plant and equipment consists of the following as of December 31, 2002, 2001 and 2000 (in millions):

	2002	2001	2000
Cable distribution systems	\$ 8,950	\$ 7,877	\$ 5,289
Land, buildings and leasehold improvements	580	506	282
Vehicles and equipment	783	459	408
	10,313	8,842	5,979
Less: accumulated depreciation	(2,634)	(1,928)	(1,150)
	\$ 7,679	\$ 6,914	\$ 4,829

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 upgrade program, could materially affect future depreciation expense.

For the years ended December 31, 2002, 2001 and 2000, depreciation expense was \$1.4 billion, \$1.2 billion, and \$1.0 billion, respectively.

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**8. Franchises and Goodwill**

On January 1, 2002, the Company adopted SFAS No. 142, which eliminates the amortization of indefinite lived intangible assets. Accordingly, beginning January 1, 2002, all franchises that qualify for indefinite life treatment under SFAS No. 142 are no longer amortized against earnings but instead will be tested for impairment annually, or more frequently as warranted by events or changes in circumstances. During the first quarter of 2002, the Company had an independent appraiser perform valuations of its franchises as of January 1, 2002. 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 clusters of the Company's cable systems, which management believes represents the highest and best use of those assets. Fair value was determined based on estimated discounted future cash flows using reasonable and appropriate assumptions that are consistent with internal forecasts. As a result, the Company determined that franchises were impaired and recorded the cumulative effect of a change in accounting principle of \$266 million (approximately \$572 million before minority interest effects). The effect of adoption was to increase net loss and loss per share by \$266 million and \$0.90, respectively. As required by SFAS No. 142, the standard has not been retroactively applied to the results for the period prior to adoption.

The Company performed its annual impairment assessment on October 1, 2002 using an independent third-party appraiser and following the guidance of EITF Issue 02-17, *Recognition of Customer Relationship Intangible Assets Acquired in a Business Combination*, which was issued in October 2002 and requires the consideration of assumptions that marketplace participants would consider, such as expectations of future contract renewals and other benefits related to the intangible asset. Revised earnings forecasts and the methodology required by SFAS No. 142 which excludes certain intangibles led to recognition of a \$4.6 billion impairment in the fourth quarter of 2002.

The independent third-party appraiser's valuation as of October 1, 2002 yielded an enterprise value of approximately \$25 billion, which included \$3 billion assigned to customer relationships. SFAS No. 142 does not permit the recognition of the customer relationship asset not previously recognized. Accordingly, the analysis of the impairment could not include approximately \$373 million and \$2.9 billion attributable to customer relationship values as of January 1, 2002 and October 1, 2002, respectively.

In determining whether its franchises have an indefinite life, the Company considered the exclusivity of the franchise, its expected costs of franchise renewals, and the technological state of the associated cable systems with a view to whether or not the Company is in compliance with any technology upgrading requirements. Certain franchises did not qualify for indefinite-life treatment due to technological or operational factors that limit their lives. These franchise costs will be amortized on a straight-line basis over 10 years.

The effect of the adoption of SFAS No. 142 as of December 31, 2002 and 2001 is presented in the following table (in millions):

	December 31,								
	2002			2001			2000		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	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	\$17,076	\$ 3,428	\$13,648	\$22,255	\$ 3,428	\$18,827	\$20,742	\$ 2,000	\$18,742
Goodwill	54	—	54	—	—	—	—	—	—
	\$17,130	\$ 3,428	\$13,702	\$22,255	\$ 3,428	\$18,827	\$20,742	\$ 2,000	\$18,742
<b>Finite-lived intangible assets:</b>									
Franchises with finite lives	\$ 103	\$ 24	\$ 79	\$ 99	\$ 15	\$ 84	\$ 99	\$ 6	\$ 93

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Franchise amortization expense for the year ended December 31, 2002 was \$9 million, 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. For each of the next five years, amortization expense relating to these franchises is expected to be approximately \$8 million. Franchise amortization expense for the years ended December 31, 2001 and 2000 was \$1.4 billion and \$1.4 billion, respectively.

As required by SFAS No. 142, the standard has not been retroactively applied to the results for the period prior to adoption. A reconciliation of net loss for the year ended December 31, 2002, 2001 and 2000, as if SFAS No. 142 had been adopted as of January 1, 2000, is presented below (in millions):

	Year ended December 31,		
	2002	2001	2000
<b>NET LOSS:</b>			
Reported net loss applicable to common stock	\$(2,517)	\$(1,168)	\$ (858)
Add back: amortization of indefinite-lived franchises	—	1,453	1,341
Less: minority interest	—	(808)	(800)
Adjusted net loss applicable to common stock	\$(2,517)	\$ (523)	\$ (317)
<b>BASIC AND DILUTED LOSS PER COMMON SHARE:</b>			
Reported net loss per share	\$ (8.55)	\$ (4.33)	\$ (3.80)
Add back: amortization of indefinite-lived franchises	—	5.39	5.94
Less: minority interest	—	(3.00)	(3.54)
Adjusted net loss per share	\$ (8.55)	\$ (1.94)	\$ (1.40)

## 9. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of the following as of December 31, 2002, 2001 and 2000 (in millions):

	2002	2001	2000
Accounts payable	\$ 290	\$ 297	\$ 364
Capital expenditures	141	196	285
Accrued interest	243	230	193
Programming costs	237	191	173
Accrued general and administrative	126	119	72
Franchise fees	68	62	53
State sales tax	67	52	29
Other accrued expenses	233	232	174
	\$1,405	\$1,379	\$1,343

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**10. Long-Term Debt**

Long-term debt consists of the following as of December 31, 2002, 2001 and 2000 (in millions):

	2002		2001		2000	
	Face Value	Accreted Value	Face Value	Accreted Value	Face Value	Accreted Value
<b>Long-Term Debt</b>						
Charter Communications, Inc.:						
October and November 2000						
5.75% convertible senior notes due 2005	\$ 750	\$ 750	\$ 750	\$ 750	\$ 750	\$ 750
May 2001						
4.75% convertible senior notes due 2006	633	633	633	633	—	—
Charter Holdings:						
March 1999						
8.250% senior notes due 2007	600	599	600	599	600	599
8.625% senior notes due 2009	1,500	1,497	1,500	1,497	1,500	1,496
9.920% senior discount notes due 2011	1,475	1,307	1,475	1,187	1,475	1,077
January 2000						
10.000% senior notes due 2009	675	675	675	675	675	675
10.250% senior notes due 2010	325	325	325	325	325	325
11.750% senior discount notes due 2010	532	421	532	376	532	335
January 2001						
10.750% senior notes due 2009	900	900	900	899	—	—
11.125% senior notes due 2011	500	500	500	500	—	—
13.500% senior discount notes due 2011	675	454	675	398	—	—
May 2001						
9.625% senior notes due 2009	350	350	350	350	—	—
10.000% senior notes due 2011	575	575	575	575	—	—
11.750% senior discount notes due 2011	1,018	693	1,018	618	—	—
January 2002						
9.625% senior notes due 2009	350	348	—	—	—	—
10.000% senior notes due 2011	300	298	—	—	—	—
12.125% senior discount notes due 2012	450	280	—	—	—	—
Senior bridge loan facility	—	—	—	—	273	273
Renaissance:						
10.00% senior discount notes due 2008	114	113	114	104	114	95
CC V Holdings:						
11.875% senior discount notes due 2008	180	163	180	146	180	132
Other long-term debt	1	1	1	1	2	2
<b>Credit Facilities</b>						
Charter Operating	4,542	4,542	4,145	4,145	4,432	4,432
CC Michigan, LLC and CC New England, LLC (Avalon)	—	—	—	—	213	213
CC VI	926	926	901	901	895	895
Falcon Cable	1,155	1,155	582	582	1,050	1,050
CC VIII Operating	1,166	1,166	1,082	1,082	712	712
	<u>\$19,692</u>	<u>\$18,671</u>	<u>\$17,513</u>	<u>\$16,343</u>	<u>\$13,728</u>	<u>\$13,061</u>

The accreted values presented above represent the face value of the notes less the original issue discount at the time of sale plus the accretion to the balance sheet date.

*5.75% Charter Convertible Notes.* In October and November 2000, the Company issued 5.75% convertible senior notes with an aggregate principal amount at maturity of \$750 million (the "5.75% Charter Convertible Notes"). The net proceeds of \$728 million were used to repay certain amounts outstanding under the Charter Holdings 2000 senior bridge loan facility. The 5.75% Charter Convertible Notes are convertible at the option of the holder into shares of

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Class A common stock at a conversion rate of 46.3822 shares per \$1,000 principal amount of notes, which is equivalent to a price of \$21.56 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. Additionally, the conversion ratio may be adjusted by the Company when deemed appropriate. These notes are redeemable at the option of the Company at amounts decreasing from 102.3% to 100% of the principal amount plus accrued and unpaid interest beginning on October 15, 2003, to the date of redemption. Interest is payable semiannually on April 15 and October 15, beginning April 15, 2001, until maturity on October 15, 2005.

*4.75% Charter Convertible Notes.* In May 2001, the Company issued 4.75% convertible senior notes with an aggregate principal amount at maturity of \$633 million (the "4.75% Charter Convertible Notes"). The net proceeds of \$609 million were used to repay certain amounts outstanding under the revolving portions of the credit facilities of the Company's subsidiaries and for general corporate purposes, including capital expenditures. The 4.75% Charter Convertible Notes are convertible at the option of the holder into shares of Class A common stock at a conversion rate of 38.0952 shares per \$1,000 principal amount of notes, which is equivalent to a price of \$26.25 per share, subject to certain adjustments. Specifically, the adjustments include anti-dilutive provisions, which automatically occur based on the occurrence of specified events to provide protection rights to holders of the notes. Additionally, the conversion ratio may be adjusted by the Company when deemed appropriate. These notes are redeemable at the option of the Company at amounts decreasing from 101.9% to 100% of the principal amount, plus accrued and unpaid interest beginning on June 4, 2004, to the date of redemption. Interest is payable semiannually on December 1 and June 1, beginning December 1, 2001, until maturity on June 1, 2006.

The 5.75% Charter Convertible Notes and the 4.75% Charter Convertible Notes rank equally with any future unsubordinated and unsecured indebtedness of Charter, but are structurally subordinated to all existing and future indebtedness and other liabilities of the Company's subsidiaries. Upon a change of control, subject to certain conditions and restrictions, the Company 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.

*March 1999 Charter Holdings Notes.* In March 1999, Charter Holdings and Charter Communications Holdings Capital Corporation ("Charter Capital") (collectively, the "Issuers") issued \$3.6 billion principal amount of senior notes. The March 1999 Charter Holdings notes consisted of \$600 million in aggregate principal amount of 8.250% senior notes due 2007, \$1.5 billion in aggregate principal amount of 8.625% senior notes due 2009, and \$1.5 billion in aggregate principal amount at maturity of 9.920% senior discount notes due 2011. The net proceeds of approximately \$2.9 billion, combined with the borrowings under the Company's credit facilities, were used to consummate tender offers for publicly held debt of several of the Company's subsidiaries, as described below, to refinance borrowings under the Company's previous credit facilities, for working capital purposes and to finance acquisitions.

The 8.250% senior notes are not redeemable prior to maturity. Interest is payable semiannually in arrears on April 1 and October 1, beginning October 1, 1999, until maturity.

The 8.625% senior notes are redeemable at the option of the Issuers at amounts decreasing from 104.313% to 100% of par value plus accrued and unpaid interest beginning on April 1, 2004, to the date of redemption. Interest is payable semiannually in arrears on April 1 and October 1, beginning October 1, 1999, until maturity.

The 9.920% senior discount notes are redeemable at the option of the Issuers at amounts decreasing from 104.960% to 100% of accreted value beginning April 1, 2004. Thereafter, cash interest is payable semiannually in arrears on April 1 and October 1 beginning October 1, 2004, until maturity. The discount on the 9.920% senior discount notes is being accreted using the effective interest method.

*January 2000 Charter Holdings Notes.* In January 2000, Charter Holdings and Charter Capital issued \$1.5 billion principal amount of senior notes. The January 2000 Charter Holdings notes consisted of \$675 million in aggregate principal amount of 10.000% senior notes due 2009, \$325 million in aggregate principal amount of 10.250% senior notes due 2010, and \$532 million in aggregate principal amount at maturity of 11.750% senior discount notes due

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2010. The net proceeds of approximately \$1.25 billion were used to consummate change of control offers for certain of the Falcon, Avalon and Bresnan notes and debentures.

The 10.000% senior notes are not redeemable prior to maturity. Interest is payable semiannually on April 1 and October 1, beginning April 1, 2000 until maturity.

The 10.250% senior notes are redeemable at the option of the Issuers at amounts decreasing from 105.125% to 100% of par value plus accrued and unpaid interest, beginning on January 15, 2005, to the date of redemption. Interest is payable semiannually in arrears on January 15 and July 15, beginning on July 15, 2000, until maturity.

The 11.750% senior discount notes are redeemable at the option of the Issuers at amounts decreasing from 105.875% to 100% of accreted value beginning January 15, 2005. Interest is payable semiannually in arrears on January 15 and July 15, beginning on July 15, 2005, until maturity. The discount on the 11.750% senior discount notes is being accreted using the effective interest method.

*January 2001 Charter Holdings Notes.* In January 2001, Charter Holdings and Charter Capital issued \$2.1 billion in aggregate principal amount of senior notes. The January 2001 Charter Holdings notes consisted of \$900 million in aggregate principal amount of 10.750% senior notes due 2009, \$500 million in aggregate principal amount of 11.125% senior notes due 2011 and \$675 million in aggregate principal amount at maturity of 13.500% senior discount notes due 2011. The net proceeds of approximately \$1.72 billion were used to repay all remaining amounts then outstanding under the Charter Holdings 2000 senior bridge loan facility and the CC VI revolving credit facility and a portion of the amounts then outstanding under the Charter Operating and CC VII revolving credit facilities and for general corporate purposes.

The 10.750% senior notes are not redeemable prior to maturity. Interest is payable semiannually in arrears on April 1 and October 1, beginning October 1, 2001, until maturity.

The 11.125% senior notes are redeemable at the option of the Issuers at amounts decreasing from 105.563% to 100% of par value plus accrued and unpaid interest beginning on January 15, 2006, to the date of redemption. At any time prior to January 15, 2004, the Issuers may redeem up to 35% of the aggregate principal amount of the 11.125% senior notes at a redemption price of 111.125% of the principal amount under certain conditions. Interest is payable semiannually in arrears on January 15 and July 15, beginning July 15, 2001, until maturity.

The 13.500% senior discount notes are redeemable at the option of the Issuers at amounts decreasing from 106.750% to 100% of accreted value beginning January 15, 2006. At any time prior to January 15, 2004, the Issuers may redeem up to 35% of the aggregate principal amount of the 13.500% senior discount notes at a redemption price of 113.500% of the accreted value under certain conditions. Thereafter, cash interest is payable semiannually in arrears on January 15 and July 15 beginning July 15, 2006, until maturity. The discount on the 13.500% senior discount notes is being accreted using the effective interest method.

*May 2001 Charter Holdings Notes.* In May 2001, Charter Holdings and Charter Capital issued \$1.94 billion in aggregate principal amount of senior notes. The May 2001 Charter Holdings notes consisted of \$350 million in aggregate principal amount of 9.625% senior notes due 2009, \$575 million in aggregate principal amount of 10.000% senior notes due 2011 and \$1.0 billion in aggregate principal amount at maturity of 11.750% senior discount notes due 2011. The net proceeds of approximately \$1.47 billion were used to pay a portion of the purchase price of the AT&T transactions, repay all amounts outstanding under the Charter Operating and Falcon Cable revolving credit facilities and for general corporate purposes, including capital expenditures.

The 9.625% senior notes are not redeemable prior to maturity. Interest is payable semiannually in arrears on May 15 and November 15, beginning November 15, 2001, until maturity.

The 10.000% senior notes are redeemable at the option of the Issuers at amounts decreasing from 105.000% to 100% of par value plus accrued and unpaid interest beginning on May 15, 2006, to the date of redemption. At any time prior

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to May 15, 2004, the Issuers may redeem up to 35% of the aggregate principal amount of the 10.000% senior notes at a redemption price of 110.000% of the principal amount under certain conditions. Interest is payable semiannually in arrears on May 15 and November 15, beginning November 15, 2001, until maturity.

The 11.750% senior discount notes are redeemable at the option of the Issuers at amounts decreasing from 105.875% to 100% of accreted value beginning January 15, 2006. At any time prior to May 15, 2004, the Issuers may redeem up to 35% of the aggregate principal amount of the 11.750% senior discount notes at a redemption price of 111.750% of the accreted value under certain conditions. Thereafter, cash interest is payable semiannually in arrears on May 15 and November 15 beginning November 15, 2006, until maturity. The discount on the 11.750% senior discount notes is being accreted using the effective interest method.

*January 2002 Charter Holdings Notes.* In January 2002, Charter Holdings and Charter Capital, issued \$1.1 billion in aggregate principal amount at maturity of senior notes and senior discount notes. The January 2002 Charter Holdings notes consisted of \$350 million in aggregate principal amount of 9.625% senior notes due 2009, \$300 million in aggregate principal amount of 10.000% senior notes due 2011 and \$450 million in aggregate principal amount at maturity of 12.125% senior discount notes due 2012. The net proceeds of approximately \$873 million were primarily used to repay a portion of the amounts outstanding under the revolving credit facilities of the Company's subsidiaries.

The 9.625% senior notes are not redeemable prior to maturity. Interest is payable semi-annually in arrears on May 15 and November 15, beginning May 15, 2002, until maturity.

The 10.000% senior notes are redeemable at the option of the Issuers at amounts decreasing from 105.000% to 100% of par value plus accrued and unpaid interest beginning on May 15, 2006, to the date of redemption. At any time prior to May 15, 2004, the Issuers may redeem up to 35% of the aggregate principal amount of the 10.000% senior notes at a redemption price of 110.000% of the principal amount under certain conditions. Interest is payable semi-annually in arrears on May 15 and November 15, beginning May 15, 2002, until maturity.

The 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. At any time prior to January 15, 2005, the issuers may redeem up to 35% of the aggregate principal amount of the 12.125% senior discount notes at a redemption price of 112.125% of the accreted value under certain conditions. Cash interest is payable semi-annually in arrears on January 15 and July 15 beginning July 15, 2007, until maturity. The discount on the 12.125% senior discount notes is being accreted using the effective interest method.

*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 do not require the payment of interest until April 15, 2003. From and after April 15, 2003, the Renaissance notes bear interest, payable semi-annually in cash, on April 15 and October 15, commencing on October 15, 2003. The Renaissance notes are due on April 15, 2008.

*CC V Holdings Notes.* Charter Holdco acquired CC V Holdings in November 1999 and assumed CC V Holdings' outstanding 11.875% senior discount notes due 2008 with an accreted value of \$123 million and \$150 million in principal amount of 9.375% senior subordinated notes due 2008. After December 1, 2003, cash interest on the CC V Holdings 11.875% notes will be payable semi-annually on June 1 and December 1 of each year, commencing June 1, 2004. In addition, a principal payment of \$66 million is due on December 1, 2003.

In January 2000, through change of control offers and purchases in the open market, the Company repurchased all of the \$150 million aggregate principal amount of the CC V Holdings 9.375% notes. Contemporaneously, the Company completed change of control offers in which it repurchased \$16 million aggregate principal amount at maturity of the 11.875% senior discount notes.

*High Yield Restrictive Covenants; Limitation on Indebtedness.* The indentures governing the public notes of the



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Company's subsidiaries contain certain covenants that restrict the ability of Charter Holdings, Charter Capital, the CCV notes issuers, Renaissance Media Group, and all of their restricted subsidiaries to:

- incur additional debt;
- pay dividends on equity or repurchase equity;
- grant liens;
- 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; and
- engage in certain transactions with affiliates.

*Charter Operating Credit Facilities.* The Charter Operating credit facilities provide for borrowings of up to \$5.2 billion and provide for four term facilities: two Term A facilities with an aggregate principal amount of \$1.11 billion that matures in September 2007, each with different amortization schedules, one beginning in June 2002 and one beginning in September 2005; and two Term B facilities with an aggregate principal amount of \$2.73 billion, of which \$1.84 billion matures in March 2008 and \$893 million matures in September 2008. The Charter Operating credit facilities also provide for two revolving credit facilities, in an aggregate amount of \$1.34 billion, which will reduce annually beginning in March 2004 and September 2005, with a maturity date in September 2007. At the option of the lenders, supplemental credit facilities in the amount of \$100 million may be available. Amounts under the Charter Operating credit facilities bear interest at the Base Rate or the Eurodollar rate, as defined, plus a margin of up to 2.75% for Eurodollar loans (4.58% to 3.13% as of December 31, 2002) and 1.75% for base rate loans. A quarterly commitment fee of between 0.25% and 0.375% per annum is payable on the unborrowed balance of the revolving credit facilities. As of December 31, 2002, outstanding borrowings were approximately \$4.5 billion and the unused total potential availability was \$633 million although financial covenants limited our availability to \$318 million as of December 31, 2002.

*CC VI Operating Credit Facilities.* The CC VI Operating credit facilities provide for two term facilities, one with a principal amount of \$450 million that matures May 2008 (Term A), and the other with a principal amount of \$400 million that matures November 2008 (Term B). The CC VI Operating credit facilities also provide for a \$350 million reducing revolving credit facility with a maturity date in May 2008. At the option of the lenders, supplemental credit facilities in the amount of \$300 million may be available until December 31, 2004. Amounts under the CC VI Operating credit facilities bear interest at the base rate or the Eurodollar rate, as defined, plus a margin of up to 3.0% for Eurodollar loans (4.31% to 2.62% as of December 31, 2002) and 2.0% for base rate loans. A quarterly commitment fee of between 0.250% and 0.375% per annum is payable on the unborrowed balance of the Term A facility and the revolving facility. As of December 31, 2002, outstanding borrowings were \$926 million and unused total potential availability was \$274 million although financial covenants limited our availability to \$127 million as of December 31, 2002.

*Falcon Cable Credit Facilities.* The Falcon Cable credit facilities provide for two term facilities, one with a principal amount of \$192 million that matures June 2007 (Term B), and the other with the principal amount of \$288 million that matures December 2007 (Term C). The Falcon Cable credit facilities also provide for a reducing revolving facility of up to approximately \$68 million (maturing in December 2006), a reducing supplemental facility of up to \$110 million (maturing in December 2007) and a second reducing revolving facility of up to \$670 million (maturing in June 2007). At the option of the lenders, supplemental credit facilities in the amount of up to \$486 million may also be available. Amounts under the Falcon Cable credit facilities bear interest at the base rate or the Eurodollar rate, as defined, plus a margin of up to 2.5% for Eurodollar loans (4.07% to 2.685% as of December 31, 2002) and up to 1.5% for base rate loans. A quarterly commitment fee of between 0.25% and 0.375% per annum is payable on the unborrowed balance of the revolving facilities. As of December 31, 2002, outstanding borrowings were \$1.2 billion and unused total potential

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availability was \$173 million, all of which would have been available based on financial covenants as of December 31, 2002.

*CC VIII Operating Credit Facilities.* The CC VIII Operating credit facilities provide for borrowings of up to \$1.49 billion as of December 31, 2002. The CC VIII credit facilities provide for three term facilities, two Term A facilities with a reduced current aggregate principal amount of \$450 million, that continues reducing quarterly until they reach maturity in June 2007, and a Term B facility with a reduced current principal amount of \$495 million, that continues reducing quarterly until it reaches maturity in February 2008. The CC VIII Operating credit facilities also provide for two reducing revolving credit facilities, in the aggregate amount of \$547 million, which will reduce quarterly beginning in March 2002 and September 2005, respectively, with maturity dates in June 2007. At the option of the lenders, supplemental facilities in the amount of \$300 million may be available. Amounts under the CC VIII Operating credit facilities bear interest at the base rate or the Eurodollar rate, as defined, plus a margin of up to 2.75% for Eurodollar loans (4.54% to 2.89% as of December 31, 2002) and up to 1.75% for base rate loans. A quarterly commitment fee of between 0.250% and 0.375% is payable on the unborrowed balance of the revolving credit facilities. As of December 31, 2002, outstanding borrowings were \$1.2 billion, and unused total potential availability was \$326 million, all of which would have been available based on financial covenants as of December 31, 2002.

Obligations under the credit facilities of the Company's subsidiaries are guaranteed by each respective subsidiary's parent and by each of their operating subsidiaries. The obligations under the credit facilities of the Company's subsidiaries are secured by pledges of all equity interests owned by each subsidiary and its operating subsidiaries in other persons, and intercompany obligations owing to each subsidiary and/or its operating subsidiaries by their affiliates, but are not secured by the other assets of each subsidiary or its operating subsidiaries. The obligations under each subsidiary's credit facilities are also secured by pledges by the subsidiary's parent of all equity interests it holds in other persons, and intercompany obligations owing to it by its affiliates, but are not secured by the other assets of the subsidiary's parent.

Each of the credit facilities of the Company's subsidiaries contain representations and warranties, affirmative and negative covenants similar to those described above with respect to the indentures governing the public notes of the Company's subsidiaries, information requirements, events of default and financial covenants. The financial covenants, which are generally tested on a quarterly basis, measure performance against standards set for leverage, debt service coverage, and operating cash flow coverage of cash interest expense. Additionally, the credit facilities contain provisions requiring mandatory loan prepayments under specific circumstances, including when significant amounts of assets are sold and the proceeds are not promptly reinvested in assets useful in the business of the borrower. The Charter Operating credit facility also provides that in the event that any existing Charter Holdings notes or other long-term indebtedness of Charter Holdings remain outstanding on the date, which is six months prior to the scheduled final maturity, the term loans under the Charter Operating credit facility will mature and the revolving credit facilities will terminate on such date.

In the event of a default under the Company's subsidiaries' credit facilities or public notes, the subsidiaries' creditors could elect to declare all amounts borrowed, together with accrued and unpaid interest and other fees, to be due and payable. In such event, the subsidiaries' credit facilities and indentures that were so accelerated or were otherwise in default will not permit the Company's subsidiaries to distribute funds to Charter Holdco or the Company to pay interest or principal on the public notes. If the amounts outstanding under such credit facilities or public notes are accelerated, all of the subsidiaries' debt and liabilities would be payable from the subsidiaries' assets, prior to any distribution of the subsidiaries' assets to pay the interest and principal amounts on the public notes. In addition, the lenders under the Company's credit facilities could foreclose on their collateral, which includes equity interests in the Company's subsidiaries, and exercise other rights of secured creditors. In any such case, the Company might not be able to repay or make any payments on its public notes. Additionally, such a default would cause a cross-default in the indentures governing the Charter Holdings notes and the convertible senior notes and would trigger the cross-default provision of the Charter Operating Credit Agreement. Any default under any of the subsidiaries' credit facilities or public notes might adversely affect the holders of the Company's public notes and the Company's growth, financial condition and results of operations and could force the Company to examine all options, including seeking the protection of the bankruptcy laws.

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*Backup Credit Facility.* Effective April 14, 2003, the Company entered into a commitment letter with Vulcan Inc., which is an affiliate of Paul Allen, pursuant to which Vulcan Inc. or an affiliate (the "lender") would lend initially to Charter Communications VII, LLC an aggregate amount of up to \$300 million, which amount includes a subfacility of up to \$100 million for the issuance of letters of credit. The borrower would be able to draw under the facility or have letters of credit issued, in each case within five business days of the end of each quarter ending on or prior to March 31, 2004. The loans and letters of credit could only be used to repay loans, or replace letters of credit, under the Company's operating subsidiaries' credit facilities to the extent required to comply with the leverage ratios under those credit facilities or to create cushions in excess of the minimum amount necessary to comply with such ratios. The facility would be guaranteed by the Company and certain of its subsidiaries and would be secured by a lien on the Company's corporate headquarters in St. Louis and certain corporate aircraft. The Company would be required to use its commercially reasonable efforts to form a new interim holding company (CCH II, LLC) as a subsidiary of Charter Holdings and to cause Charter Holdings to transfer to it the equity interests in Charter Communications Operating LLC, CC VI Holdings, LLC, Charter Communications VII, LLC and CC V Holdings, LLC, which transfer the Company refers to as the equity contribution. The equity interests to be transferred in the equity contribution have been pledged as security for the loans under the Charter Operating credit facility. The Company would also be required to use its commercially reasonable efforts to obtain the consent of the lenders under the Charter Operating credit facility to the grant to the lender of a second priority lien on the equity interests transferred to CCH II, LLC. Upon the equity contribution, CCH II, LLC would become the borrower under the facility.

In addition to the liens on our corporate headquarters, on the corporate aircraft and on the equity interests transferred pursuant to the equity contribution, the facility would also be secured on a *pari passu* basis by liens or security interests granted on any assets or properties (other than assets or properties of CCH II, LLC, which shall secure the facility on a first priority basis, subject to the prior lien in favor of the lenders under Charter Operating credit facility on the equity interests transferred pursuant to the equity contribution) to secure any indebtedness of us or any of our subsidiaries (other than the operating company credit facilities and other ordinary and customary exceptions to be determined).

The interest rate on the loans would be initially 13% per annum, reducing to 12% per annum at such time as CCH II, LLC became the borrower under the facility. If the borrower were unable to receive funds from its operating subsidiaries to pay such interest, the borrower would be able to pay interest by delivering additional notes to the lender in the amount of the accrued interest calculated at the rate of 15% per annum, reducing to 14% per annum for any issuance after CCH II, LLC became the borrower under the facility. Such additional notes would bear interest at the same rate as, and otherwise be on the same terms as, the notes issued to represent the original loans under the facility. Upon the occurrence of an event of default, the interest rate would be increased by 2% per annum over the interest rate otherwise applicable.

If letters of credit are issued pursuant to the facility, the borrower would pay a letter of credit fee of 8% per annum of the face amount of the letter of credit.

The borrower would pay the lender a facility fee of 1.5% of the amount of the facility, payable over three years (with 0.5% being earned upon execution of the commitment letter and 1.0% being earned upon execution of the definitive documentation). In addition to the facility fee, the borrower would pay a commitment fee on the undrawn portion of the facility in the amount of 0.5% per annum commencing upon execution of the definitive documentation.

The borrower would have the right to terminate the facility at any time that no loans or letters of credit are outstanding, although any fees earned prior to termination would remain payable. No amortization payments would be required prior to maturity. The facility would mature on November 12, 2009, provided that at such time as CCH II, LLC became the borrower under the facility the maturity date would become March 1, 2007. The loan may not be prepaid prior to March 31, 2004, but the borrower would have the right to make prepayments at any time after March 31, 2004, without the payment of any premium or penalty. The borrower would be required to offer to purchase outstanding notes evidencing the loans under the facility with the proceeds of certain asset sales and debt issuances.

The definitive documentation would contain customary representations, covenants, events of default and indemnification provisions including a total leverage covenant and an interest coverage covenant, in each case modeled after the comparable covenants in the operating company credit facilities, with appropriate adjustments to be determined.

The facility is subject to the negotiation and execution of definitive documentation by June 30, 2003. If the parties have not executed the definitive documentation by that date, the facility will terminate. Once the documentation has been executed, the borrower's ability to draw on the facility would be subject to certain conditions, such as the use of other available funds for covenant compliance purposes, evidence of compliance with financial covenants, accuracy of representations and warranties, no material adverse change having occurred, there being no default under other credit facilities and indentures, and receipt of financial statements. Although the Company believes that it will be able to satisfy those conditions, there can be no assurance that the Company will be able to do so or that if

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the Company fails to do so it will be able to negotiate waivers of such conditions.

Based upon outstanding indebtedness as of December 31, 2002, 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, aggregate future principal payments on the total borrowings under all debt agreements as of December 31, 2002, are as follows:

Year	Amount
	(in millions)
2003	\$ 236
2004	193
2005	1,210
2006	1,991
2007	2,647
Thereafter	13,415
	<u>\$19,692</u>

For the amounts of debt scheduled to mature during 2003, it is management's intent to fund the repayments from borrowings on the Company's revolving credit facility. The accompanying 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.

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**11. Minority Interest and Equity Interests of Charter Holdco**

The Company is a holding company whose primary asset is a controlling equity interest in Charter Holdco, the indirect owner of the Company's cable systems. Minority interest on the Company's consolidated balance sheets represents the ownership percentages of Charter Holdco not owned by the Company, or 53.5% of total members' equity of Charter Holdco, plus \$668 million, \$655 million and \$641 million of preferred membership interests in CC VIII, LLC (CC VIII), an indirect subsidiary of Charter Holdco, as of December 31, 2002, 2001 and 2000, respectively. As more fully described below, this preferred interest arises from the approximately \$629 million of preferred units issued by CC VIII in connection with the Bresnan acquisition in February, 2000. Members' equity of Charter Holdco was \$662 million, \$7.0 billion and \$8.4 billion as of December 31, 2002, 2001 and 2000, respectively. Gains and losses arising from the issuance by Charter Holdco of its membership units are recorded as capital transactions, thereby increasing or decreasing shareholders' equity and decreasing or increasing minority interest on the accompanying consolidated balance sheets. Minority interest was 53.5%, 53.5% and 59.2% as of December 31, 2002, 2001 and 2000, respectively. Changes to minority interest consist of the following for the periods presented (in millions):

	<b>Minority Interest</b>
Balance, December 31, 1999	\$ 5,381
Equity of subsidiaries issued to Bresnan sellers	1,014
Equity of subsidiaries classified as redeemable securities	(1,095)
Minority interest in loss of a subsidiary	(1,282)
Minority interest in income tax benefit	15
Option compensation expense, net	22
Impact of issuance of equity by Charter Holdco	445
Redeemable securities reclassified as minority interest	49
Other	(3)
	<hr/>
Balance, December 31, 2000	4,546
Equity reclassified from redeemable securities (26,539,746 shares of Class A common stock)	1,096
Minority interest in loss of a subsidiary	(1,464)
Minority interest in change in accounting principle	(14)
Minority interest in income tax benefit	16
Option compensation expense, net	(2)
Changes in fair value of interest rate agreements	(22)
Gain on issuance of equity by Charter Holdco	253
	<hr/>
Balance, December 31, 2001	4,409
Minority interest in loss of a subsidiary	(3,179)
Minority interest in change in accounting principle	(306)
Minority interest in income tax benefit	132
Option compensation expense, net	3
Changes in fair value of interest rate agreements	(35)
Gain on issuance of equity by Charter Holdco	1
	<hr/>
Balance, December 31, 2002	\$ 1,025

In February 2000, Charter Holdco issued 15 million membership units for approximately \$25 per share, or \$385 million, primarily to the Comcast sellers as partial consideration for the Bresnan acquisition thereby decreasing Charter's ownership percentage of Charter Holdco to 40% from 41% immediately preceding the transaction. These transactions resulted in a loss on issuance of equity by Charter Holdco of \$51 million. In September 2000, Charter Holdco issued 12 million membership units to Charter for approximately \$15 per share in exchange for \$178 million of equity interest of two businesses acquired by Charter and contributed to Charter Holdco thereby increasing Charter's ownership percentage of Charter Holdco to 41% from 40% immediately preceding the transaction. This

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transaction resulted in a loss on issuance of equity by Charter Holdco of \$5 million. In May 2001, Charter Holdco issued 60 million membership units to Charter for approximately \$20 per share in exchange for \$1.2 billion of proceeds from issuance of Charter common stock thereby increasing Charter's ownership percentage of Charter Holdco to 46% from 41% immediately preceding the transaction. This transaction resulted in a gain on issuance of equity by Charter Holdco of \$236 million.

As part of the Bresnan acquisition in February 2000, CC VIII, an indirect limited liability company subsidiary of Charter, issued Class A Preferred Membership Interests (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, now owned by Comcast Corporation (the Comcast Sellers). The CC VIII Interest is entitled to a 2% priority return on its initial capital amount and such priority return is entitled to preferential distributions from available cash and upon liquidation of CC VIII. The CC VIII Interest generally does not share in the profits and losses of CC VIII at present. The Comcast Sellers have the right at their option to exchange the CC VIII Interest for shares of Charter Class A common stock. Charter does not have the right to force such an exchange. In connection with the Bresnan acquisition, Mr. Allen granted the Comcast Sellers the right to sell to Mr. Allen the CC VIII Interest (or any Charter Class A common stock that the Comcast Sellers would receive if they exercised their exchange right) for approximately \$630 million plus 4.5% interest annually from February 2000 (the Comcast Put Right). In April 2002, in accordance with such put agreement, the Comcast Sellers notified Mr. Allen of their exercise of the Comcast Put Right in full, and the parties agreed to consummate the sale in April 2003, although the parties also agreed to negotiate in good faith possible alternatives to the closing. On April 9, 2003, the parties agreed to extend the closing for up to thirty days. If the sale to Mr. Allen is consummated, Mr. Allen would become the holder of the CC VIII Interest (or, if previously exchanged by the current holders, any Charter Class A common stock issued to the current holders upon such exchange). If the CC VIII Interest is transferred to Mr. Allen, then, subject to the matters referenced in the next paragraph, Mr. Allen generally thereafter would be allocated his pro rata share (based on number of membership interests outstanding) of profits or losses of CC VIII. In the event of a liquidation of CC VIII, Mr. Allen would not be entitled to any priority distributions (except with respect to the 2% priority return, as to which such priority would continue), and Mr. Allen's share of any remaining distributions in liquidation would be equal to 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 the date of the transfer of the CC VIII Interest to Mr. Allen.

An issue has arisen 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. Charter's Board of Directors has formed a Special Committee comprised of Messrs. Tory, Wangberg and Nelson to investigate and take any other appropriate action on behalf of the Company with respect to this matter. Specifically, the Special Committee is considering whether it should be the position of Charter that Mr. Allen should be required to contribute the CC VIII Interest to Charter Holdco in exchange for Charter Holdco membership units, immediately after his acquisition of the CC VIII Interest upon consummation of the Comcast Put Right. To the extent it is ultimately determined that Mr. Allen must contribute the CC VIII Interest to Charter Holdco following consummation of the Comcast Put Right, the Special Committee may also consider what additional steps, if any, should be taken with respect to the further disposition of the CC VIII Interest by Charter Holdco. If necessary, following the completion of the Special Committee's investigation of the facts and circumstances relating to this matter, the Special Committee and Mr. Allen have agreed to a non-binding mediation process to resolve any dispute relating to this matter as soon as practicable, but without any prejudice to any rights of the parties if such dispute is not resolved as part of the mediation.

## **12. Redeemable Securities**

In connection with several acquisitions in 1999 and 2000, sellers who acquired Charter Holdco membership units, additional equity interests in a subsidiary of Charter Holdings or shares of Class A common stock in Charter's initial public offering received potential rescission rights against Charter and Charter Holdco arising out of possible violations of Section 5 of the Securities Act of 1933, as amended, in connection with the offers and sales of these equity interests. Accordingly, the maximum potential cash obligation related to the rescission rights, estimated at

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\$1.1 billion as of December 31, 2000, has been excluded from shareholders' equity or minority interest and classified as redeemable securities on the consolidated balance sheet.

In February 2001, all remaining rescission rights associated with the redeemable securities expired without the security holders requesting repurchase of their securities. Accordingly, the Company reclassified the respective amounts to minority interest and shareholders' equity, as applicable.

**13. Preferred Stock — Redeemable**

On August 31, 2001, in connection with its acquisition of Cable USA, Inc. and certain cable system assets from affiliates of Cable USA, Inc., the Company issued 505,664 shares of Series A Convertible Redeemable Preferred Stock (the Preferred Stock) valued at and with a liquidation preference of \$51 million. Holders of the Preferred Stock have no voting rights but are entitled to receive cumulative cash dividends at an annual rate of 5.75%, payable quarterly. If for any reason Charter fails to pay the dividends on the Preferred Stock on a timely basis, the dividend rate on each share increases to an annual rate of 7.75% until the payment is made. The Preferred Stock is redeemable by Charter at its option on or after August 31, 2004 and must be redeemed by Charter at any time upon a change of control, or if not previously redeemed or converted, on August 31, 2008. The Preferred Stock is convertible, in whole or in part, at the option of the holders from April 1, 2002 through August 31, 2008, into shares of common stock at an initial conversion rate equal to a conversion price of \$24.71 per share of common stock, subject to certain customary adjustments. The redemption price per share of Preferred Stock is the Liquidation Preference of \$100, subject to certain customary adjustments. In the first quarter of 2003, the Company issued 39,595 additional shares of preferred stock valued at and with a liquidation preference of \$4 million.

**14. 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. The Company reports 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, "Accounting for Derivative Instruments and Hedging Activities," in accumulated other comprehensive loss. Comprehensive loss for the years ended December 31, 2002, 2001 and 2000 was \$2.5 billion, \$1.2 billion and \$0.9 billion, respectively.

**15. 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) as required under the terms of its credit facilities. 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 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.

Effective January 1, 2001, the Company adopted SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities." Interest rate agreements are recorded in the consolidated balance sheet at December 31, 2002 and 2001 as either an asset or liability measured at fair value. In connection with the adoption of SFAS No. 133, the Company recorded a loss of \$10 million (approximately \$24 million before minority interest effects) as the cumulative effect of change in accounting principle. The effect of adoption was to increase net loss and loss per share by \$10 million and \$0.04 per share, respectively, for the year ended December 31, 2001.

The Company has certain interest rate derivative instruments that have been designated as cash flow hedging instruments. Such instruments are those that 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



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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, 2002 and 2001, other expense includes \$14 million and \$2 million, respectively, of losses, 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 are reported in accumulated other comprehensive loss. For the year ended December 31, 2002 and 2001, a loss of \$65 million and \$39 million, respectively, related to derivative instruments designated as cash flow hedges was recorded in accumulated other comprehensive loss and minority interest. 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 loss on interest rate agreements. For the years ended December 31, 2002 and 2001, the Company recorded other expense of \$101 million and \$48 million, respectively, for interest rate derivative instruments not designated as hedges.

As of December 31, 2002, 2001 and 2000, the Company had outstanding \$3.4 billion, \$3.3 billion and \$1.9 billion and \$520 million, \$520 million and \$520 million, respectively, in notional amounts of interest rate swaps and collars, respectively. Additionally, at December 31, 2000, the Company had \$15 million of interest rate caps. 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.

**16. Fair Value of Financial Instruments**

The Company has estimated the fair value of its financial instruments as of December 31, 2002, 2001 and 2000 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 position or results of operations.

The estimated fair value of the Company's notes, credit facilities and interest rate agreements at December 31, 2002, 2001 and 2000 are based on quoted market prices or a discounted cash flow analysis using the Company's incremental borrowing rate for similar types of borrowing arrangements and dealer quotations.



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A summary of the carrying value and fair value of the Company's debt and related interest rate agreements at December 31, 2002, 2001 and 2000 is as follows (in millions):

	2002		2001		2000	
	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Debt</b>						
Charter convertible notes	\$1,383	\$ 295	\$1,383	\$1,327	\$ 750	\$ 877
Charter Holdings debt	9,222	3,867	7,999	7,964	4,780	4,426
Credit facilities	7,789	6,367	6,710	6,710	7,302	7,302
Other	277	212	251	237	229	195
<b>Interest Rate Agreements</b>						
Assets (Liabilities)						
Swaps	(258)	(258)	(80)	(80)	(1)	5
Collars	(34)	(34)	(34)	(34)	—	11

The weighted average interest pay rate for the Company's interest rate swap agreements was 7.40%, 7.22% and 7.61 % at December 31, 2002, 2001 and 2000, respectively. The Company's interest rate collar agreements are structured so that if LIBOR falls below 5.3%, the Company pays 6.7%. If the LIBOR rate is between 5.3% and 8.0%, the Company pays LIBOR. The LIBOR rate is capped at 8.0% if LIBOR is between 8.0% and 9.9%. If the LIBOR rate rises above 9.9%, the cap is removed.

**17. Revenues**

Revenues consist of the following for the years presented (in millions):

	Year Ended December 31,		
	2002	2001	2000
Analog video	\$3,083	\$2,768	\$2,503
Digital video	457	307	89
High-speed data	340	155	55
Advertising sales	302	197	142
Other	384	380	352
	\$4,566	\$3,807	\$3,141

**18. Operating Expenses**

Operating expenses consist of the following for the years presented (in millions):

	Year Ended December 31,		
	2002	2001	2000
Analog video programming	\$1,012	\$ 874	\$ 741
Digital video programming	159	103	34
High-speed data	112	65	25
Advertising sales	87	64	57
Service	434	374	328
	\$1,804	\$1,480	\$1,185

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**19. Selling, General and Administrative Expenses**

Selling, general and administrative expenses consist of the following for the years presented (in millions):

	Year Ended December 31,		
	2002	2001	2000
General and administrative	\$813	\$696	\$505
Marketing	153	136	103
	<u>\$966</u>	<u>\$832</u>	<u>\$608</u>

**20. Option Plans**

The Company grants stock options, restricted stock and other incentive compensation pursuant to two plans — the 1999 Option Plan of Charter Holdco (the “1999 Plan”) and the 2001 Stock Incentive Plan of Charter (the “2001 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 ten 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 3,000,000), 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.

Together, the plans allow for the issuance of up to an aggregate of 90,000,000 shares of Charter Class A common stock (or units convertible into Charter Class A common stock). The aggregate shares available reflects an October 2002 amendment to the 2001 Plan approved by the board of directors of Charter to increase available shares by 30,000,000 shares. However, the amendment is subject to shareholder approval and any grants with respect to these additional shares will not be exercisable unless and until the Company’s shareholders approve the amendment. In 2001, any shares covered by options that terminated under the 1999 Plan were transferred to the 2001 Plan, and no new options were granted under the 1999 Plan. During September and October 2001, in connection with new employment agreements and related option agreements entered into by the Company, certain executives of the Company were awarded an aggregate of 256,000 shares of restricted Class A common stock, of which 26,250 shares were cancelled as of December 31, 2002. In January and February of 2003, an additional 92,813 shares were canceled. The shares vested 25% upon grant, with the remaining shares vesting monthly over a three-year period beginning after the first anniversary of the date of grant. As of December 31, 2002, deferred compensation remaining to be recognized in future periods totaled \$1 million.

In September 2001, when the Company’s former President and Chief Executive Officer terminated his employment, as part of his separation agreement he waived his right to an option to purchase approximately seven million Charter Holdco membership units, of which approximately 5 million had vested. Accordingly, the Company recorded a reversal of compensation expense previously recorded on unvested options of \$22 million.

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A summary of the activity for the Company's stock options, excluding granted shares of restricted Class A common stock, for the years ended December 31, 2002, 2001 and 2000, is as follows (options in thousands, except per share data):

	2002		2001		2000	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Options outstanding, beginning of period	46,558	\$17.10	28,482	\$19.24	20,758	\$19.79
Granted	13,122	4.88	29,395	16.01	10,247	18.06
Exercised	—	—	(278)	19.23	(17)	20.00
Cancelled	(6,048)	16.32	(11,041)	19.59	(2,506)	18.98
Options outstanding, end of period	53,632	\$14.22	46,558	\$17.10	28,482	\$19.24
Weighted average remaining contractual life	8 years		9 years		9 years	
Options exercisable, end of period	17,844	\$17.93	9,994	\$18.51	7,044	\$19.98
Weighted average fair value of options granted	\$ 2.89		\$ 9.15		\$ 9.63	

The following table summarizes information about stock options outstanding and exercisable as of December 31, 2002:

Range of Exercise Prices	Options Outstanding			Options Exercisable		
	Number Outstanding	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price
	(in thousands)			(in thousands)		
\$ 1.11 — \$ 2.85	9,184	10 years	\$ 2.58	125	10 years	\$ 1.58
\$ 9.13 — \$ 13.96	19,676	9 years	12.20	4,330	9 years	12.50
\$ 14.31 — \$ 20.00	16,180	7 years	19.04	11,024	7 years	19.23
\$ 20.46 — \$ 23.09	8,592	8 years	22.21	2,365	8 years	22.14

The Company uses the intrinsic value method prescribed by APB Opinion No. 25, "Accounting for Stock Issued to Employees," to account for the option plans. Option compensation expense of \$5 million, a net option compensation benefit of \$5 million and option compensation expense of \$38 million for the years ended December 31, 2002, 2001 and 2000, respectively, was recorded in the consolidated statements of operations since the exercise prices of certain options were less than the estimated fair values of the underlying membership interests on the date of grant. A reversal of previously recognized option compensation expense of \$22 million for the year ended December 31, 2001 was recorded in the consolidated statements of operations primarily in connection with the waiver of the right to approximately seven million options by the Company's former President and Chief Executive Officer as part of his September 2001 separation agreement. This was partially offset by expense recorded because exercise prices on certain options were less than the estimated fair values of the Company's stock at the time of grant. Estimated fair values were determined by the Company using the valuation inherent in the companies acquired by Paul G. Allen in 1998 and valuations of public companies in the cable television industry adjusted for factors specific to the Company. Compensation expense is being recorded with the method described in FIN 28 over the vesting period of the individual options that varies between four and five years. As of December 31, 2002, deferred compensation remaining to be recognized in future periods totaled \$2 million. No stock option compensation expense was recorded for the options granted after November 8, 1999, since the exercise price was equal to the estimated fair value of the underlying membership interests or shares of Class A common stock on the date of grant. Since the membership units are exchangeable into Class A common stock of Charter on a one-for-one basis, the estimated fair value was equal to the quoted market values of Class A common stock.

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On July 25, 2001, the Company issued options to purchase 186,385 shares of Charter Class A common stock to a consultant in consideration of services to be rendered in the future, pursuant to an equity compensation plan not approved by shareholders. The options are exercisable immediately, at an exercise price of \$20.46 per share and if not exercised prior to the tenth anniversary of the grant date, will expire. The Company accounts for options granted to consultants in accordance with the provisions of SFAS No. 123 and recorded option compensation expense of \$3 million on July 25, 2001. The fair value of the options, \$13.95 per option, was estimated on the date of grant using the Black-Scholes option-pricing model and the following assumptions: risk-free interest rate of 5.7%; expected volatility of 49.8%; and an expected life of 10 years. The valuation assumed no dividends are paid.

On January 1, 2003, the Company adopted the fair value measurement provisions of SFAS No. 123, 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. Adoption of these provisions will result 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. 123, the fair value method will be applied only to awards granted or modified after January 1, 2003, 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. Management believes the adoption of these provisions will not have a material impact on the consolidated results of operations or financial position of the Company. The ongoing effect on consolidated results of operations or financial position will be dependent upon future stock based compensation awards granted. Had the Company adopted SFAS No. 123 as of January 1, 2002, using the prospective method, option compensation expense for the year ended December 31, 2002 would have been \$20 million.

**21. Special Charges**

In the fourth quarter of 2002, the Company recorded a special charge of \$35 million, of which \$31 million is associated with its workforce reduction program and the consolidation of its operations from three divisions and ten regions into five operating divisions, elimination of redundant practices and streamlining its management structure. The remaining \$4 million is related to legal and other costs associated with the Company's ongoing grand jury investigation, shareholder lawsuits and SEC investigation. The \$31 million charge related to realignment activities includes severance costs of \$28 million and lease termination costs of \$3 million. The Company intends to terminate approximately 1,400 employees, of which 100 employees were terminated in the fourth quarter of 2002. As of December 31, 2002, a liability of approximately \$31 million is recorded on the accompanying consolidated balance sheet related to the realignment activities.

During the year ended December 31, 2001, the Company recorded \$18 million in special charges that represent \$15 million of costs associated with the transition of approximately 145,000 (unaudited) data customers from the Excite@Home Internet service to the Charter Pipeline Internet service, as well as \$3 million associated with certain employee severance costs.

In December 2001, the Company implemented a restructuring plan to reduce its workforce in certain markets and reorganize its operating divisions from two to three and operating regions from twelve to ten. The restructuring plan was completed during the first quarter of 2002, resulting in the termination of approximately 320 employees and severance costs of \$4 million of which \$1 million was recorded in the first quarter of 2002 and \$3 million was recorded in the fourth quarter of 2001.

**22. 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, Charter Investment, Vulcan Cable, and certain former owners of acquired companies.

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Charter is responsible for its share of taxable income or loss of Charter Holdco allocated to it in accordance with the Charter Holdco amended and restated limited liability company agreement ("Agreement") and partnership tax rules and regulations.

The 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). Pursuant to the 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 will be allocated instead to the membership units held by Vulcan Cable and Charter Investment (the "Special Loss Allocations") to the extent of their capital account balances. The Agreement further provides that, beginning at the time Charter Holdco first 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 be allocated to Vulcan Cable and Charter Investment (the "Special Profit Allocations"). The Special Profit Allocations to Vulcan Cable and Charter Investment will generally continue until the cumulative amount of the Special Profit Allocations offsets the cumulative amount of the Special Loss Allocations. The Agreement generally provides that any additional net tax profits are to be allocated proportionately among the members of Charter Holdco based on their ownership of Charter Holdco membership units. The cumulative amount of the actual income tax losses allocated to Vulcan Cable and Charter Investment as a result of the Special Loss Allocations through the period ended December 31, 2002 is approximately \$3.3 billion.

In certain situations, the Special Loss Allocations and Special Profit Allocations 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 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 application of section 704(c) under the Internal Revenue Code, (iii) the amount and timing of alternative minimum taxes paid by Charter, (iv) the apportionment of the allocated income or loss among the states in which Charter Holdco does business, and (v) 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 and Special Loss Allocations will change significantly pursuant to the provisions of the income tax regulations. 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.

In addition to the aforementioned reasons, under their exchange agreement with Charter, Vulcan Cable and Charter Investment 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 and Charter Investment could elect to cause Charter Holdco to make the remaining Special Profit Allocations to Vulcan Cable and Charter Investment immediately prior to the consummation of the exchange. In the event Vulcan Cable and Charter Investment 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. The Company's principal shareholder 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.

For the years ended December 31, 2002, 2001 and 2000, the Company recorded deferred income tax benefits as shown below. The income tax benefits are realized through reductions in the deferred tax liabilities related to Charter's investment in Charter Holdco, as well as the deferred tax liabilities of certain of Charter's indirect corporate subsidiaries.

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Current and deferred income tax expense (benefit) is as follows (dollars in millions):

	December 31,		
	2002	2001	2000
Current expense:			
Federal income taxes	\$ —	\$ —	\$ —
State income taxes	2	—	—
Current income tax expense	2	—	—
Deferred benefit:			
Federal income taxes	(456)	(11)	(9)
State income taxes	(66)	(1)	(1)
Deferred income tax benefit:	(522)	(12)	(10)
Total income benefit	\$ (520)	\$ (12)	\$ (10)

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, 2002, 2001 and 2000 as follows (dollars in millions):

	December 31,		
	2002	2001	2000
Statutory federal income taxes	\$ (969)	\$ (409)	\$ (304)
State income taxes, net of federal benefit	(138)	(58)	(43)
Valuation allowance provided	587	455	337
Provision for income taxes	\$ (520)	\$ (12)	\$ (10)

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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, 2002, 2001 and 2000 which are included in long-term liabilities are presented below (dollars in millions).

	December 31,		
	2002	2001	2000
Deferred tax assets:			
Net operating loss carryforward	\$ 1,489	\$ 893	\$ 423
Other	9	9	8
Total gross deferred tax assets	1,498	902	431
Less: valuation allowance	(1,444)	(857)	(402)
Net deferred tax assets	\$ 54	\$ 45	\$ 29
Deferred tax liabilities:			
Investment in Charter Holdco	\$ (266)	\$ (671)	\$ (671)
Property, plant & equipment	(47)	(34)	(15)
Franchises	(240)	(493)	(523)
Gross deferred tax liabilities	(553)	(1,198)	(1,209)
Net deferred tax liabilities	\$ (499)	\$(1,153)	\$(1,180)

As of December 31, 2002, the Company has deferred tax assets of \$1.4 billion, which primarily relate to the excess of cumulative financial statement losses over cumulative tax losses allocated from Charter Holdco. The deferred tax assets also include \$322 million of tax net operating loss carryforwards (generally expiring in years 2003 through 2022) of Charter and its indirect corporate subsidiaries, which are subject to separate return limitations. Valuation allowances of \$277 million exist with respect to these carryforwards.

The total valuation allowance for deferred tax assets as of December 31, 2002, 2001 and 2000 was \$1.4 billion, \$857 million and \$402 million, 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. Because of the uncertainties in projecting future taxable income of Charter Holdco, valuation allowances have been established except for deferred benefits available to offset deferred tax liabilities.

The Company is currently under examination by the Internal Revenue Service for the tax years ending December 31, 1999 and 2000. Management does not expect the results of this examination to have a material adverse effect on the Company's consolidated financial position or results of operation.

### **23. 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 has entered into management arrangements with Charter Holdco and certain of its subsidiaries. Under these agreements, Charter provides management services for the cable television systems owned or operated by its subsidiaries. The management services include such services as centralized customer billing services, data processing and related support, benefits administration and coordination of insurance coverage and self-insurance

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programs for medical, dental and workers' compensation claims. Certain costs for these services are billed and charged directly to the Company's operating subsidiaries and are included within operating costs. Such costs totaled \$176 million, \$119 million and \$51 million for the years ended December 31, 2002, 2001 and 2000, respectively. All other costs incurred on the behalf of the Company's operating subsidiaries are considered a part of the management fee and are recorded as corporate expense in the accompanying consolidated financial statements. For the years ended December 31, 2002, 2001 and 2000, the management fee charged to the Company's operating subsidiaries approximated the corporate expenses incurred by Charter Holdco and Charter on behalf of the Company's operating subsidiaries. The credit facilities of the Company's operating subsidiaries 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 annum, 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 may not, and may not allow its subsidiaries to, engage in any business transaction outside the cable transmission business except for certain existing approved investments. Should Charter or its subsidiaries wish to pursue a business transaction outside of this scope, it must first offer Mr. Allen the opportunity to pursue the particular business transaction. If he decides not to pursue the business transaction and consents to Charter or its subsidiaries to engage in the business transaction, they will be able to do so. The cable transmission business means the business of transmitting video, audio, including telephony, and data over cable television systems owned, operated or managed by Charter or its subsidiaries from time to time.

Mr. Allen or his affiliates own 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 Inc. (TechTV), Oxygen Media Corporation (Oxygen Media), Digeo, Inc., Click2learn, Inc., Trail Blazer Inc., Action Sports Cable Network (Action Sports) and Microsoft Corporation. In addition, Mr. Allen and Mr. Savoy were directors of USA Networks, Inc. (USA Networks), who operates the USA Network, The Sci-Fi Channel, Trio, World News International and Home Shopping Network, owning approximately 5% and less than 1%, respectively, of the common stock of USA Networks. In 2002, Mr. Allen and Mr. Savoy sold their common stock and are no longer directors of the USA Network. Mr. Allen owns 100% of the equity of Vulcan Ventures Incorporated (Vulcan Ventures) and Vulcan Inc. and is the president of Vulcan Ventures. Mr. Savoy is also a vice president and a director of Vulcan Ventures. The various cable, media, Internet and telephony companies in which Mr. Allen has invested may mutually benefit one another. The agreements governing the Company's relationship with Digeo, Inc. are an example of a cooperative business relationship among Mr. Allen's affiliated companies. The Company can give no assurance 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.

High Speed Access Corp. (High Speed Access) has been a provider of high-speed Internet access services over cable modems. During the period from 1997 to 2000, certain Charter entities entered into Internet-access related service agreements, and both Vulcan Ventures, an entity controlled by Mr. Allen, and certain of Charter's subsidiaries made equity investments in High Speed Access.



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On February 28, 2002, Charter's subsidiary and an affiliate to the Company, CC Systems, purchased from High Speed Access the contracts and associated assets, and assumed related liabilities, that served the Company's customers, including a customer contact center, network operations center and provisioning software. Immediately prior to the asset purchase, Vulcan Ventures beneficially owned approximately 37%, and the Company beneficially owned approximately 13%, of the common stock of High Speed Access (including the shares of common stock which could be acquired upon conversion of the Series D preferred stock, and upon exercise of the warrants owned by Charter Communications Holding Company). Following the consummation of the asset purchase, neither the Company nor Vulcan Ventures beneficially owned any securities of, or were otherwise affiliated with, High Speed Access.

The Company receives or will receive programming for broadcast via its cable systems from TechTV, USA Networks, Oxygen Media and Action Sports. 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, 2002 and 2001 were each less than 2% of total operating expenses. In addition, the Company receives commissions from USA Networks for home shopping sales generated by its customers. Such revenues for the years ended December 31, 2002 and 2001 were less than 1% of total revenues. On November 5, 2002, Action Sports announced that it was discontinuing its business. The Company believes that the failure of Action Sports will not materially affect the Company's business or results of operations.

As discussed in Note 5, in April 2002, Interlink Communications Partners, LLC, Rifkin Acquisition Partners, LLC and Charter Communications Entertainment I, LLC, each an indirect, wholly-owned subsidiary of the Company, completed the cash purchase of certain assets of Enstar Income Program II-2, L.P., Enstar Income Program IV-3, L.P., Enstar Income/Growth Program Six-A, L.P., Enstar Cable of Macoupin County and Enstar Income IV/PBD Systems Venture, serving in the aggregate approximately 21,600 (unaudited) customers, for a total cash sale price of approximately \$48 million. In September 2002, Charter Communications Entertainment I, LLC purchased all of Enstar Income Program II-1, L.P.'s Illinois cable television systems, serving approximately 6,400 (unaudited) customers, for a cash sale price of \$15 million. Enstar Communications Corporation, a direct subsidiary of Charter Holdco, is a general partner of the Enstar limited partnerships but does not exercise control over them. All of the executive officers of Charter and Charter Holdco act as officers of Enstar Communications Corporation.

The Company purchases certain equipment for use in the Company's business from ADC Telecommunications, which provides broadband access and network equipment. Mr. Wangberg, a director for Charter, serves as a director for ADC Telecommunications. Such fees for the years ended December 31, 2002 and 2001 were each less than 1% of total operating expenses under this arrangement.

On January 10, 2003 Charter signed an agreement to carry two around-the-clock, high-definition networks, HDNet and HDNet Movies. The Company believes that entities controlled by Mr. Mark Cuban, co-founder and president of HDNet, owns 96.9% of HDNet and HDNet Movies as of December 31, 2002. As of December 31, 2002 Mr. Cuban, owns approximately 5.3% equity interest in Charter.

As part of the Bresnan acquisition in February 2000, CC VIII, an indirect limited liability company subsidiary of Charter, issued the CC VIII Interest to the Comcast Sellers. The CC VIII Interest is entitled to a 2% priority return on its initial capital amount and such priority return is entitled to preferential distributions from available cash and upon liquidation of CC VIII. The CC VIII Interest generally does not share in the profits and losses of CC VIII at present. The Comcast Sellers have the right at their option to exchange the CC VIII Interest for shares of Charter Class A common stock. Charter does not have the right to force such an exchange. In connection with the Bresnan acquisition, Mr. Allen granted the Comcast Sellers the right to sell to Mr. Allen the CC VIII Interest (or any Charter Class A common stock that the Comcast Sellers would receive if they exercised their exchange right) for approximately \$630 million plus 4.5% interest annually from February 2000. In April 2002, in accordance with such put agreement, the Comcast Sellers notified Mr. Allen of their exercise of the Comcast Put Right in full, and the parties agreed to consummate the sale in April 2003, although the parties also agreed to negotiate in good faith possible alternatives to the closing. On April 9, 2003, the parties agreed to extend the closing for up to thirty days. If the sale to Mr. Allen is consummated, Mr. Allen would become the holder of the CC VIII Interest (or, if previously exchanged by the current holders, any Charter Class A common stock issued to the current holders upon

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such exchange). If the CC VIII Interest is transferred to Mr. Allen, then, subject to the matters referenced in the next paragraph, Mr. Allen generally thereafter would be allocated his pro rata share (based on number of membership interests outstanding) of profits or losses of CC VIII. In the event of a liquidation of CC VIII, Mr. Allen would not be entitled to any priority distributions (except with respect to the 2% priority return, as to which such priority would continue), and Mr. Allen's share of any remaining distributions in liquidation would be equal to 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 the date of the transfer of the CC VIII Interest to Mr. Allen.

An issue has arisen 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. Our Board of Directors has formed a Special Committee comprised of Messrs. Tory, Wangberg and Nelson to investigate and take any other appropriate action on behalf of the Company with respect to this matter. Specifically, the Special Committee is considering whether it should be the position of Charter that Mr. Allen should be required to contribute the CC VIII Interest to Charter Holdco in exchange for Charter Holdco membership units, immediately after his acquisition of the CC VIII Interest upon consummation of the Comcast Put Right. To the extent it is ultimately determined that Mr. Allen must contribute the CC VIII Interest to Charter Holdco following consummation of the Comcast Put Right, the Special Committee may also consider what additional steps, if any, should be taken with respect to the further disposition of the CC VIII Interest by Charter Holdco. If necessary, following the completion of the Special Committee's investigation of the facts and circumstances relating to this matter, the Special Committee and Mr. Allen have agreed to a non-binding mediation process to resolve any dispute relating to this matter as soon as practicable, but without any prejudice to any rights of the parties if such dispute is not resolved as part of the mediation.

## 24. Commitments and Contingencies

### *Leases*

The Company leases certain facilities and equipment under noncancellable operating leases. Leases and rental costs charged to expense for the years ended December 31, 2002, 2001 and 2000, were \$31 million, \$25 million and \$23 million, respectively. As of December 31, 2002, future minimum lease payments are as follows (in millions):

Year	Amount
2003	\$18,456
2004	14,202
2005	12,190
2006	9,212
2007	6,145
Thereafter	20,726

The Company also rents utility poles 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 for the years ended December 31, 2002, 2001 and 2000, was \$41 million, \$33 million and \$31 million, respectively. The Company pays programming fees under multi-year contracts ranging from three to six 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. Total programming costs paid to programmers were \$1.2 billion, \$951 million and \$763 million for the years ended December 31, 2002, 2001 and 2000, respectively.

### *Litigation*

Fourteen putative federal class action lawsuits (the "Federal Class Actions") have been filed against Charter and certain of its former and present officers and directors in various jurisdictions allegedly on behalf of all purchasers of Charter's securities during the period from either November 8 or November 9, 1999 through July 17 or July 18, 2002. Unspecified damages are sought by the plaintiffs. In general, the lawsuits allege 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.

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In October 2002, Charter filed a motion with the Judicial Panel on Multidistrict Litigation (the “Panel”) to transfer the Federal Class Actions to the Eastern District of Missouri. On March 12, 2003, the Panel transferred the six Federal Class Actions not filed in the Eastern District of Missouri to that district for coordinated or consolidated pretrial proceedings with the eight Federal Class Actions already pending there. The Panel’s transfer order assigned the Federal Class Actions to Judge Charles A. Shaw. By virtue of a prior court order, StoneRidge Investment Partners LLC became lead plaintiff upon entry of the Panel’s transfer order. We anticipate that the lead plaintiff will file a single consolidated amended complaint shortly. No response from Charter will be due until after this consolidated amended complaint is filed.

On September 12, 2002, a shareholders derivative suit (the “State Derivative Action”) was filed in Missouri state court against Charter and its current directors, as well as its former auditors. A substantively identical derivative action was later filed and consolidated into the State Derivative Action. The plaintiffs allege that the individual defendants breached their fiduciary duties by failing to establish and maintain adequate internal controls and procedures. Unspecified damages, allegedly on Charter’s behalf, are sought by the plaintiffs.

Separately, on February 12, 2003, a shareholders derivative suit (the “Federal Derivative Action”), was filed against Charter and its current directors in the United States District Court for the Eastern District of Missouri. The plaintiff alleges that the individual defendants breached their fiduciary duties and grossly mismanaged Charter by failing to establish and maintain adequate internal controls and procedures. Unspecified damages, allegedly on the Charter’s behalf, are sought by the plaintiffs.

In addition to the Federal Class Actions, the State Derivative Action and the Federal Derivative Action, six putative class action lawsuits have been filed against Charter and certain of its current directors and officers in the Court of Chancery of the State of Delaware (the “Delaware Class Actions”). The Delaware Class Actions are substantively identical and generally allege that the defendants breached their fiduciary duties by participating or acquiescing in a purported and threatened attempt by Defendant Paul Allen to purchase shares and assets of Charter at an unfair price. The lawsuits were brought on behalf of Charter’s securities holders as of July 29, 2002, and seek unspecified damages and possible injunctive relief. No such proposed transaction by Mr. Allen has been presented.

The lawsuits discussed above are each in preliminary stages and no dispositive motions or other responses to any of the complaints have been filed. No reserves have been established for those matters because the Company believes they are either not estimable or not probable. Charter intends to vigorously defend the lawsuits.

In August of 2002, Charter became aware of a grand jury investigation being conducted by the United States Attorney’s Office for the Eastern District of Missouri into certain of its accounting and reporting practices, focusing on how Charter reported customer numbers, refunds that Charter sought from programmers and its reporting of amounts received from digital set-top terminal suppliers for advertising. Charter has been advised by the U.S. Attorney’s Office that no member of the Board of Directors, including its Chief Executive Officer, is a target of the investigation. Charter is fully cooperating with the investigation.

On November 4, 2002, Charter received an informal, non-public inquiry from the Staff of the Securities and Exchange Commission (SEC). The SEC has subsequently issued a formal order of investigation dated January 23, 2003, and subsequent document subpoenas. The investigation and subpoenas generally concern Charter’s prior reports with respect to its determination of the number of customers, and various of its other accounting policies and practices including its capitalization of certain expenses and dealings with certain vendors, including programmers and digital set-top terminal suppliers. Charter is actively cooperating with the SEC Staff.

Charter is unable to predict the outcome of the lawsuits and the government investigations described above. An unfavorable outcome in the lawsuits or the government investigations described above could have a material adverse effect on Charter’s results of operations and financial condition.

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Charter is generally required to indemnify each of the named individual defendants in connection with these matters pursuant to the terms of its Bylaws and (where applicable) such individual defendants' employment agreements. Pursuant to the terms of certain employment agreements and in accordance with the Bylaws of Charter, in connection with the pending grand jury investigation, SEC investigation and the above described lawsuits, Charter's current directors and its current and former officers have been advanced certain costs and expenses incurred in connection with their defense.

In addition to the matters set forth above, Charter 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 outcome of these other lawsuits and claims will not have a material adverse effect on the Company's consolidated financial position or results of operations.

Charter has directors' and officers' liability insurance coverage that it believes is available for these matters, subject to the terms, conditions and limitations of the respective policies.

*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.

The 1996 Telecom Act required the FCC to undertake a number of implementing rulemakings. Moreover, Congress and the FCC have frequently revisited the subject of cable regulation. Future legislative and regulatory changes could adversely affect the Company's operations.

The 1992 Cable Act permits certified local franchising authorities to order refunds of basic service tier rates paid in the previous twelve-month period determined to be in excess of the maximum permitted rates. During the years ended December 31, 2002, 2001 and 2000, the amounts refunded by the Company have been insignificant. The Company may be required to refund additional amounts in the future.

**25. 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 \$8 million, \$9 million and \$7 million for the years ended December 31, 2002, 2001 and 2000, respectively.

**26. Recently Issued Accounting Standards**

Statement of Financial Accounting Standards (SFAS) No. 143, "Accounting for Asset Retirement Obligations," addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. SFAS No. 143 is effective for fiscal years beginning after June 15, 2002. The Company will adopt SFAS No. 143 on January 1, 2003. The Company does not expect the adoption of SFAS No. 143 to have a material impact on the Company's financial condition or results of operations.

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In April 2002, the Financial Accounting Standards Board (FASB) issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." SFAS No. 145 provides for the rescission of several previously issued accounting standards, new accounting guidance for the accounting for certain lease modifications and various technical corrections that are not substantive in nature to existing pronouncements. The Company will adopt SFAS No. 145 beginning January 1, 2003, except for the provisions relating to the amendment of SFAS No. 13, which will be adopted for transactions occurring subsequent to May 15, 2002. The Company does not expect the adoption of SFAS No. 145 to have a material impact on the consolidated financial statements of the Company.

In June 2002, the Financial Accounting Standards Board issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." SFAS 146 requires that a liability for costs associated with an exit or disposal activity be recognized when the liability is incurred rather than when a company commits to such an activity and also establishes fair value as the objective for initial measurement of the liability. SFAS No. 146 will be adopted by the Company for exit or disposal activities that are initiated after December 31, 2002. Adoption will not have a material impact on the consolidated financial statements of the Company.

In December 2002, the Financial Accounting Standards Board (FASB) issued SFAS No. 148, "Accounting for Stock-Based Compensation — Transition and Disclosure." SFAS No. 148 amends SFAS No. 123 to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, it amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based compensation and the effect of the method used on reported results. The Company adopted SFAS No. 148 beginning January 1, 2003. On January 1, 2003, the Company also adopted SFAS No. 123, "Accounting for Stock-Based Compensation" on 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.

**27. 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 for distribution to Charter, the parent company. The following condensed parent-only financial statements of Charter account for the investment in Charter Holdco 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. The information in this footnote has been revised from the information previously reported to reflect the Company's restatement of its consolidated financial statements of the years ended December 31, 2001 and 2000. See Note 3 for a description of the restatement.

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**Charter Communications, Inc. (Parent Company Only)**

**Condensed Balance Sheet**

	<b>December 31, 2002</b>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 10
Receivable from related party	3
Investment in Charter Holdco	308
Notes receivable from Charter Holdco	1,433
	<u>\$ 1,754</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>	
Current liabilities	\$ 13
Convertible notes	1,383
Deferred income taxes	266
Preferred stock — redeemable	51
Shareholders' equity	41
	<u>\$ 1,754</u>

**Condensed Statement of Operations**

	<b>Year Ended December 31, 2002</b>
<b>REVENUES</b>	
Interest income	\$ 76
Management fees	9
	<u>85</u>
<b>EXPENSES</b>	
Equity in losses of Charter Holdco	(2,922)
General and administrative expenses	(9)
Interest expense	(73)
	<u>(3,004)</u>
Net loss before income taxes	(2,919)
Income taxes	405
	<u>(2,514)</u>
Net loss	(2,514)
Dividend on preferred equity	(3)
	<u>\$ (2,517)</u>

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**Condensed Statements of Cash Flows**

	Year Ended December 31, 2002
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Net loss after preferred dividends	\$ (2,517)
Equity in losses of Charter Holdco	2,922
Changes in operating assets and liabilities	10
Deferred income taxes	(405)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>	
Investment in Charter Holdco	—
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>10</b>
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	<b>—</b>
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<b>\$ 10</b>

The following table sets forth the parent-only condensed balance sheet, statement of operations and statement of cash flows of Charter which accounts for the investment in Charter Holdco under the equity method of accounting, showing previously reported and restated amounts as of December 31, 2001 (in millions):

**Condensed Balance Sheet**

	December 31, 2001	
	(As previously reported)	(As restated)
<b>ASSETS</b>		
Receivable from related party	\$ 14	\$ 14
Investment in Charter Holdco	2,912	3,256
Notes receivable from Charter Holdco	1,383	1,433
	<u>\$ 4,309</u>	<u>\$ 4,703</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities	\$ 14	\$ 13
Convertible notes	1,383	1,383
Deferred income taxes	—	671
Preferred stock — redeemable	51	51
Shareholders' equity	2,861	2,585
<b>Total liabilities and shareholders' equity</b>	<u><b>\$ 4,309</b></u>	<u><b>\$ 4,703</b></u>

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**Condensed Statement of Operations**

	Year Ended December 31, 2001	
	(As previously reported)	(As restated)
<b>REVENUES</b>		
Interest income	\$ 60	\$ 61
Management fees	6	6
	<u>66</u>	<u>67</u>
<b>EXPENSES</b>		
Equity in losses of Charter Holdco	(1,179)	(1,168)
General and administrative expenses	(6)	(6)
Interest expense	(59)	(60)
	<u>(1,244)</u>	<u>(1,234)</u>
Net loss	(1,178)	(1,167)
Dividend on preferred equity	(1)	(1)
	<u>\$(1,179)</u>	<u>\$(1,168)</u>

**Condensed Statements of Cash Flows**

	Year Ended December 31, 2001	
	(As previously reported)	(As restated)
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss after preferred dividends	\$(1,179)	\$(1,168)
Equity in losses of Charter Holdco	1,179	1,168
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Investments in and receivables from Charter Holdco	(633)	(633)
Investment in Charter Holdco	(1,224)	(1,224)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Issuance of convertible notes	633	633
Net proceeds from issuance of common stock	1,218	1,218
Other	6	6
	<u>—</u>	<u>—</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<u>—</u>	<u>—</u>
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	<u>—</u>	<u>—</u>
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<u>\$ —</u>	<u>\$ —</u>



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The following table sets forth the parent-only condensed balance sheet, statement of operations and statement of cash flows of Charter which accounts for the investment in Charter Holdco under the equity method of accounting, showing previously reported and restated amounts as of December 31, 2000 (in millions):

**Condensed Balance Sheet**

	December 31, 2000	
	(As previously reported)	(As restated)
<b>ASSETS</b>		
Receivable from related party	\$ —	\$ 10
Investment in Charter Holdco	4,228	3,447
Notes receivable from Charter Holdco	750	750
	<u>4,978</u>	<u>4,207</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities	\$ —	\$ 11
Payables to related party	1	—
Convertible notes	750	750
Deferred income taxes	—	671
Redeemable securities	1,104	8
Shareholders' equity	3,123	2,767
Total liabilities and shareholders' equity	<u>4,978</u>	<u>4,207</u>

**Condensed Statement of Operations**

	Year Ended December 31, 2000	
	(As previously reported)	(As restated)
<b>REVENUES</b>		
Interest income	\$ 9	\$ 7
Management fees	5	5
Total revenues	<u>14</u>	<u>12</u>
<b>EXPENSES</b>		
Equity in losses of Charter Holdco	(829)	(858)
General and administrative expenses	(5)	(5)
Interest expense	(9)	(7)
Total expenses	<u>(843)</u>	<u>(870)</u>
Net loss	<u>\$(829)</u>	<u>\$(858)</u>

**CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2002, 2001 AND 2000**  
(dollars in millions, except where indicated)

**Condensed Statements of Cash Flows**

	Year Ended December 31, 2000	
	(As previously reported)	(As restated)
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	\$(829)	\$(858)
Equity in losses of Charter Holdco	829	858
Changes in operating assets and liabilities	(19)	(19)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Investments in and receivables from Charter Holdco	(750)	(750)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Issuance of convertible notes	750	750
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(19)</b>	<b>(19)</b>
CASH AND CASH EQUIVALENTS, beginning of year	19	19
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<b>\$ —</b>	<b>\$ —</b>

**28. Unaudited Quarterly Financial Data (Restated)**

The information in this footnote has been revised from the information previously reported to reflect the Company's restatement of its financial statements for the years ended December 31, 2002, 2001 and 2000. See Note 3 for a description of the restatement.

The following table presents quarterly data for the periods presented on the consolidated statement of operations:

	Year ended December 31, 2002			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenues	\$ 1,074	\$ 1,137	\$ 1,166	\$ 1,189
Income (loss) from operations	97	85	91	(4,593)
Loss before minority interest, income taxes and cumulative effect of accounting change	(234)	(354)	(368)	(4,991)
Net loss applicable to common stock	(317)	(160)	(167)	(1,873)
Basic and diluted loss per common share before cumulative effect of accounting change	(0.17)	(0.54)	(0.56)	(6.36)
Basic and diluted loss per common share	(1.07)	(0.54)	(0.57)	(6.36)
Weighted-average shares outstanding	294,394,939	294,453,454	294,454,659	294,457,934

**CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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(dollars in millions, except where indicated)

	Year ended December 31, 2001			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenues	\$ 856	\$ 897	\$ 1,002	\$ 1,052
Loss from operations	(293)	(288)	(285)	(334)
Loss before minority interest, income taxes and cumulative effect of accounting change	(637)	(626)	(713)	(657)
Net loss applicable to common stock	(268)	(266)	(330)	(304)
Basic and diluted loss per common share before cumulative effect of accounting change	(1.11)	(1.04)	(1.12)	(1.03)
Basic and diluted loss per common share	(1.15)	(1.04)	(1.12)	(1.03)
Weighted-average shares outstanding	233,777,675	255,027,543	294,250,549	294,384,003

	Year ended December 31, 2000			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenues	\$ 721	\$ 788	\$ 808	\$ 824
Loss from operations	(234)	(263)	(283)	(308)
Loss before minority interest and income taxes	(457)	(510)	(560)	(623)
Net loss applicable to common stock	(181)	(202)	(222)	(253)
Basic and diluted loss per common share	(0.81)	(0.91)	(0.99)	(1.08)
Weighted-average shares outstanding	221,917,083	222,089,746	224,965,289	233,738,668

The following tables reconcile the Company's previously filed quarterly financial data to the restated quarterly financial data included herein for revisions described more fully in Note 2 (in millions, except for share data). A summary of the nature of the reconciling items for each quarter has been provided below each table and should be read in conjunction with Note 3.

	For the Three Months Ended March 31, 2002		
	As previously reported	Adjustments	As restated
Revenues	\$ 1,078	\$ (4)	\$ 1,074
Income (loss) from operations	(38)	135	97
Loss before minority interest, income taxes and cumulative effect of accounting change	(371)	137	(234)
Net loss applicable to common stock	(175)	(142)	(317)
Basic and diluted loss per common share before cumulative effect of accounting change	(0.59)	0.42	(0.17)
Basic and diluted loss per common share	(0.59)	(0.48)	(1.07)
Weighted average common shares outstanding, basic and diluted	294,394,939	—	294,394,939

Net loss applicable to common stock increased due to impairment of franchises caused by additional franchises being recorded in prior years related to corrections to purchase accounting for acquisitions in 1999 and 2000 and due to the expensing of certain costs originally capitalized associated with customer acquisition and installation and deferral of launch incentives. These adjustments were offset by the reversal of depreciation expense associated with certain assets that were not taken out service in the Company's rebuild and upgrade plan and the tax benefit generated by these adjustments.

**CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**(dollars in millions, except where indicated)**

**For the Three Months Ended June 30, 2002**

	<u>As previously reported</u>	<u>Adjustments</u>	<u>As restated</u>
Revenues	\$ 1,158	\$ (21)	\$ 1,137
Income from operations	8	77	85
Loss before minority interest and income taxes	(431)	77	(354)
Net loss applicable to common stock	(203)	43	(160)
Basic and diluted loss per common share	(0.69)	0.15	(0.54)
Weighted average common shares outstanding, basic and diluted	294,453,454	—	294,453,454

Net loss applicable to common stock decreased as a result of the reversal of depreciation expense associated with certain assets that were not taken out of service in the Company's rebuild and upgrade plan, offset by the expensing of certain costs originally capitalized associated with customer acquisition and installation and deferral of launch incentives.

**For the Three Months Ended September 30, 2002**

	<u>As previously reported</u>	<u>Adjustments</u>	<u>As restated</u>
Revenues	\$ 1,179	\$ (13)	\$ 1,166
Income (loss) from operations	(17)	108	91
Loss before minority interest and income taxes	(493)	125	(368)
Net loss applicable to common stock	(240)	73	(167)
Basic and diluted loss per common share	(0.81)	0.25	(0.56)
Weighted average common shares outstanding, basic and diluted	294,454,659	—	294,454,659

The nature of the items decreasing net loss applicable to common stock was primarily the same as in the three months ended June 30, 2002, except for a decline in customer acquisition costs as the Company eliminated its customer acquisition campaigns through third-party contractors.

**For the Three Months Ended March 31, 2001**

	<u>As previously reported</u>	<u>Adjustments</u>	<u>As restated</u>
Revenues	\$ 874	\$ (18)	\$ 856
Loss from operations	(314)	21	(293)
Loss before minority interest, income taxes and cumulative effect of accounting change	(685)	48	(637)
Net loss applicable to common stock	(281)	13	(268)
Basic and diluted loss per common share before cumulative effect of accounting change	(1.20)	0.09	(1.11)
Basic and diluted loss per common share	(1.20)	(0.05)	(1.15)
Weighted average common shares outstanding, basic and diluted	233,777,675	—	233,777,675

The nature of the items decreasing net loss applicable to common stock was primarily the same as in the three months ended June 30, 2002.

**CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**(dollars in millions, except where indicated)**

**For the Three Months Ended June 30, 2001**

	<u>As previously reported</u>	<u>Adjustments</u>	<u>As restated</u>
Revenues	\$ 928	\$ (31)	\$ 897
Loss from operations	(298)	10	(288)
Loss before minority interest and income taxes	(637)	11	(626)
Net loss applicable to common stock	(274)	8	(266)
Basic and diluted loss per common share	(1.07)	0.03	(1.04)
Weighted average common shares outstanding, basic and diluted	255,027,543	—	255,027,543

The nature of the items decreasing net loss applicable to common stock was primarily the same as in the three months ended June 30, 2002.

**For the Three Months Ended September 30, 2001**

	<u>As previously reported</u>	<u>Adjustments</u>	<u>As restated</u>
Revenues	\$ 1,044	\$ (42)	\$ 1,002
Loss from operations	(250)	(35)	(285)
Loss before minority interest and income taxes	(680)	(33)	(713)
Net loss applicable to common stock	(318)	(12)	(330)
Basic and diluted loss per common share	(1.08)	(0.04)	(1.12)
Weighted average common shares outstanding, basic and diluted	294,250,549	—	294,250,549

The nature of the items decreasing net loss applicable to common stock was primarily the same as in the three months ended June 30, 2002.

**For the Three Months Ended December 31, 2001**

	<u>As previously reported</u>	<u>Adjustments</u>	<u>As restated</u>
Revenues	\$ 1,107	\$ (55)	\$ 1,052
Loss from operations	(333)	(1)	(334)
Loss before minority interest and income	(655)	2	(657)
Net loss applicable to common stock	(306)	2	(304)
Basic and diluted loss per common share	(1.04)	0.01	(1.03)
Weighted average common shares outstanding, basic and diluted	294,384,003	—	294,384,003

The nature of the items decreasing net loss applicable to common stock was primarily the same as in the three months ended June 30, 2002.

**CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**(dollars in millions, except where indicated)**

**For the Three Months Ended March 31, 2000**

	<u>As previously reported</u>	<u>Adjustments</u>	<u>As restated</u>
Revenues	\$ 722	\$ (1)	\$ 721
Loss from operations	(224)	(10)	(234)
Loss before minority interest and income taxes	(450)	(7)	(457)
Net loss applicable to common stock	(181)	—	(181)
Basic and diluted loss per common share	(0.81)	—	(0.81)
Weighted average common shares outstanding, basic and diluted	221,917,083	—	221,917,083

Net loss applicable to common stock increased due to the expensing of certain costs originally capitalized associated with customer installation and deferral of launch incentives. These adjustments were offset by the reversal of depreciation expense associated with certain assets that were not taken out of service in the Company's rebuild and upgrade plan.

**For the Three Months Ended June 30, 2000**

	<u>As previously reported</u>	<u>Adjustments</u>	<u>As restated</u>
Revenues	\$ 795	\$ (7)	\$ 788
Loss from operations	(241)	(22)	(263)
Loss before minority interest and income taxes	(494)	(16)	(510)
Net loss applicable to common stock	(197)	(5)	(202)
Basic and diluted loss per common share	(0.89)	(0.02)	(0.91)
Weighted average common shares outstanding, basic and diluted	222,089,746	—	222,089,746

The nature of the items increasing net loss applicable to common stock was primarily the same as in the three months ended March 31, 2000.

**For the Three Months Ended September 30, 2000**

	<u>As previously reported</u>	<u>Adjustments</u>	<u>As restated</u>
Revenues	\$ 839	\$ (31)	\$ 808
Loss from operations	(237)	(46)	(283)
Loss before minority interest and income taxes	(523)	(37)	(560)
Net loss applicable to common stock	(210)	(12)	(222)
Basic and diluted loss per common share	(0.93)	(0.06)	(0.99)
Weighted average common shares outstanding, basic and diluted	224,965,289	—	224,965,289

The nature of the items increasing net loss applicable to common stock was primarily the same as in the three months ended March 31, 2000.

**CHARTER COMMUNICATIONS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2002, 2001 AND 2000**  
**(dollars in millions, except where indicated)**

For the Three Months Ended December 31, 2000

	As previously reported	Adjustments	As restated
REVENUES	\$ 893	\$ (69)	\$ 824
Loss from operations	(269)	(39)	(308)
Loss before minority interest and income taxes	(588)	(35)	(623)
Net loss applicable to common stock	(241)	(12)	(253)
Basic and diluted loss per common share	(1.03)	(0.05)	(1.08)
Weighted average common shares outstanding, basic and diluted	233,738,668	—	233,738,668

The nature of the items increasing net loss applicable to common stock was primarily the same as in the three months ended March 31, 2000 with an additional adjustment to expense certain costs originally capitalized as customer acquisition costs.

## SECOND AMENDED MANAGEMENT AGREEMENT

THIS SECOND AMENDED MANAGEMENT AGREEMENT (this "Agreement") is made as of the 8<sup>th</sup> day of November, 1999 by and among Charter Investment, Inc., a Delaware corporation (formerly known as Charter Communications, Inc.) ("Investment"), Charter Communications, Inc., A Delaware Corporation ("CCI"), and Charter Communications Operating, LLC, a Delaware limited liability company ("Charter Operating").

## RECITALS

A. Investment and Charter Operating entered into an Amended and Restated Management Agreement dated as of March 17, 1999 (the "Management Agreement").

B. In connection with an initial public offering of CCI common stock, the parties wish to amend the Management Agreement and CCI wishes to acquire all of Investment's right, title and interest under the Management Agreement and to assume all of Investment's obligations and liabilities under the Management Agreement.

NOW, THEREFORE, in consideration of the mutual covenants and agreements contained herein, and for the other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto hereby agree as follows:

1. Amendment. Upon the Effective Date (as defined below), the first paragraph of Section 3(a) of the Management Agreement shall be amended to read as follows:

"All expenses, costs, losses, liabilities or damages incurred with respect to the ownership or operation of the Cable Systems, including, without limitation, wages, salaries and other labor costs incurred in the construction, maintenance, expansion or operation of the Cable Systems, or personnel working on special projects or services for the Company, will be paid by the Company and, to the extent that the Manager pays or incurs any obligation for any such expenses, costs, losses, liabilities or damages, the Company, subject to the limitations set forth in Section 5, will pay or reimburse the Manager therefor, as well as for any reasonable out-of-pocket expenses incurred by the Manager in the performance of its obligations under this Agreement. Subject to the payment priority provisions of this Section 3, the Company agrees to pay the Manager such costs and expenses, which shall include all the costs, expenses, liabilities and damages incurred by the Manager in performing its obligations hereunder and any payments that the Manager may become obligated to pay pursuant to the Mutual Services Agreement (the "Management Expenses") monthly in arrears. Accrual of such Management Expenses shall commence upon the Effective Date (as defined below) of this Agreement. The Management Expenses payable pursuant to this paragraph for any month shall be reduced by the amount of any management fees and expenses of a subsidiary of the Company and separately paid to the Manager for



such month pursuant to a separate management agreement between the Manager and a subsidiary of the Company.”

2. Assignment and Assumption of Management Agreement.

- (a) Upon the Effective Date, Investment hereby fully and completely assigns to CCI all of Investment’s right, title and interest in and to, and its obligations under, the Management Agreement.
- (b) Upon the Effective Date, CCI hereby fully and completely assumes all of Investment’s right, title and interest in and to, and agrees to perform when due, all obligations of Investment under, the Management Agreement.

3. Mutual Services Agreement. Nothing contained herein shall affect Investment’s obligations under the Mutual Services Agreement dated as of the date hereof.

4. Effective Date. This Agreement shall become effective only upon the closing (the “Effective Date”) of the initial public offering of CCI as contemplated by its Registration Statement on Form S-1 filed with the Securities and Exchange Commission. If such closing does not occur for any reason, or has not occurred by January 1, 2000, this Agreement shall be of no force or effect and none of Investment, CCI or Charter Operating shall have any rights, obligations or liabilities under or arising out of this Agreement.

5. Amendments. This Agreement cannot be amended, waived, or terminated except by a writing signed by all parties.

6. Counterparts. This Agreement may be executed in two or more separately executed counterparts, which may include faxed signature pages, each of which counterparts shall be deemed an original, but all of which together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have caused this Second Amended Management Agreement to be duly executed and delivered as of the date first above written and effective as of the Effective Date.

CHARTER INVESTMENT, INC.,  
a Delaware corporation

By: /s/ Curtis S. Shaw

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Name: Curtis S. Shaw  
Title: Senior Vice President

CHARTER COMMUNICATIONS, INC.,  
a Delaware corporation

By: /s/ Marcy Lifton

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Name: Marcy Lifton  
Title: Vice President

CHARTER COMMUNICATIONS OPERATING, LLC,  
a Delaware limited liability company

By: /s/ Marcy Lifton

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Name: Marcy Lifton  
Title: Vice President

AMENDMENT No. 4 TO THE  
CHARTER COMMUNICATIONS  
OPTION PLAN

This Amendment to the Charter Communications Option Plan as amended through the date hereof (the "Plan"), is effective as of January 27, 2003.

1. Article 6 of the Plan is hereby amended by adding the following section after Section 6.11:

Section 6.12 Option Repricing. Notwithstanding anything contained in the Plan to the contrary, the Administrator may, in its sole discretion, approve an Option repricing. For the purposes of the preceding sentence, an "Option repricing" shall include reducing the Exercise Price of any outstanding Option, permitting the cancellation, forfeiture or tender of outstanding Options in exchange for other equity awards or for new Options with a lower Exercise Price, by any other method repricing or replacing any outstanding Option, or taking any other action deemed to be a "repricing" under the rules of the national securities exchange or other market on which the shares of common stock of the Public Company are listed or admitted to trading.

The terms of the Plan shall remain in full force and effect without modification or amendment except as expressly set forth herein.

AMENDMENT ONE  
TO THE  
CHARTER COMMUNICATIONS, INC.  
2001 STOCK INCENTIVE PLAN

This Amendment (the "Amendment") to the Charter Communications Inc. 2001 Stock Incentive Plan is dated as of June 6, 2001.

Section 2.16 of the Plan is hereby amended in its entirety to read as follows:

"Eligible Individual" means any of the following individuals who is designated by the Committee in its discretion as eligible to receive Options or Awards subject to the conditions set forth herein: (a) any director, officer or employee of the Company or a Subsidiary or Affiliate of the Company, (b) any individual to whom the Company, or a Subsidiary or an Affiliate of the Company, has extended a formal offer of employment, or (c) any consultant or advisor of the Company or a Subsidiary. Notwithstanding the foregoing, the eligibility and/or participation of those employees represented by a collective bargaining representative shall be governed solely by the results of good faith negotiations between the Company and such employees' representative and/or by the express terms of any collective bargaining agreement resulting therefrom.

AMENDMENT FOUR  
TO THE  
CHARTER COMMUNICATIONS, INC.  
2001 STOCK INCENTIVE PLAN

This Amendment (the "Amendment") to the Charter Communications Inc. 2001 Stock Incentive Plan, as amended through the date hereof (the "Plan"), is dated as of October 29, 2002.

Section 4.1 of the Plan is hereby amended to replace the first sentence thereof with the following sentence:

The maximum number of Shares that may be made the subject of Options and Awards granted under the Plan is 68,895,911 plus up to 21,068,102 Shares based on forfeitures, cancellations and terminations under Charter Communications Option Plan; *provided, however*, that in the aggregate, not more than 3,000,000 of the number of allotted Shares may be made the subject of Restricted Stock Awards under Section 10 of the Plan (other than shares of Restricted Stock made in settlement of Performance Units pursuant to Section 11.1(b)).

The terms of the Plan (including the remainder of Section 4.1) shall remain in full force and effect without modification or amendment except as expressly set forth herein.

AMENDMENT FIVE  
TO THE  
CHARTER COMMUNICATIONS, INC.  
2001 STOCK INCENTIVE PLAN

This Amendment to the Charter Communications, Inc. 2001 Stock Incentive Plan, as amended through the date hereof (the "Plan"), is effective as of January 27, 2003.

1. Article 5 of the Plan is hereby amended by adding the following section after Section 5.5:

Section 5.6 Option Repricing. Notwithstanding anything contained in this Plan to the contrary, the Committee may, in its sole discretion, approve an Option repricing. For the purposes of the preceding sentence, an "Option repricing" shall 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, by any other method repricing or replacing any outstanding Option, or taking any other action deemed to be a "repricing" under the rules of the national securities exchange or other market on which the Shares are listed or admitted to trading.

The terms of the Plan shall remain in full force and effect without modification or amendment except as expressly set forth herein.

**CC VII HOLDINGS, LLC  
12444 Powerscourt Drive  
Suite 100  
St. Louis, MO 63131**

March 27, 2000

Mr. Marc Nathanson  
Mapleton Investments, LLC  
10900 Wilshire Boulevard  
15<sup>th</sup> Floor  
Los Angeles, CA 90024

Dear Mr. Nathanson

This letter (this "Agreement") sets out our understanding of the agreement between CC VII Holdings, LLC ("Charter"), Mapleton Investments, LLC ("Mapleton"), and Marc Nathanson ("Nathanson") relating to the premises at 10900 Wilshire Boulevard, and certain other arrangements as described herein.

1. Reference is made to a prior letter agreement between Charter Communications, Inc. and Nathanson dated May 25, 1999 ("May Letter Agreement"). The provisions of paragraph 4 of the May Letter Agreement are hereby superseded in their entirety by the provisions of this Agreement.

2. Charter is assigning its interest as tenant in that certain Office Lease dated June 25, 1992 between 10900 Wilshire, LLC, successor in interest to Sumitomo Life Realty, as landlord ("Landlord"), and Charter's predecessor in interest as tenant, for approximately 14,171 rentable square feet of space known as Suite 1500 ("Suite 1500") on the 15<sup>th</sup> floor of the building located at 10900 Wilshire Boulevard (the "Lease"), pursuant to that certain Assignment and Assumption of Lease and Landlord Consent to Assignment and Assumption of Lease entered into as of February 1, 2000 and entered into contemporaneously herewith (the "Assignment").

3. Upon execution of the Assignment, Mapleton shall pay Charter \$35,427.50, representing the tenant's Security Deposit held by the Landlord pursuant to the Lease.

4. Nathanson, Mapleton, or an affiliate of either or both of them ("Nathanson Party" or "Nathanson Parties", as the context requires), has been using Suite 1500 and Suite 850 located on the 8<sup>th</sup> Floor of 10900 Wilshire Boulevard ("Suite 850") since November 13, 1999. Nathanson and Mapleton each hereby indemnifies and agrees to hold Charter and its

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affiliates, officers, directors, members, predecessors, employees and agents harmless from any and all claims arising out of or relating to any Nathanson Party's use of Suite 1500 and Suite 850 on or after November 13, 1999.

5. Charter and Mapleton shall share equally the Landlord's attorneys' fees required to be paid pursuant to the Assignment; provided, however, any attorneys' fees of the Landlord relating to the Landlord's granting a renewal option to Mapleton shall be borne exclusively by Mapleton.

6. In lieu of the payments described in paragraph 4 of the May Letter Agreement, i.e., (a) Charter paying Nathanson an employee allowance and (b) Charter leasing, for Nathanson's use, Suite 850 (the office lease of which is being terminated by Charter and Landlord) and Nathanson paying Charter one-half(1/2) of the rent for Suite 850, Charter shall pay to Mapleton, at the direction and request of Nathanson, \$16,099.75 monthly commencing February 1, 2000 through December 31, 2000, and \$16,635.45 monthly commencing January 1, 2001 through December 31, 2002, provided that such payment (in either amount) shall cease upon the earlier of (i) Nathanson's resignation as Vice Chairman or Director of Charter Communications, Inc., or (ii) Nathanson's removal as Vice Chairman or Director, which may occur at any time after three years from the date of appointment, or in the event Nathanson ceases to own equity in Charter Communications, Inc. or its affiliates.

7. Upon execution of the Assignment, Mapleton shall reimburse Charter for the rent paid under the Lease of \$89,692 for February and March 2000.

8. In connection with the Nathanson Parties' use of Suite 1500 from November 13, 1999 through January 31, 2000, Mapleton shall pay Charter \$14,776 upon execution of this Agreement.

9. Mapleton shall assume the lease of the copier previously located in Suite 850 commencing as of February 1, 2000 and Mapleton shall assume the lease for the phone system previously serving Suite 850 and now serving Suite 1500 commencing as of February 1, 2000. Upon execution of this Agreement, Mapleton shall pay Charter \$8,574.91 representing the net amount due Charter for the copier lease.

10. Upon execution of the Assignment, Mapleton shall pay Landlord for services incurred by the Nathanson Parties using Suite 1500, and shall reimburse Charter for payment to Landlord of its invoice No. 598 in the amount of \$832.69.

11. From November 13, 1999 through January 31, 2000, Mapleton and Charter shall equally share the cost of the parking spaces allocated to Suite 850 and Suite 1500. From and after February 1, 2000, Mapleton shall be responsible, at its sole expense, for either leasing all parking spaces in the 10900 Wilshire Boulevard building previously leased by Charter (or its predecessor) or surrendering them to the Landlord/parking concessionaire,

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at no cost to Charter. Upon execution of this Agreement, Mapleton shall pay Charter \$9,251 to reconcile the parking payments by the parties.

12. Upon execution of this Agreement, Charter shall pay Mapleton, at the direction and request of Nathanson, \$27,083.33 representing the employee allowance described in paragraph 4 of the May Letter Agreement for the period from November 13, 1999 through January 31, 2000.

13. Prior to the date of this Agreement, the Nathanson Parties have occupied Suite 1500 and Mapleton acknowledges that it is accepting Suite 1500 in its "as-is" condition, with all faults and without any representation or warranty, express or implied, from Charter or its predecessors as to its condition or as to the Lease.

14. All office furnishings presently located in Suite 1500 which Mapleton or Nathanson have not purchased or leased for its own account since November 13, 1999, are the property of Charter; and Mapleton has agreed to purchase all furnishings owned by Charter at a price to be mutually agreed upon by April 28, 2000. If a price cannot be agreed upon, Charter will arrange for such furnishings to be removed at a time to be mutually agreed upon. Mapleton shall make the furnishings available to Charter's representative to inspect, inventory and value at any time during business hours.

The parties agree to the foregoing effective as described herein.

CC VII HOLDINGS, LLC,  
a Delaware limited liability company

By: /s/ Paul R. [Illegible]

Its: VP Financial Controls

By:

Its:

(Signatures continued on following page.)

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MAPLETON INVESTMENTS, LLC,  
a limited liability company

[ILLEGIBLE]

By:

Its: EVP & Chief Operating Officer

By:

Its:

/s/ Marc Nathanson

Marc Nathanson

**[CHARTER COMMUNICATIONS LETTERHEAD]**

December 3, 2002

Ms. Margaret A. Bellville  
3962 E. Brookhaven Drive  
Atlanta, Georgia 30319

Dear Maggie:

I am very pleased to confirm our employment offer with Charter Communications, Inc. for the position of Executive Vice President, Operations reporting to me. It is expected you will directly oversee all company field operations, as well as customer care, marketing, and ad sales. Subject to final board approval, we would like your start date to be Monday, December 9, 2003.

Your salary will initially be \$500,000 per year, paid in bi-weekly installments. You will be eligible to participate in all employee benefit programs in a manner and at a level that is consistent with other Charter Communications, Inc. executive vice presidents. You will be eligible for four weeks of paid vacation each year.

As part of your compensations package a hiring bonus of \$150,000 will be paid to you within two weeks from your start date with Charter.

You will be eligible for an annual target bonus of 65% of your salary, beginning with the 2003 Management Incentive Plan performance year, which coincides with the calendar year, and according to the performance factors, weighting and measurement criteria outlined in the plan, to be mutually agreed upon by both parties. The bonus payout may be greater or less than target, will be paid out on or before January 31 of the following year. In year 2003, a minimum payout of 50% of target bonus potential will be guaranteed.

You will be eligible to participate in the Charter Communications 2001 Stock Incentive Plan. Subject to committee approval, we will recommend a special stock option grant of 500,000 shares. The price of options and date of grant will coincide with your official start date with the Company. The option exercise price will be the fair market value at the date of the grant. Subject to continued employment, the option will have a ten year life. Twenty five percent of the options will vest on the date of the grant and the balance in thirty-six equal monthly installments commencing one month following the date of the grant. I am attaching a copy of the Stock Incentive Plan document with this letter.

During the first six months of employment we understand that you will work out of the St. Louis corporate office but continue to maintain your current residence in Georgia. During this time we will pay all reasonable travel and temporary living expenses. You will be eligible for Charter's executive homeowner relocation program at that time that

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you and I mutually agree upon a permanent work location. I am including a copy of the executive relocation program with this letter.

Charter also agrees to continue your base salary for a period of twelve months subject to your executing a general release, in the event that (i) your employment is terminated other than for "Cause" by the Company or following a "Change of Control", or (ii) the termination of your employment is initiated by you for "Good Reason" following a "Change of Control". The definition of the term "Cause" will be defined as follows: (i) your conviction of any crime, (ii) your commission of any act of fraud, embezzlement or gross dishonesty, (iii) any material violation by you of or any failure by you to comply with any Federal, state or local law, resulting in a financial loss to the Company or damage to the reputation of the Company, (iv) your refusal to comply with the reasonable and lawful directives of your direct supervisor or the Board within ten (10) days after written notice thereof from the Board or the Company, or (v) your engaging in conduct which constitutes gross negligence or willful misconduct, which conduct is not cured within ten (10) days after written notice thereof from the Board or Company. The definitions of "Change of Control" and "Good Reason" will be the same as defined in the 2001 Stock Incentive Plan, Definitions 2.7 and 2.19 respectively.

The Company indemnifies its officers and directors to the fullest extent of the law and insures against alleged wrongful acts in a very broad liability insurance program that currently provides \$100 million in limits to the entity and its directors and officers. The coverage currently includes 100% defense coverage and outside directorships. As an officer of Charter Communications, you will be covered under this program as of your official start date and will be indemnified for any acts or allegations that occurred prior to your official start date.

This offer letter is valid until Friday, December 13, 2002. If you are in agreement, please sign and return a copy of this letter to me by the above referenced date. The offer is contingent upon the understanding that you are not encumbered or restricted in any way from joining the Company by a non-compete, non-solicitation, non-disclosure, or similar clause in any prior employment or other agreement. Signing this offer letter will signify your acknowledgement that no such encumbrance exists except for 2 yr non-compete/non-solicitation agreement with Cox which expires March 2003.

Parties agree and acknowledge either can terminate this agreement with 60 day advance notice.

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I trust this letter confirms our understanding of the major items related to the employment offer. If not, please call Eric Freesmeier or me to resolve any outstanding items. We are excited about Charter's future and about the contribution you will make in your new capacity.

Very truly yours,  
/s/ Carl Vogel  
Carl Vogel  
President and CEO.

C: Eric Freesmeier

Approved and accepted on this \_\_\_\_ day of \_\_\_\_\_, 2002

By /s/ Margaret Bellville

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Margaret A. Bellville

AMENDED AND RESTATED  
LIMITED LIABILITY COMPANY AGREEMENT

FOR

CC VIII, LLC  
A DELAWARE LIMITED LIABILITY COMPANY

THE MEMBERSHIP INTERESTS REPRESENTED BY THIS AGREEMENT HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, OR REGISTERED OR QUALIFIED UNDER ANY STATE SECURITIES LAWS. SUCH MEMBERSHIP INTERESTS MAY NOT BE OFFERED FOR SALE, SOLD, DELIVERED AFTER SALE, TRANSFERRED, PLEDGED, OR HYPOTHECATED UNLESS QUALIFIED AND REGISTERED UNDER APPLICABLE STATE AND FEDERAL SECURITIES LAWS OR UNLESS, IN THE OPINION OF COUNSEL SATISFACTORY TO THE COMPANY, SUCH QUALIFICATION AND REGISTRATION IS NOT REQUIRED. ANY TRANSFER OF THE MEMBERSHIP INTERESTS REPRESENTED BY THIS AGREEMENT IS FURTHER SUBJECT TO OTHER RESTRICTIONS, TERMS, AND CONDITIONS WHICH ARE SET FORTH HEREIN.

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**AMENDED AND RESTATED  
LIMITED LIABILITY COMPANY AGREEMENT  
FOR  
CC VIII, LLC  
A DELAWARE LIMITED LIABILITY COMPANY**

This Amended and Restated Limited Liability Company Agreement for CC VIII, LLC, a Delaware limited liability company ("**Company**"), is made and entered into effective as of March 31, 2003 ("**Effective Date**"), by and among the persons and entities listed on Schedule A attached hereto, with reference to the following facts:

A. A Certificate of Formation of the Company was filed with the Delaware Secretary of State on August 6, 1999. The Company has been heretofore operated pursuant to the Limited Liability Company Agreement entered into and made effective as of February 14, 2000 (the "**Operative Date**") by Charter Communications Holdings, LLC, a Delaware limited liability company ("**Charter Holdings**"), TCI Bresnan LLC, a Delaware limited liability company ("**TCI Bresnan**"), and TCID of Michigan, Inc., a Nevada corporation ("**TCID**"), as amended and restated by that certain Amended and Restated Limited Liability Company Agreement (the "**Existing LLC Agreement**") entered into and made effective as of January 1, 2002 by CCV Holdings, LLC, a Delaware limited liability company ("**CCV**"), TCI Bresnan, and TCID.

B. On the Operative Date, in connection with the closing of the transactions contemplated by that certain Purchase and Contribution Agreement dated as of June 29, 1999, by and among BCI (USA), LLC, William J. Bresnan, Blackstone BC Capital Partners, L.P., Blackstone BC Offshore Capital Partners, L.P., Blackstone Family Investment Partnership III L.P., TCI Bresnan, TCID, and Charter Communications Holding Company, LLC ("**Charter HoldCo**"), as amended (the "**Bresnan Purchase Agreement**"), each of (i) Charter Holdings; (ii) TCI Bresnan; and (iii) TCID contributed its entire partnership interest in Bresnan Communications Company Limited Partnership, a Michigan limited partnership ("**Bresnan Communications**") to the capital of the Company, and, in connection therewith, the Company admitted them as Members of the Company.

C. On December 22, 2000, pursuant to (i) that certain Contribution and Assignment Agreement by and between Charter Holdings and CCV and (ii) that certain Joinder Agreement executed by CCV, Charter Holdings transferred its entire limited liability company interest in the Company to CCV, and CCV became a Member of the Company.

D. On January 2, 2001, pursuant to that certain Multi-Party Contribution and Assignment Agreement by and among Charter Holdings, CCV, the Company, and certain subsidiaries of the Company, CCV contributed certain assets to the capital of the Company.

E. On June 1, 2001, pursuant to the terms of the Bresnan Purchase Agreement, TCI Bresnan and TCID received certain additional Class A Preferred Units effective as of the Operative Date.

F. On August 31, 2001, pursuant to that certain Multi-Party Assignment and Contribution Agreement by and among Charter HoldCo, Charter Holdings, CCV, the

Company, and certain subsidiaries of the Company, CCV contributed certain assets to the capital of the Company.

G. TCI Bresnan and TCID have exercised the option pursuant to the Put Agreement entered into as of the Operative Date, by and among TCI Bresnan, TCID, and Paul G. Allen (the “**Put**”), and upon the closing of the Put, Paul G. Allen or his affiliates will succeed to certain interests of TCI Bresnan and TCID in the Company as provided herein. CCV now wishes to amend and restate in its entirety the Existing LLC Agreement pursuant to Section 10.11 of the Existing LLC Agreement, to clarify the rights and responsibilities and to govern the relationships of the Members in light of such expected Transfer pursuant to the closing of the Put. On behalf of the Members, CCV adopts and approves this Agreement, as the limited liability company agreement for the Company.

NOW, THEREFORE, the Existing LLC Agreement is hereby amended and restated in its entirety as follows:

## **ARTICLE I**

### **DEFINITIONS**

When used in this Agreement, unless the context otherwise requires, the following terms shall have the meanings set forth below (all terms used in this Agreement that are not defined in this Article I shall have the meanings set forth elsewhere in this Agreement):

1.1 “Act” means the Delaware Limited Liability Company Act, 6 Del. C. § 18-101 et seq., as the same may be amended from time to time.

1.2 “Adjusted Capital Account Deficit” means, with respect to any Member, the deficit balance, if any, in such Member’s Capital Account as of the end of the relevant Fiscal Year, after giving effect to the following adjustments:

1.2.1 Credit to such Capital Account any amounts that such Member is obligated to restore pursuant to any provision of this Agreement or is deemed to be obligated to restore pursuant to the penultimate sentences of Regulations Sections 1.704-2(g)(1) and 1.704-2(i)(5);

1.2.2 Credit to such Capital Account the amount of the deductions and losses referable to any outstanding recourse liabilities of the Company owed to or guaranteed by such Member (or a related person within the meaning of Regulations Section 1.752-4(b)) to the extent that no other Member bears any economic risk of loss and the amount of the deductions and losses referable to such Member’s share (determined in accordance with the Member’s Percentage Interest) of outstanding recourse liabilities owed by the Company to non-Members to the extent that no Member bears any economic risk of loss; and

1.2.3 Debit to such Capital Account the items described in Regulations Sections 1.704-1(b)(2)(ii)(d)(4), 1.704-1(b)(2)(ii)(d)(5), and 1.704-1(b)(2)(ii)(d)(6).



The foregoing definition of Adjusted Capital Account Deficit is intended to comply with the provisions of Regulations Section 1.704-1(b)(2)(ii)(d) and shall be interpreted consistently therewith.

1.3 “Adjusted Priority Capital” means, with respect to any Member as of any date, the amount, if any, of such Member’s Initial Priority Capital, reduced by the aggregate amount distributed to such Member by the Company pursuant to Section 9.5(b). In the event any Member transfers all or any portion of such Member’s Membership Interest in accordance with the terms of this Agreement, such Member’s transferee shall succeed to the Adjusted Priority Capital of the transferor to the extent it relates to the transferred portion of such Member’s Membership Interest; provided, however, that upon the Transfer of Class A Preferred Units pursuant to the CCI Exchange Agreement, such Adjusted Priority Capital shall thereafter be deemed to be zero and shall not be succeeded to by the transferee.

1.4 “Affiliate” of any Person shall mean any other Person that, directly or indirectly, controls, is under common control with or is controlled by that Person. For purposes of this definition, “control” (including, with its correlative meanings, the terms “controlled by” and “under common control with”), 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 and policies of such Person, whether through the ownership of voting securities or by contract or otherwise.

1.5 “Agreement” means this Amended and Restated Limited Liability Company Agreement, as originally executed and as amended and/or restated from time to time.

1.6 “Approval of the Members” means (i) prior to the Put Closing Date, the affirmative vote, approval or consent of the Member(s) holding more than fifty percent (50%) of the Class B Units and (ii) on or after the Put Closing Date, the affirmative vote, approval or consent of the Member(s) holding more than fifty percent (50%) of all Units.

1.7 “Available Cash” means all cash and cash equivalents of the Company on hand from time to time (including without limitation bank and deposit accounts and short-term cash investments), excluding any portion thereof, as determined by the Manager in its sole discretion, necessary or advisable to pay expenses or liabilities or establish reserves, for purposes of operating, developing, maintaining, or otherwise providing for the Company and its business and affairs.

1.8 “Basis” means the adjusted basis of an asset for federal income tax purposes.

1.9 “Board” has the meaning set forth in Section 5.2.1 of this Agreement.

1.10 “Bresnan Communications” has the meaning set forth in the recitals to this Agreement.

1.11 “Bresnan Purchase Agreement” has the meaning set forth in the recitals to this Agreement.

1.12 “Cable Transmission Business” has the meaning set forth in Section 2.5 of this Agreement.

1.13 “Capital Account” means with respect to any Member the capital account that the Company establishes and maintains for such Member pursuant to Section 3.3 herein.

1.14 “Capital Contribution” means, with respect to any Member, the amount of money and the initial Gross Asset Value of any property (other than money) contributed to the Company with respect to the interest in the Company held by such Person. The principal amount of a promissory note which is not readily traded on an established securities market and which is contributed to the Company by the maker of the note (or a Person related to the maker of the note within the meaning of Regulations Section 1.704-1(b)(2)(ii)(c)) shall not be included in the Capital Account of any Person until the Company makes a taxable disposition of the note or until (and to the extent) principal payments are made on the note, all in accordance with Regulations Section 1.704-1(b)(2)(iv)(d)(2).

1.15 “CCI” means Charter Communications, Inc., a Delaware corporation.

1.16 “CCI Exchange Agreement” means the Exchange Agreement dated as of the Operative Date, by and among CCI, TCI Bresnan, TCID, and certain other Persons, pursuant to which TCI Bresnan and TCID may exchange their Class A Preferred Units for common stock of CCI.

1.17 “CCV” has the meaning set forth in the recitals to this Agreement.

1.18 “Certificate” means the Certificate of Formation of the Company originally filed with the Delaware Secretary of State, as amended and/or restated from time to time.

1.19 “Charter HoldCo” has the meaning set forth in the recitals to this Agreement.

1.20 “Charter HoldCo Class C Common Member” means any member of Charter HoldCo holding and to the extent that it holds Charter HoldCo Class C Common Units.

1.21 “Charter HoldCo Class C Common Units” means the membership units of Charter HoldCo denominated “Class C Common.”

1.22 “Charter HoldCo LLC Agreement” means that certain limited liability company agreement of Charter HoldCo, as constituted as of the Operative Date.

1.23 “Charter Holdings” has the meaning set forth in the recitals to this Agreement.

1.24 “Class A Member” means any Member holding and to the extent it holds Class A Preferred Units.

1.25 “Class A Preferred Units” means any Unit denominated “Class A Preferred.”

1.26 “Class B Member” means any Member holding and to the extent it holds Class B Units.

1.27 “Class B Units” means any Unit denominated “Class B.”

1.28 “Code” means the Internal Revenue Code of 1986, as amended from time to time, the provisions of succeeding law, and to the extent applicable, the Regulations.

1.29 “Company” has the meaning set forth in the recitals to this Agreement.

1.30 “Company Minimum Gain” has the meaning ascribed to the term “Partnership Minimum Gain” in Regulations Section 1.704-2(d).

1.31 “Depreciation” means, for each Fiscal Year, an amount equal to the federal income tax depreciation, amortization, or other cost recovery deduction allowable with respect to an asset for such Fiscal Year, except that if the Gross Asset Value of an asset differs from its Basis at the beginning of such Fiscal Year, Depreciation shall be an amount which bears the same ratio to such beginning Gross Asset Value as the federal income tax depreciation, amortization, or other cost recovery deduction for such Fiscal Year bears to such beginning Basis; provided, however, that if the Basis of an asset at the beginning of such Fiscal Year is zero, Depreciation shall be determined with reference to such beginning Gross Asset Value using any reasonable method selected by the Manager.

1.32 “Effective Date” has the meaning set forth in the recitals to this Agreement.

1.33 “Fiscal Year” means the Company’s fiscal year, which shall be the calendar year, or any portion of such period for which the Company is required to allocate Net Profits, Net Losses, or other items of Company income, gain, loss, or deduction pursuant hereto.

1.34 “Gross Asset Value” means, with respect to any asset, the asset’s Basis, except as follows:

1.34.1 The initial Gross Asset Value of any asset contributed by a Member to the Company shall be the gross fair market value of such asset, as determined by the contributing Person and the Manager;

1.34.2 The Gross Asset Values of all Company assets shall be adjusted to equal their respective gross fair market values, as determined by the Manager, as of the following times: (a) the acquisition of an additional interest in the Company by any new or existing Member in exchange for more than a de minimis Capital Contribution; (b) the distribution by the Company to a Member of more than a de minimis amount of Property as consideration for an interest in the Company; and (c) the liquidation of the Company within the meaning of Regulations Section 1.704-1(b)(2)(ii)(g); provided, however, that adjustments pursuant to clauses (a) and (b) above shall be made only if the Manager reasonably determines that such adjustments are necessary or appropriate to reflect the relative economic interests of the Members in the Company.

1.34.3 The Gross Asset Value of any Company asset distributed to any Member shall be adjusted to equal the gross fair market value of such asset on the date of distribution as determined by the distributee and the Manager; and

1.34.4 The Gross Asset Values of Company assets shall be increased (or decreased) to reflect any adjustments to the Basis of such assets pursuant to Code Section

734(b) or Code Section 743(b), but only to the extent that such adjustments are taken into account in determining Capital Accounts pursuant to Regulation Section 1.704-1(b)(2)(iv)(m) and Section 1.44.6 hereof; provided, however, that Gross Asset Values shall not be adjusted pursuant to this Section 1.34.4 to the extent the Manager determines that an adjustment pursuant to Section 1.34.2 hereof is necessary or appropriate in connection with a transaction that would otherwise result in an adjustment pursuant to this Section 1.34.4.

If the Gross Asset Value of an asset has been determined or adjusted pursuant to Section 1.34.1, Section 1.34.2, or Section 1.34.4 hereof, such Gross Asset Value shall thereafter be adjusted by the Depreciation taken into account with respect to such asset for purposes of computing Net Profits and Net Losses

1.35 "Initial Members" means Charter Holdings, TCI Bresnan, and TCID.

1.36 "Initial Priority Capital" means, with respect to each Member, the amount, if any, set forth opposite such Member's name on Schedule A.

1.37 "Intercompany Indebtedness" has the meaning set forth in Section 5.3.15.

1.38 "Manager" means one or more managers who are designated from time to time as provided in Section 5.1.1.

1.39 "Member" means each Person who (a) is an Initial Member, has been admitted to the Company as a Member in accordance with this Agreement, or is an assignee who has become a Member in accordance with Article VII, and (b) has not retired, resigned, withdrawn, been expelled or removed, or, if other than an individual, dissolved.

1.40 "Member Nonrecourse Debt" has the meaning ascribed to the term "Partner Nonrecourse Debt" in Regulations Section 1.704-2(b)(4).

1.41 "Member Nonrecourse Debt Minimum Gain" means an amount, with respect to each Member Nonrecourse Debt, equal to the Company Minimum Gain that would result if such Member Nonrecourse Debt were treated as a Nonrecourse Liability, determined in accordance with Regulations Section 1.704-2(i)(3).

1.42 "Member Nonrecourse Deductions" means items of Company loss, deduction, or Code Section 705(a)(2)(B) expenditures that are attributable to Member Nonrecourse Debt or to other liabilities of the Company owed to or guaranteed by a Member (or a related person within the meaning of Regulations Section 1.752-4(b)) to the extent that no other Member bears the economic risk of loss.

1.43 "Membership Interest" means a Member's entire interest in the Company including the Member's right to share in income, gains, losses, deductions, credits, or similar items of, and to receive distributions from, the Company pursuant to this Agreement and the Act, the right to vote or participate in the management of the Company to the extent herein provided or as specifically required by the Act, and the right to receive information concerning the business and affairs of the Company.

1.44 “Net Profits” and “Net Losses” mean, for each Fiscal Year, an amount equal to the Company’s taxable income or loss for such Fiscal Year, determined in accordance with Code Section 703(a) (for this purpose, all items of income, gain, loss, or deduction required to be stated separately pursuant to Code Section 703(a)(1) shall be included in taxable income or loss), with the following adjustments:

1.44.1 Any income of the Company that is exempt from federal income tax and not otherwise taken into account in computing Net Profits or Net Losses pursuant to this definition shall be added to such taxable income or loss;

1.44.2 Any expenditures of the Company described in Code Section 705(a)(2)(B) or treated as Code Section 705(a)(2)(B) expenditures pursuant to Regulations Section 1.704-1(b)(2)(iv)(i), and not otherwise taken into account in computing Net Profits or Net Losses pursuant to this definition shall be subtracted from such taxable income or loss;

1.44.3 In the event the Gross Asset Value of any Company asset is adjusted as a result of the application of Regulations Section 1.704-1(b)(2)(iv)(e) or Regulations Section 1.704-1(b)(2)(iv)(f), the amount of such adjustment shall be taken into account as gain or loss from the disposition of such asset for purposes of computing Net Profits or Net Losses;

1.44.4 Gain or loss resulting from any disposition of Property with respect to which gain or loss is recognized for federal income tax purposes shall be computed by reference to the Gross Asset Value of the property disposed of, notwithstanding that the Basis of such Property differs from its Gross Asset Value;

1.44.5 In lieu of the depreciation, amortization, and other cost recovery deductions taken into account in computing such taxable income or loss, there shall be taken into account Depreciation in accordance with Section 1.31 hereof;

1.44.6 To the extent an adjustment to the Basis of any Company asset pursuant to Code Section 734(b) or Code Section 743(b) is required pursuant to Regulations Section 1.704-1(b)(2)(iv)(m)(4) to be taken into account in determining Capital Accounts, the amount of such adjustment shall be treated as an item of gain (if the adjustment increases the Basis of the asset) or loss (if the adjustment decreases the Basis of the asset) from the disposition of the asset and shall be taken into account for purposes of computing Net Profits or Net Losses; and

1.44.7 Notwithstanding any other provision of this definition, any items that are specially allocated pursuant to Section 6.3 or 6.4 hereof shall not be taken into account in computing Net Profits or Net Losses (the amounts of the items of Company income, gain, loss, or deduction available to be specially allocated pursuant to any provision of this Agreement shall be determined by applying rules analogous to those set forth in Sections 1.44.1 through 1.44.6 above).

The foregoing definition of Net Profits and Net Losses is intended to comply with the provisions of Regulations Section 1.704-1(b) and shall be interpreted consistently therewith. In the event the Manager determines that it is prudent to modify the manner in which Net

Profits and Net Losses are computed in order to comply with such Regulations, the Manager may make such modification.

1.45 “Nonrecourse Deductions” has the meaning set forth in Regulations Section 1.704-2(b)(1).

1.46 “Nonrecourse Liability” has the meaning set forth in Regulations Section 1.704-2(b)(3).

1.47 “One-for-One Conditions” has the meaning set forth in Section 3.6.3.

1.48 “Operative Date” has the meaning set forth in the recitals to this Agreement.

1.49 “Percentage Interest” means, (i) prior to the Put Closing Date, with respect to each Member holding Class B Units, the percentage equal to the number of Class B Units held by such Member divided by the total number of Class B Units held by all Members, and (ii) on or after the Put Closing Date, with respect to each Member, the percentage equal to the number of Units held by such Member divided by the total number of Units held by all Members.

1.50 “Person” means any individual, general partnership, limited partnership, limited liability company, limited liability partnership, corporation, trust, estate, real estate investment trust, association, or other entity.

1.51 “Post-Year 2005 Allocations” has the meaning set forth in Section 6.4.1 of this Agreement.

1.52 “Priority Rate” means, with respect to any period for which Priority Return is being determined, two percent (2%) per annum.

1.53 “Priority Return” means, with respect to each Member having Adjusted Priority Capital, an amount determined by applying the Priority Rate to the average daily balance of such Member’s Adjusted Priority Capital from time to time during the period to which the Priority Return relates, determined on the basis of a year of 365 or 366 days, as the case may be, for the actual number of days in the period for which the Priority Return is being determined. Priority Return shall commence as of the Operative Date and shall be cumulative but not compounded.

1.54 “Property” means all real and personal property acquired by the Company and any improvements thereto, and shall include both tangible and intangible property.

1.55 “Put” has the meaning set forth in the recitals to this Agreement.

1.56 “Put Closing Date” means the date of the Transfer of Class A Preferred Units by TCI Bresnan and/or TCID (i) to Paul G. Allen and/or any of his Affiliates pursuant to the Put or otherwise, or (ii) to CCI, in exchange for common stock of CCI, pursuant to the CCI Exchange Agreement.

1.57 “Regulations” means the regulations currently in force from time to time as final or temporary that have been issued by the U.S. Department of the Treasury pursuant to its authority under the Code. If a word or phrase is defined in this Agreement by cross-referencing the Regulations, then to the extent the context of this Agreement and the Regulations require, the term “Member” shall be substituted in the Regulations for the term “partner”, the term “Company” shall be substituted in the Regulations for the term “partnership”, and other similar conforming changes shall be deemed to have been made for purposes of applying the Regulations.

1.58 “Regulatory Allocations” has the meaning set forth in Section 6.4.1.

1.59 “Remedial Method” means the “remedial allocation method” described in Regulations Section 1.704-3(d).

1.60 “Subsidiary” means, with respect to any Person, any corporation, limited liability company, partnership, association, joint venture or other business entity of which (i) if a corporation, (x) ten percent (10%) or more of the total voting power of shares of stock entitled to vote in the election of directors thereof or (y) ten percent (10%) or more of the value of the equity interests is at the time owned or controlled, directly or indirectly, by the Person or one or more of its Subsidiaries, or (ii) if a limited liability company, partnership, association or other business entity, ten percent (10%) or more of the partnership or other similar ownership interests thereof is at the time owned or controlled, directly or indirectly, by the Person or one or more of its subsidiaries. The Person shall be deemed to have a ten percent (10%) or greater ownership interest in a limited liability company, partnership, association or other business entity if the Person is allocated ten percent (10%) or more of the limited liability company, partnership, association or other business entity gains or losses or shall be or control the Person managing such limited liability company, partnership, association or other business entity.

1.61 “Target Capital Account” has the meaning set forth in Section 6.4.1 of this Agreement.

1.62 “Tax Loan” has the meaning set forth in Section 4.7.1.

1.63 “Tax Loan Amount” has the meaning set forth in Section 4.7.1.

1.64 “TCI Bresnan” has the meaning set forth in the recitals to this Agreement.

1.65 “TCID” has the meaning set forth in the recitals to this Agreement.

1.66 “Tentative Taxable Income” and “Tentative Tax Loss” have the meanings set forth in Section 6.3.8 of this Agreement.

1.67 “Traditional Method” means the “traditional method” of making Code Section 704(c) allocations described in Regulations Section 1.704-3(b).

1.68 “Transaction Documents” has the meaning set forth in Section 10.1.

1.69 “Transfer” means any direct or indirect sale, transfer, assignment, hypothecation, encumbrance or other disposition, whether voluntary or involuntary, whether by gift, bequest or otherwise. In the case of a hypothecation, the Transfer shall be deemed to occur both at the time of the initial pledge and at any pledgee’s sale or a sale by any secured creditor.

1.70 “Units” means the units of Membership Interests issued by the Company to its Members, which entitle the Members to certain rights as set forth in this Agreement.

## ARTICLE II

### ORGANIZATIONAL MATTERS

2.1 Formation. Pursuant to the Act, the Company has been formed as a Delaware limited liability company under the laws of the State of Delaware. The rights and liabilities of the Members shall be determined pursuant to the Act and this Agreement. To the extent that the rights or obligations of any Member are different by reason of any provision of this Agreement than they would be in the absence of such provision, this Agreement shall, to the extent permitted by the Act, control.

2.2 Name. The name of the Company shall be “CC VIII, LLC.” The business and affairs of the Company may be conducted under that name or, upon compliance with applicable laws, any other name that the Manager may deem appropriate or advisable. The Manager shall file any fictitious name certificates and similar filings, and any amendments thereto, that may be appropriate or advisable.

2.3 Term. The term of the Company shall commence on the date of the filing of the Certificate with the Delaware Secretary of State and shall continue until the Company is dissolved in accordance with the provisions of this Agreement.

2.4 Principal Office; Registered Agent. The principal office of the Company shall be as determined by the Manager. The Company shall continuously maintain a registered agent and office in the State of Delaware as required by the Act. The registered agent and office shall be as stated in the Certificate or as otherwise determined by the Manager.

2.5 Purpose of Company. The Company may carry on any lawful business, purpose, or activity that may be carried on by a limited liability company under applicable law; provided, however, that, until all outstanding shares of class B common stock of CCI have been converted into shares of class A common stock of CCI in accordance with Clause (b)(viii) of Article Fourth of CCI’s certificate of incorporation as constituted as of November 12, 1999, without the Approval of the Members, the Company shall not engage directly or indirectly, including without limitation through any Subsidiary, in any business other than the Cable Transmission Business (as defined below) and as a member of, and subscriber to, the portal joint venture with Broadband Partners. “**Cable Transmission Business**” means the transmission of video, audio (including telephony) and data over cable television systems owned, operated or managed by the Company or its Subsidiaries; provided, that the



businesses of RCN Corporation and its Subsidiaries shall not be deemed to be a Cable Transmission Business.

### ARTICLE III

#### CAPITAL CONTRIBUTIONS AND UNITS

##### 3.1 Capital Contributions.

3.1.1 On the Operative Date, in connection with the closing of the transactions contemplated by the Bresnan Purchase Agreement, each of Charter Holdings, TCI Bresnan, and TCID contributed to the capital of the Company all of its rights, title, and interest in, to, and under its entire partnership interest in Bresnan Communications in exchange for Fifty-Six Million Five Hundred Sixty-Two Thousand Three Hundred Sixty-Seven (56,562,367) Class B Units, Nine Million Ninety-Eight Thousand Six (9,098,006) Class A Preferred Units, and Fifteen Million One Hundred Seventeen Thousand Seven Hundred Forty-Three (15,117,743) Class A Preferred Units, respectively. (In the case of TCID, such contribution was made following the sale of a portion of the partnership interest formerly held by it to Charter HoldCo under the Bresnan Purchase Agreement.) On June 1, 2001, pursuant to the Bresnan Purchase Agreement, (i) TCI Bresnan received Twenty-One Thousand Eight Hundred Sixty-Four (21,864) additional Class A Preferred Units, and (ii) TCID received Thirty-Six Thousand Three Hundred Thirty (36,330) additional Class A Preferred Units, effective as of the Operative Date.

3.1.2 On December 22, 2000, pursuant to that certain Contribution and Assignment Agreement by and between Charter Holdings and CCV and that certain Joinder Agreement executed by CCV, Charter Holdings transferred its entire limited liability company interest in the Company to CCV, and CCV became a Member of the Company.

3.1.3 On January 2, 2001, pursuant to that certain Multi-Party Contribution and Assignment Agreement by and among Charter Holdings, CCV, the Company, and certain subsidiaries of the Company, CCV contributed certain assets to the capital of the Company. On August 31, 2001, pursuant to that certain Multi-Party Assignment and Contribution Agreement by and among Charter HoldCo, Charter Holdings, CCV, the Company, and certain subsidiaries of the Company, CCV contributed certain assets to the capital of the Company.

3.2 Additional Capital Contributions. Except as provided in Section 3.1, no Member shall be required to make any Capital Contributions. Subject to the approval of the Manager, the Members may be permitted from time to time to make additional Capital Contributions if it is determined that such additional Capital Contributions are necessary or appropriate for the conduct of the Company's business and affairs, including without limitation expansion or diversification. The Manager shall approve all aspects of any such additional Capital Contribution, such as the amount and nature of the consideration to be contributed to the Company, the resulting increase in interest to be received by the contributing Member, the resulting dilution of interest to be incurred by the other Members, and the extent to which Members will participate in the allocations and distributions of the Company as a result thereof.

3.3 Capital Accounts. The Company shall establish an individual Capital Account for each Member. The Company shall determine and maintain each Capital Account in accordance with Regulations Section 1.704-1(b)(2)(iv) and, in pursuance thereof, the following provisions shall apply:

3.3.1 To each Member's Capital Account there shall be credited such Member's Capital Contributions, such Member's allocated share of Net Profits and any items in the nature of income or gain that are specially allocated pursuant to Section 6.3 or Section 6.4 hereof, and the amount of any Company liabilities assumed by such Member or which are secured by any property distributed to such Member;

3.3.2 To each Member's Capital Account there shall be debited the amount of cash and the fair market value of any property distributed to such Member pursuant to any provision of this Agreement, such Member's allocated share of Net Losses and any items in the nature of expenses or losses that are specially allocated pursuant to Section 6.3 or Section 6.4 hereof, and the amount of any liabilities of such Member assumed by the Company or which are secured by any property contributed by such Member to the Company;

3.3.3 In the event all or a portion of a Membership Interest in the Company is transferred in accordance with the terms of this Agreement, the transferee shall succeed to the Capital Account of the transferor to the extent it relates to the transferred Membership Interest; and

3.3.4 In determining the amount of any liability for purposes of Sections 3.3.1 and 3.3.2 hereof, there shall be taken into account Code Section 752(c) and any other applicable provisions of the Code and Regulations.

The foregoing provisions and the other provisions of this Agreement relating to the maintenance of Capital Accounts are intended to comply with Regulations Section 1.704-1(b), and shall be interpreted and applied in a manner consistent with such Regulations. In the event the Manager determines that it is prudent to modify the manner in which the Capital Accounts, or any debits or credits thereto, are computed in order to comply with such Regulations, the Manager may make such modification.

3.4 No Interest. No Member shall be entitled to receive any interest on such Member's Capital Contributions.

3.5 No Withdrawal. No Member shall have the right to withdraw such Member's Capital Contributions or to demand and receive property of the Company or any distribution in return for such Member's Capital Contributions, except as may be specifically provided in this Agreement or required by law.

3.6 Units.

3.6.1 Units shall consist of (i) Class A Preferred Units, (ii) Class B Units, and any other classes of Units upon the Approval of the Members. Subject to the terms of this Agreement, the Company may issue up to one billion (1,000,000,000) units of each class of Units.

### 3.6.2 Class A Preferred Units and Class B Units.

(a) As of the Effective Date, the aggregate number of Class B Units held by CCV is Fifty Six Million Five Hundred Sixty-Two Thousand Three Hundred Sixty Seven (56,562,367).

(b) As of the Effective Date, the aggregate number of Class A Preferred Units held by TCI Bresnan is Nine Million One Hundred Nineteen Thousand Eight Hundred Seventy (9,119,870).

(c) As of the Effective Date, the aggregate number of Class A Preferred Units held by TCID is Fifteen Million One Hundred Fifty-Four Thousand Seventy-Three (15,154,073).

3.6.3 Notwithstanding any provision of this Agreement to the contrary, if the common units of Charter HoldCo are subdivided (by any split, distribution, reclassification, recapitalization or otherwise) or combined (by reverse split, reclassification, recapitalization or otherwise) or if for any other reason the One-for-One Conditions are not met, the Units shall be similarly subdivided or combined or adjusted so that the One-for-One Conditions are met at all times. On any date, the "One-for-One Conditions" shall be deemed satisfied if, on such date, the number of Class A Preferred Units held by TCI Bresnan and TCID (assuming that they did not transfer any such Units issued to them pursuant to the Bresnan Purchase Agreement) is equal to the aggregate number of Charter HoldCo Class C Common Units that TCI Bresnan and TCID would have held on such date assuming (i) that they received a number of Charter HoldCo Class C Common Units equal to the number of Class A Preferred Units received by them under the Bresnan Purchase Agreement, and (ii) that they did not transfer any such Charter HoldCo Class C Common Units. The Manager is authorized to take any action necessary, desirable, or convenient to effectuate the foregoing.

3.6.4 Notwithstanding any provision to the contrary in this Agreement, prior to the Put Closing Date, Class A Preferred Units may be held only by TCI Bresnan or TCID, or any Person controlled by AT&T Corp. to which either TCI Bresnan or TCID transfers any Class A Preferred Units pursuant to Section 7.2.1.

3.7 Equal Treatment. In any transaction triggering the rights of the Charter HoldCo Class C Common Members under Section 3.7 of the Charter HoldCo LLC Agreement, Class A Members shall be accorded the same rights or effectively the same rights as the Charter HoldCo Class C Common Members to the extent reasonably practicable. In implementing the foregoing provision, the Company shall take into consideration the fact that Class A Members own equity interests in the Company, a subsidiary of Charter HoldCo, rather than equity interests in Charter HoldCo. For instance, if Charter HoldCo Class C Common Members have a right to have certain of their Class C Common Units redeemed by Charter HoldCo under Section 3.7 of the Charter HoldCo LLC Agreement, Class A Members shall have the right to cause the Company to redeem or acquire such Class A Members' Class A Preferred Units on effectively the same terms. Notwithstanding anything to the contrary in this Agreement, if CCV or its Affiliate contributes cash or assets to the Company and the Company issues Units to such Person, the

Class A Members shall not have any preemptive right to purchase any of such newly-issued Units. This Section 3.7 shall not apply on or after the Put Closing Date.

## **ARTICLE IV**

### **MEMBERS**

4.1 Limited Liability. Except as required under the Act or as expressly set forth in this Agreement, no Member shall be personally liable for any debt, obligation, or liability of the Company, whether that debt, obligation, or liability arises in contract, tort or otherwise.

4.2 Admission of Additional Members. Without the need for any additional act or consent of any Person, CCV, TCI Bresnan, and TCID shall continue to be members of the Company. Except as set forth in Article VII, no additional Members shall be admitted unless approved by the Manager and the Approval of the Members. No additional Member shall become a Member until such additional Member has made any required Capital Contribution and has become a party to this Agreement, and substitute Members may be admitted only in accordance with Article VII. The Members acknowledge that the admission of such new Members or the issuance of additional Membership Interests to pre-existing Members may dilute the Percentage Interests of the Members.

#### 4.3 Meetings of Members.

4.3.1 No annual or regular meetings of the Members as such shall be required; if convened, however, meetings of the Members may be held at such date, time, and place as the Manager or as the Member or Members who properly noticed such meeting, as the case may be, may fix from time to time. At any meeting of the Members, the Chairman of the Board (or, if there is no Chairman or the Chairman so elects, a person appointed by the Manager) shall preside at the meeting and shall appoint another person to act as secretary of the meeting. The secretary of the meeting shall prepare written minutes of the meeting, which shall be maintained in the books and records of the Company.

4.3.2 A meeting of the Members may be called at any time by the Manager, or by any Member or Members holding more than (i) prior to the Put Closing Date, twenty percent (20%) of Class B Units, and (ii) on or after the Put Closing Date, twenty percent (20%) of all Units, for the purpose of addressing any matter on which the Approval of the Members is required or permitted under this Agreement.

4.3.3 Notice of any meeting of the Members shall be sent or otherwise given by the Manager to the Members in accordance with this Agreement not less than ten (10) nor more than sixty (60) days before the date of the meeting. The notice shall specify the place, date, and hour of the meeting and the general nature of the business to be transacted. Except as the Members may otherwise agree, no business other than that described in the notice may be transacted at the meeting.

4.3.4 Attendance in person of a Member at a meeting shall constitute a waiver of notice of that meeting, except when the Member objects, at the beginning of the meeting, to the transaction of any business because the meeting is not duly called or

convened, and except that attendance at a meeting is not a waiver of any right to object to the consideration of matters not included in the notice of the meeting if that objection is expressly made at the meeting. Neither the business to be transacted nor the purpose of any meeting of Members need be specified in any written waiver of notice. The Members may participate in any meeting of the Members by means of conference telephone or similar means as long as all Members can hear one another. A Member so participating shall be deemed to be present in person at the meeting.

4.3.5 Any action that can be taken at a meeting of the Members may be taken without a meeting if a consent in writing setting forth the action so taken is signed and delivered to the Company by Members representing not less than the minimum number of Units necessary under this Agreement to approve the action. The Manager shall notify Members of all actions taken by such consents, and all such consents shall be maintained in the books and records of the Company.

4.4 Voting by Members. The Members, acting solely in their capacities as Members, shall have the right to vote on, consent to, or otherwise approve only those matters as to which this Agreement or the Act specifically requires such approval. A Member may vote in person or by proxy executed in writing by the Member or by a duly authorized attorney-in-fact. Except as otherwise specifically provided in this Agreement, the Approval of the Members shall be all that is required as to all matters, including merger, consolidation, and conversion, as to which the vote, consent, or approval of the Members is required or permitted under this Agreement or the Act.

4.5 Members Are Not Agents. No Member acting solely in the capacity of a Member is an agent of the Company, nor can any Member acting solely in the capacity of a Member bind the Company or execute any instrument on behalf of the Company.

4.6 No Withdrawal. Except as provided in Articles VII and IX hereof, no Member may withdraw, retire, or resign from the Company without the prior Approval of the Members.

4.7 Loans to Members.

4.7.1 General. If a Member is, or reasonably expects to be, allocated taxable income described in Section 4.7.2 or 4.7.3, then upon such Member's request, the Company, subject to the provisions of this Section 4.7, shall make a loan ("**Tax Loan**") to such Member in an amount ("**Tax Loan Amount**") no greater than the amount reasonably sufficient to enable such Member to fund its tax liability, or estimated tax payments, resulting from the allocation of such taxable income on the later of (i) five days before each of April 15, June 15, September 15, and December 15 for estimated tax payments and March 15 for final tax payments, and (ii) the date such Member requests the funding of such Tax Loan, which date shall be no later than one hundred fifty (150) days after the end of the taxable year in which the taxable income arises; provided, however, that in the case of Tax Loans made with respect to estimated income tax payments, the Tax Loan Amount shall be no greater than the amount of estimated taxes actually paid by the Member receiving the loan and that such Member shall provide to the Company reasonable documentation of the portion of its actual estimated tax payment attributable to the taxable income described

above. The Tax Loan shall be secured by a first priority security interest in all of such Member's Units and may be prepaid at any time prior to the due date.

4.7.2 Interest-Free Loan. With respect to any taxable year ending prior to February 14, 2002, if a Member is allocated any taxable income arising from a sale or other disposition (other than in the ordinary course of business) of the Property contributed by such Member pursuant to Code Section 704(c), other than taxable income arising from a fully taxable sale or disposition for which such Member has elected to receive an interest-bearing Tax-Loan under Section 4.7.3, then (i) the Tax Loan for such tax liability shall be due and payable to the Company no later than ninety (90) days after February 14, 2002 (or if a Class A Member exercises the Put, then the Put Closing Date) and shall be interest-free, and (ii) the Tax Loan Amount due shall be reduced by the amount of income taxes paid by the Member attributable to its recognition of imputed income under the interest-free Tax Loan.

4.7.3 Non-Section 704(c) Loan. With respect to any taxable year ending prior to February 14, 2010, if a Member is allocated (i) any taxable income other than, in the case of a Class A Member prior to the Put Closing Date, any taxable income required to be taken into account in determining the allocation of items of income from operations to such Member under Section 6.3.8, or (ii) any taxable income arising from a fully taxable sale or disposition (other than in the ordinary course of business) of the Property contributed by such Member pursuant to Section 704(c) other than an amount for which the Member has elected to receive an interest-free Tax Loan pursuant to Section 4.7.2, then the Tax Loan for such tax liability shall be due and payable to the Company no later than February 14, 2010 and shall bear interest, compounded annually at a rate per annum equal to the applicable federal rate under Code Section 1274(d) for a loan due on February 14, 2010 plus 100 basis points.

4.7.4 Acceleration of Repayment. Notwithstanding anything to the contrary in this Section 4.7, (i) if the Company makes any distributions to the Members pursuant to Section 6.8 or otherwise, the amount of each Member's outstanding Tax Loan Amount equal to the amount of distributions made to such Member pursuant to Section 6.8 or otherwise shall become due and payable to the Company immediately, and (ii) if any Member sells, transfers, or exchanges any of its Units (in the case of a Class A Member prior to the Put Closing Date, other than to an entity controlled by AT&T Corp. which entity assumes the Tax Loan attributable to the transferred Units), the amount of such Member's outstanding Tax Loan Amount up to the fair market value of the Units sold, transferred, or exchanged shall become due and payable to the Company immediately; provided, however, that in the event that prior to the Put Closing Date a Class A Member exchanges its Class A Preferred Units for CCI common stock pursuant to the CCI Exchange Agreement and not all shares of CCI common stock received in such exchange are permitted by CCI to be sold pursuant to a securities registration, only the amount of such Member's outstanding Tax Loan Amount up to the excess, if any, of (i) the fair market value of CCI's common stock received by such Member that is permitted to be sold, over (ii) forty-six percent (46%) of the fair market value of all CCI common stock received by such Member in the exchange shall become due and payable immediately. In the case described in the proviso of the preceding sentence, the Company shall receive a security interest in the unsold CCI common stock held by the Member, and as soon as any shares of CCI common stock not permitted to be

sold at the time of the exchange become eligible for sale pursuant to a securities registration, such Member's outstanding Tax Loan Amount up to the excess, if any, of (i) the sum of (x) the fair market value of all CCI common stock received by such Member that is still held by such Member and that is now permitted to be sold, and (y) the aggregate sales proceeds of all CCI common stock received by such Member that has been sold, over (ii) the sum of (a) forty-six percent (46%) of the fair market value of all CCI common stock received by such Member in the exchange and (b) any Tax Loan Amount previously paid pursuant to the proviso of the preceding sentence or this sentence shall become due and payable immediately.

4.7.5 Loan Documentation; Miscellaneous. A Member receiving a Tax Loan shall cooperate with the Company to document the respective parties' rights and obligations under the Tax Loan including, without limitation, definitive loan documentation providing for and perfecting a security interest as contemplated by Section 4.7.1; provided that the funding of such Tax Loan will not be delayed pending the signing and delivery of such definitive documentation. Notwithstanding any provision to the contrary in Section 4.7, (i) the Company shall not make a Tax Loan to any Member if the loan would breach, or with the passage of time or the giving of notice result in a breach of, any contractual covenants of the Company or its Subsidiaries, and (ii) a Member entitled to receive a Tax Loan from the Company may waive its right to receive the loan. The Company shall negotiate the contractual covenants of the Company and its Subsidiaries in good faith so that the Company would be permitted to make such a Tax Loan.

## **ARTICLE V**

### **MANAGEMENT AND CONTROL OF THE COMPANY**

5.1.1 Management of the Company by Manager. The Members hereby unanimously confirm the election of CCI or its successor-in-interest which acquires directly or indirectly substantially all of the assets or businesses of CCI, as the Company's Manager. No additional or substitute Person may be elected as Manager without the Approval of the Members. No Person may be elected as Manager in addition to or in substitution of CCI, other than an Affiliate of Paul G. Allen or its successor-in-interest which acquires directly or indirectly substantially all of the assets or businesses of such an Affiliate, prior to the Put Closing Date without the approval of the Members owning a majority of each class of Units and on or after the Put Closing Date without the Approval of the Members; provided, however, that prior to the Put Closing Date no approval of the Class A Preferred Members shall be required if there are outstanding fewer than ten percent (10%) of the Class A Preferred Units acquired by the Class A Preferred Members pursuant to the Bresnan Purchase Agreement. Except as otherwise required by applicable law and as provided in Section 5.2 with respect to the Board, the powers of the Company shall at all times be exercised by or under the authority of, and the business, property and affairs of the Company shall be managed by, or under the direction of, the Manager.

5.1.2 The Manager shall be authorized to elect, remove or replace directors and officers of the Company, who, subject to the direction of the Manager, shall have such authority with respect to the management of the business and affairs of the Company as set

forth herein or as otherwise specified by the Manager in a resolution or resolutions of the Manager.

5.1.3 Except as otherwise required by applicable law, the Manager shall be authorized to execute or endorse any check, draft, evidence of indebtedness, instrument, obligation, note, mortgage, contract, agreement, certificate or other document on behalf of the Company. The Manager may delegate its authority under this Section 5.1.3 to the officers of the Company.

5.1.4 No annual or regular meetings of the Manager are required. The Manager may, by written consent and without prior notice (provided that prompt subsequent notice is given to the Members), take any action which it is otherwise required to take at a meeting.

5.1.5 Except as provided in this Agreement, the Manager's duty of care in the discharge of its duties to the Company and the Members is limited to discharging its duties pursuant to this Agreement in good faith, with the care a corporate director of like position would exercise under similar circumstances, in the manner it reasonably believes to be in the best interests of the Company. In discharging its duties, the Manager shall not be liable to the Company or to any Member for any act or omission performed or omitted by such Person in good faith on behalf of, or in connection with the business and affairs of, the Company and in a manner reasonably believed to be within the scope of authority conferred on such Person by this Agreement, except that such Person shall be liable in respect of any loss, damage, or claim incurred by such Person by reason of such Person's fraud, deceit, reckless or intentional misconduct, gross negligence, or a knowing violation of law with respect to such acts or omissions.

## 5.2 Board of Directors.

5.2.1 Notwithstanding Section 5.1.1 above, the Manager may delegate its power to manage the business of the Company to a Board of Directors (the "**Board**") which, subject to the limitations set forth below, shall have the authority to exercise all such powers of the Company and do all such lawful acts and things as may be done by a manager of a limited liability company under the Act and as are not by statute, by the Certificate, or by this Agreement directed or required to be exercised or done by the Manager. The rights and duties of the members of the Board may not be assigned or delegated to any person or entity.

5.2.2 Except as otherwise provided herein, members of the Board shall possess and may exercise all the powers and privileges and shall have all of the obligations and duties to the Company and the Members granted to or imposed on directors of a corporation organized under the laws of the State of Delaware.

5.2.3 The number of directors shall initially be one (1), which number may be changed from time to time by the Manager. The director as of the date hereof shall be Carl Vogel.

5.2.4 Each director shall be appointed by the Manager and shall serve in such capacity until the earlier of his resignation, removal or replacement by the Manager.



5.2.5 No director shall be entitled to any compensation for serving as a director. No fee shall be paid to any director for attendance at any meeting of the Board; provided, however, that the Company may reimburse directors for the actual reasonable costs incurred in such attendance.

5.3 Consent Required. The affirmative vote, approval, consent or ratification of the Manager shall be required to:

5.3.1 alter the primary purposes of the Company as set forth in Section 2.5;

5.3.2 issue membership interests in the Company to any Person and admit such Person as a Member;

5.3.3 enter into or amend any agreement which provides for the management of the business or affairs of the Company by a Person other than the Manager;

5.3.4 change or reorganize the Company into any other legal form;

5.3.5 amend this Agreement;

5.3.6 approve a merger or consolidation with another Person;

5.3.7 sell all or substantially all of the assets of the Company;

5.3.8 change the status of the Company from one in which management is vested in the Manager to one in which management is vested in the Members or in any other manager, other than as may be delegated to the Board and the officers hereunder;

5.3.9 possess any Company property or assign the rights of the Company in specific Company property for other than a Company purpose;

5.3.10 operate the Company in such a manner that the Company becomes an "investment company" for purposes of the Investment Company Act of 1940;

5.3.11 except as otherwise provided or contemplated herein, enter into any agreement to acquire property or services from any Person who is a director or officer;

5.3.12 settle any litigation or arbitration with any third party, any Member, or any Affiliate of any Member, except for any litigation or arbitration brought or defended in the ordinary course of business where the present value of the total settlement amount or damages will not exceed Five Million Dollars (\$5,000,000);

5.3.13 materially change any of the tax reporting positions or elections of the Company;

5.3.14 make or commit to any expenditures which, individually or in the aggregate, exceed or are reasonably expected to exceed the Company's total budget (as approved by the Manager) by the greater of five percent (5%) of such budget or Five Million Dollars (\$5,000,000); or

5.3.15 make or incur any secured or unsecured indebtedness which, individually or in the aggregate, exceeds Five Million Dollars (\$5,000,000), provided that this restriction shall not apply to (i) any refinancing or amendment to existing indebtedness which does not increase total borrowing, (ii) any indebtedness to (or guarantee of indebtedness of) any company controlled by or under common control with the Company (“**Intercompany Indebtedness**”), (iii) the pledge of any assets to support any otherwise permissible indebtedness of the Company or any Intercompany Indebtedness or (iv) indebtedness necessary to finance a transaction or purchase approved by the Manager.

#### 5.4 Board of Director Meetings.

5.4.1 Regular Meetings. Regular meetings of the Board may be held without notice at such time and at such place as shall from time to time be determined by the Board, but not less often than annually.

5.4.2 Special Meetings. Special meetings of the Board may be called by the president or any member of the Board on twenty-four (24) hours’ notice to each director; special meetings shall be called by the president or secretary in like manner and on like notice on the written request of Members holding a majority of the Common Units held by all Members. Notice of a special meeting may be given by facsimile.

5.4.3 Telephonic Meetings. Members of the Board may participate in any regular or special meeting of the Board, by means of conference telephone or similar communications equipment, by means of which all persons participating in the meeting can hear each other. Participation in a meeting pursuant to this Section 5.4.3 will constitute presence in person at such meeting.

5.4.4 Quorum. At all meetings of the Board, a majority of the directors shall constitute a quorum for the transaction of business, and the act of a majority of the directors present at any meeting at which there is a quorum shall be the act of the Board, except as may be otherwise specifically provided by statute, the Certificate or this Agreement. If a quorum is not present at any meeting of the Board, the directors present thereat may adjourn the meeting from time to time until a quorum shall be present. Notice of such adjournment shall be given to any director not present at such meeting.

5.4.5 Action Without Meeting. Unless otherwise restricted by the Certificate or this Agreement, any action required or permitted to be taken at any meeting of the Board may be taken without a meeting if all members of the Board consent thereto in writing and such written consent is filed with the minutes of proceedings of the Board.

5.5 Board’s Duty of Care. Except as provided in this Agreement, the director’s duty of care in the discharge of his duties to the Company and the Members is limited to discharging his duties pursuant to this Agreement in good faith, with the care a corporate director of like position would exercise under similar circumstances, in the manner he reasonably believes to be in the best interests of the Company. In discharging his duties, the director shall not be liable to the Company or to any Member for any act or omission performed or omitted by such director in good faith on behalf of, or in connection with the business and affairs of, the Company and in a manner reasonably believed to be within the

scope of authority conferred on such director by this Agreement, except that such director shall be liable in respect of any loss, damage, or claim incurred by such director by reason of such Person's fraud, deceit, reckless or intentional misconduct, gross negligence, or a knowing violation of law with respect to such acts or omissions.

#### 5.6 Officers.

5.6.1 Officers. The officers shall be a President, a Treasurer and a Secretary, and such other additional officers, including a Chairman of the Board, one or more Chairmen, Vice Presidents, Assistant Secretaries and Assistant Treasurers as the Board, the Manager or the President may from time to time elect. Any two or more offices may be held by the same individual.

5.6.2 Election and Term. The President, Treasurer and Secretary shall be elected by and shall hold office at the pleasure of the Board or the Manager. The Board, the Manager or the President may elect such other officers and agents as it shall deem desirable, who shall hold office at the pleasure of the Board, the Manager or the President, and who shall have such authority and shall perform such duties as from time to time shall be prescribed by the Board, the Manager or the President.

5.6.3 Removal. Any officer may be removed by the affirmative vote of the Manager or the affirmative vote of at least a majority of the directors then in office, with or without cause, for any reason or for no reason. Any officer other than the President, the Treasurer or the Secretary may be removed by the President, with or without cause, for any reason or for no reason.

#### 5.6.4 Duties and Authority of Officers.

(a) President. The President shall be the chief executive officer and (if no other person has been appointed as such) the chief operating officer of the Company; shall preside at all meetings of the Members and directors; shall have general supervision and active management of the business and finances of the Company; shall see that all orders and resolutions of the Board or the Manager are carried into effect; subject, however, to the right of the directors to delegate any specific powers to any other officer or officers. In the absence of direction by the Board or Manager to the contrary, the President shall have the power to vote all securities held by the Company and to issue proxies therefor. In the absence or disability of the President, any Chairman (if any) or, if there is no Chairman, the most senior available officer appointed by the Board or the Manager shall perform the duties and exercise the powers of the President with the same force and effect as if performed by the President, and shall be subject to all restrictions imposed upon him.

(b) Vice President. Each Vice President, if any, shall perform such duties as shall be assigned to him or her and shall exercise such powers as may be granted to him or her by the Manager, the Board or by the President of the Company. In the absence of direction by the Board, the Manager or the President to the contrary, the any Senior Vice President shall have the power to vote all securities held by the Company and to issue proxies therefor.

(c) The Secretary. The Secretary shall give, or cause to be given, a notice as required of all meetings of the Members and of the Board. The Secretary shall keep or cause to be kept, at the principal executive office of the Company or such other place as the Board may direct, a book of minutes of all meetings and actions of Directors and Members. The minutes shall show the time and place of each meeting, whether regular or special (and, if special, how authorized and the notice given), the names of those present at directors' meetings, the number of shares present or represented at shareholders' meetings, and the proceedings thereof. The Secretary shall perform such other duties as may be prescribed from time to time by the Manager or the Board.

(d) The Treasurer. The Treasurer shall have custody of the Company funds and securities and shall keep or cause to be kept full and accurate accounts of receipts and disbursements in books of the Company to be maintained for such purpose; shall deposit all moneys and other valuable effects of the Company in the name and to the credit of the Company in depositories designated by the Manager or the Board; and shall disburse the funds of the Company as may be ordered by the Manager or the Board.

(e) The Chairmen. Each Chairman, if any, shall perform such duties as shall be assigned, and shall exercise such powers as may be granted to him or her by the Manager or the Board.

5.7 Liability of Member, Manager, or Officer. No Member, Manager, or officer of the Company shall be personally liable under any judgment of a court, or in any other manner, for any debt, obligation, or liability of the Company, whether that debt, obligation, or liability arises in contract, tort, or otherwise, solely by reason of participating in the management of the Company or being an officer of the Company or both. Except as otherwise provided in this Agreement, no Member, Manager, or officer shall be liable to the Company or to any Member for any loss or damage sustained by the Company or any Member in his capacity as such, unless the loss or damage shall have been the result of fraud, deceit, reckless or intentional misconduct, gross negligence, or a knowing violation of law by the Member, Manager, or officer.

#### 5.8 Indemnification.

5.8.1 Indemnification. To the extent permitted by applicable law, a Member (and its respective officers, directors, agents, shareholders, members, partners, and Affiliates), Manager (and its respective officers, directors, agents, shareholders, members, partners, and Affiliates), director of the Company, or officer of the Company shall be entitled to indemnification from the Company for any loss, damage, or claim incurred by such Person by reason of any act or omission performed or omitted by such Person in good faith on behalf of, or in connection with the business and affairs of, the Company and in a manner reasonably believed to be within the scope of authority conferred on such Person by this Agreement and, if applicable, the Approval of the Members or authorizations of the Manager or the Board, except that no such Person shall be entitled to be indemnified in respect of any loss, damage, or claim incurred by such Person by reason of such Person's fraud, deceit, reckless or intentional misconduct, gross negligence, or a knowing violation of law with respect to such acts or omissions; provided, however, that any indemnity under this Section 5.8.1 shall be provided out of and to the extent of Company assets only, no debt

shall be incurred by the Members in order to provide a source of funds for any indemnity, and no Member shall have any personal liability (or any liability to make any additional Capital Contributions) on account thereof.

5.8.2 Expenses. To the extent permitted by applicable law, expenses (including reasonable legal fees) incurred by a Member (and its respective officers, directors, agents, shareholders, members, partners or Affiliates), Manager (and its respective officers, directors, agents, shareholders, members, partners or Affiliates), director of the Company, or officer of the Company in such Person's capacity as such in defending any claim, demand, action, suit, or proceeding shall, from time to time, be advanced by the Company prior to the final disposition of such claim, demand, action, suit, or proceeding upon receipt by the Company of an undertaking by or on behalf of the Member (or its respective officers, directors, agents, shareholders, members, partners or Affiliates, as applicable), Manager (or its respective officers, directors, agents, shareholders, members, partners or Affiliates, as applicable), director or officer to repay such amount if it shall be determined that such Person is not entitled to be indemnified as authorized in Section 5.8.1 hereof.

5.9 Devotion of Time. Except as required by any individual contract and notwithstanding any provision to the contrary in this Agreement, no Manager, director of the Company, or officer of the Company is obligated to devote all of such Person's time or business efforts to the affairs of the Company, but shall devote such time, effort, and skill as such Person deems appropriate for the operation of the Company.

5.10 Competing Activities. Except as provided by any individual contract: (i) any Manager or Member (and their respective officers, directors, agents, shareholders, members, partners or Affiliates) may engage or invest in, independently or with others, any business activity of any type or description, including without limitation those that might be the same as or similar to the Company's business or the business of any Subsidiary and that might be in direct or indirect competition with the Company or any Subsidiary; (ii) neither the Company or any Subsidiary nor any Member shall have any right in or to such other ventures or activities or to the income or proceeds derived therefrom; (iii) no Manager or Member (and their respective officers, directors, agents, shareholders, members, partners or Affiliates) shall be obligated to present any investment opportunity or prospective economic advantage to the Company or any Subsidiary, even if the opportunity is of the character that, if presented to the Company or any Subsidiary, could be taken by the Company or any Subsidiary; and (iv) any Manager or Member (and their respective officers, directors, agents, shareholders, members, partners or Affiliates) shall have the right to hold any investment opportunity or prospective economic advantage for such Manager's or Member's (and their respective officers', directors', agents', shareholders', members', partners' or Affiliates') own account or to recommend such opportunity to Persons other than the Company or any Subsidiary.

The Company agrees that, until all outstanding shares of class B common stock of CCI have been converted into shares of class A common stock of CCI in accordance with Clause (b)(viii) of Article Fourth of CCI's certificate of incorporation as constituted as of November 12, 1999, without the Approval of the Members, the Company shall not engage directly or indirectly, including without limitation through any Subsidiary, in any business

other than the Cable Transmission Business and as a member of and subscriber to, the portal joint venture with Broadband Partners.

The Company and each Member acknowledge that the other Members, the Manager (and their respective officers, directors, agents, shareholders, members, partners or Affiliates) and the officers or directors of the Company (to the extent expressly permitted in their employment agreement) might own or manage other businesses, including businesses that may compete with the Company or any Subsidiary for the time of the Member or Manager. Without limiting the generality of the foregoing, the Company and each Member acknowledge that Vulcan Ventures Inc. (an Affiliate of CCI and CCV) has entered into an agreement to purchase convertible preferred stock of RCN Corporation, which may be deemed to be engaged in the cable transmission business. The Company and each Member acknowledge that none of them shall have any interest in the securities of RCN Corporation to be acquired by Vulcan Ventures Inc. or any RCN Corporation common stock into which such securities are convertible, and that Vulcan Ventures Inc. shall not have any obligation to them on account thereof. To the extent that, at law or at equity, any Member or Manager (and their respective officers, directors, agents, shareholders, members, partners or Affiliates) or officers or directors of the Company have duties (including fiduciary duties) and liabilities relating to the Company and the other Members, such Person shall not be liable to the Company or the other Members for its good faith reliance on the provisions of this Agreement including this Section 5.10. The Company and each Member hereby waive any and all rights and claims that the Company or such Member may otherwise have against the other Members and the Manager (and their respective officers, directors, agents, shareholders, members, partners or Affiliates) or officers or directors of the Company as a result of any such permitted activities. The provisions of this Agreement, and any agreement between the Company and any Member entered into in reliance on this Section 5.10, to the extent that they restrict the duties and liabilities of a Manager or Member (and their respective officers, directors, agents, shareholders, members, partners or Affiliates) or officers or directors of the Company otherwise existing at law or in equity, are agreed by the Company and the Members to replace such other duties and liabilities of such Person.

5.11 Certain Related Transactions. Class A Members acknowledge that the Company will engage in transactions with CCV and its Affiliates and that so long as such transactions are not entered into in bad faith, CCV and its Affiliates with which the Company engages in transactions, the Manager, and the Company shall not be liable to the Company or Class A Members with respect to such transactions. The foregoing provision is not intended to affect any of CCV and its Affiliates' express contractual obligations to the Company, Class A Members, or any of the Class A Members' Affiliates under any contract entered into by and among such parties from time to time.

5.12 Remuneration for Management or Other Services. The Manager and officers of the Company shall be entitled to reasonable remuneration for providing management or other services to the Company, all as determined by the Manager.

5.13 Reimbursement of Expenses. The Company shall reimburse the Manager, directors of the Company, and officers of the Company for the actual and reasonable costs, fees, and expenses paid or incurred by any Person for goods, materials, services, and

activities acquired or used by or for the benefit of the Company, or performed or undertaken for the benefit of the Company, without duplication of any expense paid.

## ARTICLE VI

### ALLOCATIONS OF NET PROFITS AND NET LOSSES AND DISTRIBUTIONS

6.1 Allocations of Net Profits. After giving effect to the special allocations set forth in Sections 6.3 and 6.4 herein, Net Profits for any Fiscal Year shall be allocated to the Members in the following order of priority:

6.1.1 Chargeback to the Extent of Net Losses. First, Net Profits shall be allocated to each Member to the extent of and in the reverse order of the aggregate amount of Net Losses previously allocated to such Member pursuant to Section 6.2.2, with respect to which Net Profits have not been previously allocated pursuant to this subsection.

6.1.2 Other Net Profits. Second, except as provided in Section 6.1.1, Net Profits shall be allocated in accordance with the Members' Percentage Interests.

6.2 Allocations of Net Losses. After giving effect to the special allocations set forth in Sections 6.3 and 6.4 herein, Net Losses for any Fiscal Year shall be allocated to the Members as follows:

6.2.1 Chargeback to the Extent of Net Profits. First, except as provided in Section 6.2.3, Net Losses shall be allocated to each Member to the extent of the aggregate amount of Net Profits previously allocated to such Member pursuant to Section 6.1.2, with respect to which Net Losses have not been previously allocated pursuant to this subsection.

6.2.2 Other Net Losses. Second, except as provided in Sections 6.2.1 and 6.2.3, Net Losses shall be allocated in accordance with the Members' Percentage Interests.

6.2.3 Adjusted Capital Account Deficit. An allocation of Net Losses under Section 6.2.1 or Section 6.2.2 hereof shall not be made to the extent it would create or increase an Adjusted Capital Account Deficit for a Member or Members at the end of any Fiscal Year. Any Net Losses not allocated because of the preceding sentence shall be allocated to the other Member or Members in proportion to such Member's or Members' respective Percentage Interests; provided, however, that to the extent such allocation would create or increase an Adjusted Capital Account Deficit for another Member or Members at the end of any Fiscal Year, such allocation shall be made to the remaining Member or Members in proportion to the respective Percentage Interests of such Member or Members.

6.3 Special Allocations.

6.3.1 Member Nonrecourse Deductions. Any Member Nonrecourse Deductions for any Fiscal Year shall be specially allocated to the Member who bears the economic risk of loss with respect to the Member Nonrecourse Debt or other liability to

which such Member Nonrecourse Deductions are attributable in accordance with Regulations Section 1.704-2(i) and Regulations Section 1.704-1(b).

6.3.2 Nonrecourse Deductions Referable to Liabilities Owed to Non-Members. Any Nonrecourse Deductions for any Fiscal Year and any other deductions or losses for any Fiscal Year referable to a liability owed by the Company to a Person other than a Member to the extent that no Member bears the economic risk of loss shall be specially allocated to the Members in accordance with their Percentage Interests.

6.3.3 Member Minimum Gain Chargeback. Except as otherwise provided in Regulation Section 1.704-2(i)(4), notwithstanding any other provision of this Article VI, if there is a net decrease in Member Nonrecourse Debt Minimum Gain attributable to a Member Nonrecourse Debt during any Fiscal Year, each Member who has a share of the Member Nonrecourse Debt Minimum Gain attributable to such Member Nonrecourse Debt (which share shall be determined in accordance with Regulations Section 1.704-2(i)(5)) shall be specially allocated items of Company income and gain for such Fiscal Year (and, if necessary, subsequent Fiscal Years) in an amount equal to that portion of such Member's share of the net decrease in Member Nonrecourse Debt Minimum Gain attributable to such Member Nonrecourse Debt, determined in accordance with Regulations Section 1.704-2(i)(4). Allocations pursuant to the previous sentence shall be made in proportion to the amounts required to be allocated to each Member pursuant thereto. The items to be so allocated shall be determined in accordance with Regulations Section 1.704-2(i)(4) and 1.704-2(j)(2). This Section 6.3.3 is intended to comply with the minimum gain chargeback requirement contained in Regulations Section 1.704-2(i)(4) and shall be interpreted consistently therewith.

6.3.4 Minimum Gain Chargeback. Except as otherwise provided in Regulations Section 1.704-2(f), notwithstanding any other provision of this Article VI, if there is a net decrease in Company Minimum Gain during any Fiscal Year, each Member shall be specially allocated items of Company income and gain for such Fiscal Year (and, if necessary, subsequent Fiscal Years) in an amount equal to the portion of such Member's share of the net decrease in Company Minimum Gain which share of such net decrease shall be determined in accordance with Regulations Section 1.704-2(g)(2). Allocations pursuant to the previous sentence shall be made in proportion to the respective amounts required to be allocated to each Member pursuant thereto. The items to be so allocated shall be determined in accordance with Regulations Section 1.704-2(f)(6) and 1.704-2(j)(2). This Section 6.3.4 is intended to comply with the minimum gain chargeback requirement contained in Regulations Section 1.704-2(f) and shall be interpreted consistently therewith.

6.3.5 Qualified Income Offset. In the event any Member unexpectedly receives any adjustments, allocations, or distributions described in Regulations Section 1.704-1(b)(2)(ii)(d)(4), (5), or (6) or any other event creates an Adjusted Capital Account Deficit, items of Company income and gain shall be specially allocated to each such Member in an amount and manner sufficient to eliminate the Adjusted Capital Account Deficit of such Member as quickly as possible, provided that an allocation pursuant to this Section 6.3.5 shall be made only if and to the extent that such Member would have an Adjusted Capital Account Deficit after all other allocations provided for in this Article VI have been tentatively made as if this Section 6.3.5 were not in the Agreement.



6.3.6 Section 754 Adjustments. To the extent an adjustment to the Basis of any Company asset pursuant to Code Section 734(b) or Code Section 743(b) is required, pursuant to Regulations Section 1.704-1(b)(2)(iv)(m), to be taken into account in determining Capital Accounts, the amount of such adjustment to Capital Accounts shall be treated as an item of gain (if the adjustment increases the Basis of the asset) or loss (if the adjustment decreases such Basis) and such gain or loss shall be specially allocated to the Members in accordance with Regulations Section 1.704-1(b)(2)(iv)(m).

6.3.7 Priority Return Allocations. If any Priority Return distributions have been made pursuant to Sections 6.8.1(a) or 9.5(a) hereof, all or a portion of the remaining items of Company income and, to the extent income is insufficient, gain shall be specially allocated to each Member in proportion to and to the extent of the excess, if any, of (i) the cumulative Priority Return distributions each such Member has received pursuant to Sections 6.8.1(a) and 9.5(a) hereof from the commencement of the Company to a date thirty (30) days after the end of such Fiscal Year, over (ii) the cumulative income and gain allocated to such Member pursuant to this Section 6.3.7 for all prior Fiscal Years. If, in addition to items of income, items of gain are to be allocated pursuant to the foregoing sentence and the Company has items of both short-term capital gain and long-term capital gain, all of the Company's items of short-term capital gain shall be allocated before any items of long-term capital gain are allocated.

6.3.8 Certain Allocations After January 1, 2005. For any Fiscal Year ending after January 1, 2005, provided that the Put Closing Date has not occurred prior to the end of such Fiscal Year, items of Company income from operations shall be specially allocated to the Class A Members to the extent provided by this Section 6.3.8. First, the allocation provisions in this Article VI, excluding the provisions of Section 6.4 calling for offsetting special allocations to be made as a result of the operation of this Section 6.3.8, shall be applied tentatively and with the following hypothetical modification: with respect to each Company asset (to the extent that as of the Operative Date its Gross Asset Value differed from its Basis), the tax allocations referable to the allocation of items of Depreciation shall be hypothetically made using the Remedial Method so as to eliminate distortions caused by the ceiling rule described in Regulations Section 1.704-3(b)(1), without changing the amount of the items of Depreciation (as determined under the rules of Regulations Section 1.704-1(b)(2)(iv)(g)(3)) that are allocated under this Article VI and that are attributable to such asset. Such tentative application of the allocation provisions shall result in a calculation of the amount of the taxable income or loss ("Tentative Taxable Income" or "Tentative Tax Loss," respectively) that would be allocated to each Class B Member by the Company if such tentative application, with the hypothetical modification described above, were final. Next, in lieu of the hypothetical modification described above, items of income from operations shall be specially allocated to the Class A Members, in proportion to the number of Units held by them, to the extent necessary to cause the amount of the taxable income or loss allocated to each Class B Member by the Company (using the Traditional Method with respect to each Company asset to the extent that as of the Operative Date its Gross Asset Value differed from its Basis) to be equal, or as nearly equal as possible, to that Member's Tentative Taxable Income or Tentative Tax Loss, whichever is applicable. For purposes of this Section 6.3.8, the Company's taxable income or loss, as determined in accordance with Code Section 703(a), shall include all items of income, gain, loss, or deduction required to be stated separately pursuant to Code Section 703(a) (1).

#### 6.4 Curative Allocations.

6.4.1 The allocations set forth in Sections 6.2.3 and 6.3 (other than Sections 6.3.7 and 6.3.8) hereof (collectively, the “Regulatory Allocations”) are intended to comply with certain requirements of the Regulations. The allocations set forth in Section 6.3.8 are intended to effectuate certain agreements of the Members (such allocations are referred to for purposes of this Section 6.4.1 as the “Post-Year 2005 Allocations”). It is the intent of the Members that, to the extent possible, the Regulatory Allocations and the Post-Year 2005 Allocations shall be offset either with other Regulatory Allocations or with special allocations of other items of Company income, gain, loss, or deduction pursuant to this Section 6.4.1. Therefore, subject to Section 6.4.2 but notwithstanding any other provision of this Article VI (other than the Regulatory Allocations), the Manager shall make such offsetting special allocations of Company income, gain, loss, or deduction in whatever manner it determines appropriate so that, after such offsetting allocations are made, a Member’s Capital Account balance is, to the extent possible, equal to the Capital Account balance such Member would have had (the “Target Capital Account”) if the Regulatory Allocations and the Post-Year 2005 Allocations were not part of this Agreement and all Company items were allocated pursuant to Sections 6.1.1, 6.1.2, 6.2.1, 6.2.2, and 6.3.7. In exercising its discretion under this Section 6.4.1, the Manager shall take into account any future Regulatory Allocations under Sections 6.3.3 and 6.3.4 that, although not yet made, are likely to offset other Regulatory Allocations previously made under Sections 6.3.1 and 6.3.2.

6.4.2 The Manager shall implement the offsetting special allocations in Section 6.4.1 in such a manner that:

(a) For any Fiscal Year covered by Section 6.3.8, the special allocations of items of deductions or loss to be made under Section 6.4.1 to the Class A Members to offset the allocations arising as a result of the operation of Section 6.3.8 shall be limited in amount and made in a manner such that the amount of the tax loss or deductions allocated to any Class A Member in respect of such offsetting special allocations shall be equal to zero; provided, however, that in the event of the dissolution of the Company or the occurrence of any other event with respect to which the distribution rights of the Class A Members or the Class B Members are determined in whole or in part by reference to their Capital Account balances, the foregoing limitations shall apply only to the extent consistent with attaining the Target Capital Accounts and such Capital Account adjustments shall be made before any distributions in connection with such events are made.

(b) For purposes of Sections 6.4.2(a), the tax loss or deductions allocated in respect of an offsetting special allocation refers to the tax loss or deductions that are allocated in respect thereof for the same Fiscal Year for which such offsetting special allocation is made.

#### 6.5 Tax Allocations

6.5.1 Code Section 704(c) Allocations. The allocations specified in this Agreement shall govern the allocation of items to the Members for Code Section 704(b) book purposes, and the allocation of items to the Members for tax purposes shall be in

accordance with such book allocations, except that solely for tax purposes and notwithstanding any other provision of this Article VI:

(a) In accordance with Code Section 704(c) and the Regulations thereunder, income, gain, loss, and deduction with respect to any property contributed to the capital of the Company shall be allocated among the Members (including Members who succeed to the Membership Interest of any other Members or former members of the Company) so as to take account of any variation between the Basis of such property to the Company and its initial Gross Asset Value.

(b) In the event the Gross Asset Value of any Company asset is adjusted pursuant to 1.34.2, subsequent allocations of income, gain, loss, and deduction with respect to such asset shall take account of any variation between the Basis of such asset and its Gross Asset Value in the same manner as under Code Section 704(c) and the Regulations thereunder.

(c) The allocations described in (a) and (b) above shall be made in accordance with Regulations Section 1.704-3 using the Traditional Method

6.5.2 Tax Credits. Tax credits, if any, shall be allocated among the Members in proportion to their Percentage Interests.

6.5.3 Excess Nonrecourse Liabilities. To the extent that the Company's "excess nonrecourse liabilities" within the meaning of Regulations Section 1.752-3(a)(3) are allocated among the Members in accordance with their interests in Company profits, the Members' interests in Company profits are, solely for purposes of making such allocation, in proportion to their Percentage Interests.

6.6 Other Allocation Rules.

6.6.1 Allocation of Items Included in Net Profits and Net Losses. Whenever a proportionate part of the Net Profits or Net Losses is allocated to a Member, every item of income, gain, loss, or deduction entering into the computation of such Net Profits or Net Losses shall be credited or charged, as the case may be, to such Member in the same proportion.

6.6.2 Allocations in Respect of a Transferred Membership Interest. If any Membership Interest is transferred, or is increased or decreased by reason of the admission of a new Member or otherwise, during any Allocation Period of the Company, (i) such transfer of or increase or decrease in Membership Interest shall be deemed to have occurred as of the end of the day on which such transfer or increase or decrease occurs, and (ii) each item of income, gain, loss, deduction, or credit of the Company for such Allocation Period shall be allocated among the Members, as determined by the Manager in accordance with any method permitted by Code Section 706(d) and the Regulations promulgated thereunder in order to take into account the Members' varying interests in the Company during such Allocation Period.

6.7 Obligations of Members to Report Consistently. The Members are aware of the income tax consequences of the allocations made by this Article VI and hereby agree to

be bound by the provisions of this Article VI in reporting their shares of Company income and loss for income tax purposes.

#### 6.8 Distributions by the Company to Members.

6.8.1 In General. Prior to the occurrence of any event specified in Section 9.1, and subject to applicable law and any limitations contained elsewhere in this Agreement, the Manager shall distribute the Company's Available Cash, if any, not later than the thirtieth (30th) day after the end of each calendar year in the following order and priority:

(a) First, to Members having accrued and unpaid Priority Return as of the last day of the calendar quarter preceding the date on which such distribution is made, pro rata in accordance with the respective amounts of such accrued and unpaid Priority Return, until each such Member shall have received an amount equal to such Member's accrued and unpaid Priority Return as of the last day of such preceding calendar quarter;

(b) Second, to Members pro rata in accordance with their respective Percentage Interests.

6.8.2 Advances or Drawings. Distributions of money and property shall be treated as advances or drawings of money or property against a Member's distributive share of income and as current distributions made on the last day of the Company's taxable year with respect to such Member.

6.8.3 Distributees; Liability for Distributions. All distributions made pursuant to this Section 6.8 shall be made only to the Persons who, according to the books and records of the Company, hold the Membership Interests in respect of which such distributions are made on the actual date of distribution. Neither the Company nor any Member, Manager, or officer shall incur any liability for making distributions in accordance with this Section 6.8.

6.9 Form of Distributions. A Member, regardless of the nature of the Member's Capital Contributions, has no right to demand and receive any distribution from the Company in any form other than money. No Member may be compelled to accept from the Company a distribution of any asset in kind in lieu of a proportionate distribution of money being made to other Members.

6.10 Return of Distributions. Except for distributions made in violation of the Act or this Agreement, or as otherwise required by law, no Member shall be obligated to return any distribution to the Company or pay the amount of any distribution for the account of the Company or to any creditor of the Company. Notwithstanding any provision of this Agreement to the contrary, a Member who receives a distribution from the Company shall have no liability to return any portion of such distribution after the expiration of three (3) years from the date of the distribution pursuant to Section 18-607(c) of the Act.

6.11 Limitation on Distributions. Notwithstanding any provision to the contrary in this Agreement, the Company shall not be required to make a distribution to any Member on

account of such Member's interest in the Company if such distribution would violate Section 18-607 of the Act or other applicable law.

6.12 Withholding. Any tax required to be withheld with respect to any Member under Section 1446 or other provisions of the Code, or under the law of any state or other jurisdiction, shall be treated for all purposes of this Agreement (i) as a distribution of cash to be charged against current or future distributions to which such Member would otherwise have been entitled, or (ii) if determined by the Manager in writing, as a demand loan to such Member bearing interest at a rate per annum equal to the rate of interest then announced by The Bank of New York as its prime commercial lending rate plus two hundred (200) basis points.

## ARTICLE VII

### TRANSFER OF INTERESTS

#### 7.1 Transfer of Interests In General.

7.1.1 Conditions to Transfer. No Member shall be entitled to Transfer all or any part of such Member's Membership Interest unless all of the following conditions have been met: (a) the Company shall have received a written notice of the proposed Transfer, setting forth the circumstances and details thereof; (b) except for Transfers specifically authorized by Section 7.2.1, the Company shall (at its option) have received a written opinion from counsel reasonably satisfactory to the Company, which in the case of a permitted Transfer contemplated by Section 7.2 shall be the Company's counsel, in form and substance reasonably satisfactory to the Company, specifying the nature and circumstances of the proposed Transfer and any related transactions of which the proposed Transfer is a part, and based on such facts stating that the proposed Transfer and any related transactions will not be in violation of any of the registration provisions of the Securities Act, or any applicable state securities laws; (c) the Transfer will not result in the loss of any license or regulatory approval or exemption that has been obtained by the Company and is materially useful in the conduct of its business as then being conducted or proposed to be conducted; (d) the Transfer will not result in a material and adverse limitation or restriction on the operations of Charter HoldCo taken as a whole; (e) the Company is reimbursed upon request for its reasonable out-of-pocket expenses, except in the case of a permitted Transfer contemplated by Section 7.2, in connection with the Transfer; (f) if the Transfer to the proposed transferee is not otherwise specifically authorized by Section 7.2, the Transfer has been approved by the Manager, which consent may be given or withheld, conditioned or delayed as the Manager may determine in its sole discretion; (g) if the proposed transferee is not a Member or the Transfer to the proposed transferee is not otherwise specifically authorized by Section 7.2, the Transfer receives the Approval of the Members; (h) the Transfer will not cause the Company to be treated as a "publicly traded partnership" within the meaning of section 7704 of the Code, and (i) the Transfer will not cause the Company to be treated as an "investment company" within the meaning of section 3 of the Investment Company Act of 1940, as amended.

7.1.2 Pledges. Notwithstanding anything to the contrary in Section 7.1, a Member may pledge, grant a security interest in or otherwise encumber all or a portion of its

Membership Interest, without compliance with Sections 7.1.1(f) and (g) but subject to the other provisions of Section 7.1, if prior thereto, the pledgee or secured party delivers to the Company a written agreement acknowledging receipt of a copy of this Agreement and unconditionally agreeing that any foreclosure of the pledge or security interest shall be treated as a Transfer of such Membership Interest to which all provisions of this Article VII apply.

7.1.3 Invalid Transfers. To the fullest extent permitted by law, Transfers in violation of this Section 7.1 or in violation of any other provision of this Article VII or this Agreement shall be null and void ab initio and of no effect whatsoever.

7.2 Certain Transfers. Subject to the provisions of Section 7.1 (except with respect to the Transfers described in Section 7.2.2), the Units may be Transferred under the following circumstances:

7.2.1 Class A Preferred Units. Class A Preferred Units may not be transferred, except as expressly permitted under the CCI Exchange Agreement or to any Person controlled by AT&T Corp; provided, however, that (i) each such transferee must agree to be bound by the terms of this Agreement and other applicable equity documents (including the CCI Exchange Agreement), (ii) each such transferee must represent that it is an accredited investor and give such other investment representations and other undertakings as are customarily given by Persons acquiring securities in a private placement, and (iii) the Transfer to such transferee must be effected pursuant to an exemption from registration under applicable securities laws.

7.2.2 Transfer to the Company or Paul G. Allen. Notwithstanding any provision to the contrary in this Agreement, Class A Preferred Units and Class B Units may be transferred to the Company, Paul G. Allen, or any of their Affiliates.

7.3 Effective Date of Permitted Transfers. Any permitted Transfer of all or any portion of a Membership Interest shall be effective no earlier than the date following the date upon which the requirements of this Agreement have been met.

7.4 Effect of Permitted Transfers. After the effective date of any Transfer of any part of a Membership Interest in accordance with this Agreement, the Membership Interest so transferred shall continue to be subject to the terms, provisions, and conditions of this Agreement and any further Transfers shall be required to comply with all of the terms, provisions, and conditions of this Agreement. Any transferee of all or any portion of a Membership Interest shall take subject to the restrictions on transfer imposed by this Agreement.

7.5 Substitution of Members. Notwithstanding any provision to the contrary in this Agreement, a transferee of a Membership Interest shall not have the right to become a substitute Member until each of the following is true: (a) the requirements of Section 7.1.1 are satisfied; (b) such Person executes an instrument satisfactory to the Class B Members approving the transfer and to the Manager accepting and adopting the terms, provisions, and conditions of this Agreement, including without limitation Section 10.15 herein, with respect to the acquired Membership Interest; and (c) such Person pays any reasonable out-

of-pocket expenses of the Company in connection with such Person's admission as a new Member. The admission of a substitute Member shall not result in the release of the Member who assigned the Membership Interest from any liability that such Member may have to the Company.

7.6 Elections Under the Code. In the event of a Transfer of a Membership Interest in accordance with this Agreement, the Company, at the request of the party acquiring such transferred Membership Interest, shall elect, pursuant to Section 754 of the Code and any like provision of applicable state law, to adjust the basis of the Company property; each Member agrees to provide the Company with all information necessary to give effect to such election.

## **ARTICLE VIII**

### **BOOKS AND RECORDS; ACCOUNTING; TAX MATTERS**

8.1 Books and Records. The Manager shall cause the books and records of the Company to be kept, and the financial position and the results of its operations to be recorded, in accordance with generally accepted accounting principles; provided, however, that the Manager may, to the extent appropriate under applicable tax and accounting principles, maintain separate and corresponding records for book and tax purposes. The books and records of the Company shall reflect all the Company transactions and shall be appropriate and adequate for the Company's business.

#### 8.2 Delivery to Members and Inspection.

8.2.1 Upon the request of any Member, the Manager shall make reasonably available to the requesting Member the Company's books and records; provided, however, that the Manager shall have the right to keep confidential from the Members, for such period of time as the Manager deems reasonable, any information which the Manager reasonably believes to be in the nature of trade secrets or other information the disclosure of which the Manager in good faith believes is not in the best interest of the Company or could damage the Company or its business or which the Company is required by law or by agreement with a third party to keep confidential.

8.2.2 Any request, inspection, or copying of information by a Member under this Section 8.2 may be made by that Person or that Person's agent or attorney.

#### 8.3 Financial Statements.

8.3.1 General. The Manager shall provide any Member with such periodic operating and financial reports of the Company as such Member may from time to time reasonably request.

8.3.2 Annual Report. The Manager shall cause annual audited financial statements to be sent to each Member holding more than one-tenth (1/10) of one percent (1%) of all outstanding Units not later than 90 days after the close of the calendar year. The report shall contain a balance sheet as of the end of the calendar year and an income statement and statement of cash flow for the calendar year. Such financial statements shall

be prepared in accordance with generally accepted accounting principles consistently applied and be accompanied by the report thereon of the independent accountants engaged by the Company.

8.4 Tax Returns. The Manager shall cause to be prepared information necessary for the preparation of the Members' federal and state income tax and information returns, and for the computation of the Members' estimated income tax payments. The Manager shall send or cause to be sent to each Member, or as soon as practicable following the end of each Fiscal Year, but in no event later than July 15, (i) such information as is necessary to complete such Member's federal and state income tax or information returns, and (ii) a schedule setting forth each Member's Capital Account balance as of the end of the most recent Fiscal Year. The Manager shall cause the income tax and information returns for the Company to be timely filed with the appropriate authorities. If a Member requests, the Company shall provide such Member with copies of the Company's federal, state, and local income tax or information returns for that year, tax-related schedules, work papers, appraisals, and other documents as reasonably required by such Member in preparing its tax returns.

8.5 Other Filings. The Manager also shall cause to be prepared and timely filed, with appropriate federal and state regulatory and administrative bodies, amendments to, or restatements of, the Certificate and all reports required to be filed by the Company with those entities under the Act or other then current applicable laws, rules, and regulations.

8.6 Bank Accounts. The Manager shall maintain the funds of the Company in one or more separate bank accounts in the name of the Company, and shall not permit the funds of the Company to be commingled in any fashion with the funds of any other Person.

8.7 Accounting Decisions and Reliance on Others. All decisions as to accounting matters, except as otherwise specifically set forth herein, shall be made by the Manager. The Manager may rely upon the advice of the Company's accountants as to whether such decisions are in accordance with accounting methods followed for federal income tax purposes or financial accounting purposes (as applicable).

#### 8.8 Tax Matters.

8.8.1 Taxation as Partnership. The Company shall be treated as a partnership for tax purposes. The Company shall avail itself of any election or procedure under the Code or the Regulations and under state and local tax law, including any "check-the-box" election, for purposes of having an entity classified as a partnership for tax purposes, and the Members shall cooperate with the Company in connection therewith and hereby authorize the Manager to take whatever actions and execute whatever documents are necessary or appropriate to effectuate the foregoing.

8.8.2 Elections; Tax Matters Partner. Subject to the provisions of this Agreement, the Manager shall from time to time cause the Company to make such tax elections as it deems to be necessary or appropriate. The Members designate CCV as the "tax matters partner" (within the meaning of Code Section 6231(a)(7)) to represent the Company in connection with all examinations of the Company's affairs by tax authorities,



including without limitation resulting judicial and administrative proceedings, and shall expend Company funds for professional services and costs associated therewith.

## ARTICLE IX

### DISSOLUTION AND WINDING UP

9.1 Dissolution. The Company shall be dissolved, its assets shall be disposed of, and its affairs shall be wound up on the first to occur of the following:

(a) The entry of a decree of judicial dissolution pursuant to Section 18-802 of the Act; or

(b) The Approval of the Members; provided, however, that the Company will not be dissolved or liquidated unless (x) such dissolution or liquidation can be accomplished in a manner that does not cause aggregate adverse tax or economic consequences to TCI Bresnan and TCID (taking into account any compensation to be provided to such entities) in excess of One Million Dollars (\$1,000,000) or (y) the Company receives the written consent of such adversely affected entity.

9.2 Winding Up. Upon the occurrence of any event specified in Section 9.1, the Company shall continue solely for the purpose of winding up its affairs in an orderly manner, liquidating its assets, and satisfying the claims of its creditors. The Manager shall be responsible for overseeing the winding up and liquidation of the Company, shall take full account of the assets and liabilities of the Company, shall either cause its assets to be sold to any Person or distributed to a Member, and if sold, as promptly as is consistent with obtaining the fair market value thereof, shall cause the proceeds therefrom, to the extent sufficient therefor, to be applied and distributed as provided in Section 9.5 herein. The Person(s) winding up the affairs of the Company shall give written notice of the commencement of winding up by mail to all known creditors and claimants whose addresses appear on the records of the Company. All actions and decisions required to be taken or made by such Person(s) under this Agreement shall be taken or made only with the consent of all such Person(s).

9.3 Distributions in Kind. Any non-cash asset distributed to one or more Members shall first be valued at its fair market value to determine the gain or loss that would have been included in the amounts allocated pursuant to Article VI if such asset were sold for such value. Such gain or loss shall then be allocated pursuant to Article VI, and the Members' Capital Accounts shall be adjusted to reflect such allocations. The amount distributed and charged to the Capital Account of each Member receiving an interest in such distributed asset shall be the fair market value of such interest (net of any liability secured by such asset that such Member assumes or takes subject to). Notwithstanding anything to the contrary in this Section 9.3, the Company shall not make distributions of non-cash assets to any Member who objects.

9.4 Determination of Fair Market Value. For purposes of Section 9.2 and 9.3, the fair market value of each asset of the Company shall be determined by the Manager or, if a Member requests, by an independent, third-party appraiser experienced in the valuation of

businesses such as the Company's business, selected in good faith by the Members. The Company shall bear the costs of the appraisal.

9.5 Order of Distributions Upon Liquidation. After determining that all known debts and liabilities of the Company in the process of winding up, including without limitation debts and liabilities to Members who are creditors of the Company, have been paid or adequately provided for, the remaining assets shall be distributed to the Members in the following order:

(a) First, to Members having accrued and unpaid Priority Return as of the date of distribution, pro rata in accordance with the respective amounts of accrued and unpaid Priority Return, until each such Member shall have received an amount equal to such Member's accrued and unpaid Priority Return as of such date; provided, however, that no distribution shall be made pursuant to this Section 9.5(a) that creates or increases a Capital Account deficit for any Member which exceeds such Member's obligation deemed and actual to restore such deficit, determined as follows: Distributions shall first be determined tentatively pursuant to this Section 9.5(a) without regard to the Members' Capital Accounts, and then the allocation provisions of Article VI shall be applied tentatively as if such tentative distributions had been made. If any Member shall thereby have a deficit Capital Account which exceeds his obligation (deemed or actual) to restore such deficit, the actual distribution to such Member pursuant to this Section 9.5(a) shall be equal to the tentative distribution to such Member less the amount of the excess to such Member; and

(b) Second, to Members in accordance with their positive Capital Account balances, after taking into account income and loss allocations for the Company's taxable year during which liquidation occurs.

Such liquidating distributions shall be made by the end of the Company's taxable year in which the Company is liquidated or, if later, within ninety (90) days after the date of such liquidation.

9.6 Limitations on Payments Made in Dissolution. Each Member shall be entitled to look solely to the assets of the Company for the return of such Member's positive Capital Account balance. Notwithstanding that the assets of the Company remaining after payment of or due provision for all debts, liabilities, and obligations of the Company may be insufficient to return the Capital Contributions or share of Net Profits reflected in such Member's positive Capital Account balance, a Member shall have no recourse against the Company or any other Member.

9.7 Certificate of Cancellation. Upon completion of the winding up of the affairs of the Company, the Manager, or other Person(s) winding up the affairs of the Company, shall cause to be filed in the office of, and on a form prescribed by, the Delaware Secretary of State, a certificate of cancellation.

9.8 Termination. The Company shall terminate when all of the assets of the Company have been distributed in the manner provided for in this Article IX, and the certificate of cancellation is filed in accordance with Section 9.7.

9.9 No Action for Dissolution. Except as expressly permitted in this Agreement, a Member shall not take any voluntary action that directly causes a dissolution of the Company.

## ARTICLE X

### MISCELLANEOUS

10.1 Complete Agreement. This Agreement (including any schedules or exhibits hereto), any documents referred to herein or therein (the “**Transaction Documents**”), and the Certificate contain the entire understanding of the parties with respect to the subject matter hereof. There are no restrictions, agreements, promises, representations, warranties, covenants or undertakings with respect to the subject matter hereof other than those expressly set forth or referred to herein or in the Transaction Documents. Except for the Transaction Documents, this Agreement supersedes all prior agreements and understandings between the parties with respect to its subject matter.

10.2 Binding Effect. Subject to the provisions of this Agreement relating to transferability, this Agreement shall be binding upon and inure to the benefit of the Members, and their respective successors and assigns.

10.3 Parties in Interest. Except as expressly provided in the Act, nothing in this Agreement shall confer any rights or remedies under or by reason of this Agreement on any Persons other than the Members and their respective successors and assigns nor shall anything in this Agreement relieve or discharge the obligation or liability of any third person to any party to this Agreement, nor shall any provision give any third person any right of subrogation or action over or against any party to this Agreement.

10.4 Pronouns; Statutory References. All pronouns and all variations thereof shall be deemed to refer to the masculine, feminine, or neuter, singular or plural, as the context in which they are used may require. Any reference to the Code, the Regulations, the Act, or other statutes or laws or any specific agreement shall include all amendments, modifications, or replacements of the specific sections and provisions concerned.

10.5 Headings. All headings herein are inserted only for convenience and ease of reference and shall not be considered in the construction or interpretation of any provision of this Agreement.

10.6 References to this Agreement. Numbered or lettered articles, sections, and subsections herein contained refer to articles, sections, and subsections of this Agreement unless otherwise expressly stated.

10.7 Governing Law. This Agreement shall be enforced, governed by, and construed in accordance with the laws of the State of Delaware, regardless of the choice or conflict of laws provisions of Delaware or any other jurisdiction.

10.8 Severability. If any provision of this Agreement or the application of such provision to any Person or circumstance shall be held invalid, the remainder of this

Agreement or the application of such provision to Persons or circumstances other than those to which it is held invalid shall not be affected thereby.

10.9 Additional Documents and Acts. Each Member agrees to execute and deliver, from time to time, such additional documents and instruments and to perform such additional acts as may be necessary or appropriate to effectuate, carry out, and perform all of the terms, provisions, and conditions of this Agreement and the transactions contemplated hereby.

10.10 Notices. Any notice to be given or to be served upon the Company or any party hereto in connection with this Agreement shall be in writing (which may include facsimile) and shall be deemed to have been given and received when delivered to the address specified by the party to receive the notice. The respective address of each Member shall be as set forth on Schedule A attached hereto. Any party may, at any time by giving five (5) days' prior written notice to the other parties, designate any other address in substitution of the foregoing address to which such notice shall be given.

10.11 Amendments. Any amendment to this Agreement shall be adopted and be effective as an amendment hereto only upon the Approval of the Members; provided, however, that (a) prior to the Put Closing Date this Agreement may not be amended in a manner that is adverse to the Class A Members, without the approval of the Class A Members owning a majority of the Class A Preferred Units adversely affected, and (b) on or after the Put Closing Date this Agreement may not be amended in a manner that both (i) is adverse to the Class A Members and (ii) treats the Class A Members in a manner different than if the Class A Members were holding Class B Units instead of Class A Preferred Units at the time of such amendment, without the approval of the Class A Members owning a majority of the Class A Preferred Units adversely affected. Each Member hereby irrevocably constitutes and appoints the Manager as its true and lawful attorney-in-fact, in its name, place, and stead, to make, execute, acknowledge, and file any duly adopted amendment to or restatement of this Agreement (solely to the extent that such Member's consent is not required under this Agreement). It is expressly intended by each Member that the power of attorney granted by the preceding sentence is coupled with an interest, shall be irrevocable, and shall survive and not be affected by the subsequent disability or incapacity of such Member (or if such Member is a corporation, partnership, trust, association, limited liability company or other legal entity, by the dissolution or termination thereof).

10.12 No Interest in Company Property; Waiver of Action for Partition. No Member has any interest in specific property of the Company. Without limiting the foregoing, each Member irrevocably waives during the duration of the Company any right that such Member may have to maintain any action for partition with respect to the property of the Company.

10.13 Multiple Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which shall constitute one and the same instrument.

10.14 Remedies Cumulative. The remedies under this Agreement are cumulative and shall not exclude any other remedies to which any Person may be lawfully entitled.

10.15 Investment Representation. Each Member hereby represents to, and agrees with, the other Members and the Company that such Member is acquiring the Membership Interest for investment purposes for such Member's own account only and not with a view to or for sale in connection with any distribution of all or any part of the Membership Interest. No other Person will have any direct or indirect beneficial interest in or right to the Membership Interest.

IN WITNESS WHEREOF, the Members have executed this Agreement, effective as of the date first written above.

CCV Holdings, LLC

By: /s/Curtis S. Shaw

Name: Curtis S. Shaw  
Title: Senior Vice President

TCID of Michigan, Inc.  
TCI Bresnan LLC

By: Charter Communications, Inc., as an attorney-in-fact pursuant to  
Section 10.11 of the Existing LLC Agreement

By: /s/Curtis S. Shaw

Name: Curtis S. Shaw  
Title: Senior Vice President

Confirming its continuation as the Manager of the Company under and to the extent provided in Section 5.1.1 of this Agreement and approving the amendment of the Existing LLC Agreement by this Agreement:

Charter Communications, Inc.

By: /s/Curtis S. Shaw

Name: Curtis S. Shaw

Title: Senior Vice President

**SCHEDULE A**

**Member/Address; Number of Units; Initial Priority Capital; Capital Account**

Member/Address	Class A Preferred Units	Class B Units	Initial Priority Capital
CCV Holdings, LLC Charter Plaza12405 Powerscourt Drive St. Louis, Missouri 63131-3674 Attn: Chief Financial Officer		56,562,367*	0
TCID of Michigan, Inc. c/o AT&T Broadband & Internet Services 9197 South Peoria Street Englewood, Colorado 80112 Attn: Derek Chang	15,154,073		392,985,736
TCI Bresnan LLC c/o AT&T Broadband & Internet Services 9197 South Peoria Street Englewood, Colorado 80112 Attn: Derek Chang	9,119,870		236,502,670

\* Additional Class B Units to be determined by the Manager



Vulcan Inc.  
505 Union Station  
505 Fifth Avenue South, Suite 900  
Seattle, WA 98104

April 14, 2003

Charter Communications VII, LLC  
12405 Powerscourt Drive  
St. Louis, MO 63131

Ladies and Gentlemen:

You have requested that Vulcan Inc. ("Vulcan") agree to, or cause one or more of its affiliates to, provide a senior secured credit facility (the "Facility") to you (the "Borrower"), in an amount not to exceed \$300 million (the "Commitment Amount"). Initially, the Facility will be utilized by the Borrower to make investments in Falcon Cable Communications, LLC ("CC VII"). The Borrower will concurrently cause CC VII to utilize loans under the Facility to repay revolving loans under its credit facility, loan an amount equal to the loans under the Facility directly to Holdings and/or distribute an amount equal to such loans to the Borrower. If CC VII makes a distribution to the Borrower, the Borrower will then distribute such amount to Charter Communications Holdings LLC ("Holdings"). Holdings will utilize the amount of such loan or distribution to make direct or indirect investments in Charter Communications Operating, LLC ("CCO"), CC VI Operating Company, LLC ("CC VI"), and CC VIII Operating, LLC ("CC VIII Operating"). Each of CC VII, CCO, CC VI and CC VIII Operating (the "Operating Companies") will be required to use such amounts to repay revolving loans under their respective credit facilities, in order to enable the Operating Companies to create or preserve a 5% (or such higher percentage, not to exceed 10%, as may be reasonably determined by the Operating Companies) cushion with respect to the leverage ratio required for compliance under their respective credit facilities through March 31, 2004 (after giving effect to the actions reasonably available to the Operating Companies to cause compliance with financial covenants under the Operating Company credit facilities).

The Facility will include a letter of credit subfacility of \$100 million; provided that the aggregate amount of the entire Facility shall not exceed the Commitment Amount. After such time as 100% of the equity interests in the Borrower, CCV Holdings, LLC, CC VI Holdings, LLC, and, to the extent permitted by the lenders under its credit facility, 100% of the equity interests of CCO, have been contributed to CCH II, LLC ("NewCo"), NewCo will become the borrower of all subsequent advances under the Facility.

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Vulcan is pleased to advise you of its commitment to provide the entire amount of the Facility, upon the terms and subject to the conditions set forth or referred to in this commitment letter (the "Commitment Letter") and in the Summary of the Terms of the Facility attached hereto as Exhibit A (the "Term Sheet"). Vulcan may provide the entire amount of the Facility directly or indirectly through one or more of its affiliates.

You hereby represent and covenant that (a) all information other than financial projections (the "Information") that has been or will be made available to Vulcan or Vulcan's affiliates, representatives and advisors by you or any of your affiliates, representatives or advisors is or will be, when furnished, complete and correct in all material respects and does not or will not, when furnished, contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements contained therein not misleading in light of the circumstances under which such statements are made and (b) the financial projections that have been or will be made available to Vulcan or Vulcan's affiliates, representatives and advisors by you or any of your affiliates, representatives or advisors have been or will be prepared in good faith based upon reasonable assumptions, it being understood that the projections are subject to significant uncertainties and contingencies, many of which are beyond your control and that no assurance can be given that such projections will be realized. You understand that we may use and rely on the Information and financial projections without independent verification thereof.

As consideration for Vulcan's commitment hereunder, you agree to pay to Vulcan a Facility Fee equal to 1.5% of the Commitment Amount; provided that (a) a portion of the Facility Fee in an amount equal to 0.5% of the Commitment Amount shall be earned upon execution of this Commitment Letter and shall be payable in equal quarterly installments during a three year period commencing on the date of this Commitment Letter and (b) the remainder of the Facility Fee in an amount equal to 1% of the Commitment Amount shall be earned upon execution of the Definitive Documentation (as defined below) and shall be payable in equal quarterly installments, commencing on the execution of the Definitive Documentation and ending on the third anniversary of the date of this Commitment Letter.

Vulcan's commitment hereunder is subject to (a) our not becoming aware after the date hereof of any information or other matter affecting Charter Communications, Inc., the Borrower, any of their subsidiaries or the transactions contemplated hereby which is inconsistent in a material and adverse manner with any such information or other matter disclosed to us prior to the date hereof, (b) the negotiation, execution and delivery on or before June 30, 2003 of definitive documentation (the "Definitive Documentation") with respect to the Facility reasonably satisfactory to Vulcan and its counsel, (c) there not being any default or event of default under any of the credit facilities of the Operating Companies on April 30, 2003 and (d) the other conditions set forth or referred to in the Term Sheet. The

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terms and conditions of Vulcan's commitment hereunder and of the Facility are not limited to those set forth herein and in the Term Sheet; provided that Vulcan acknowledges and agrees that any additional terms and conditions required by Vulcan will be consistent with the terms and conditions set forth in this Commitment Letter and the Term Sheet. Those matters that are not covered by the provisions hereof and of the Term Sheet are subject to the approval and agreement of Vulcan and the Borrower.

You agree (a) to indemnify and hold harmless Vulcan and its affiliates and their respective officers, directors, employees, representatives, advisors and agents (each, an "indemnified person") from and against any and all losses, claims, damages and liabilities to which any such indemnified person may become subject arising out of or in connection with this Commitment Letter, the Facility, the use of the proceeds thereof or any related transaction or any claim, litigation, investigation or proceeding relating to any of the foregoing, regardless of whether any indemnified person is a party thereto, and to reimburse each indemnified person upon demand for any legal or other expenses incurred in connection with investigating or defending any of the foregoing, provided that the foregoing indemnity will not, as to any indemnified person, apply to losses, claims, damages, liabilities or related expenses to the extent (1) they are found by a final, non-appealable judgment of a court to arise from the willful misconduct or gross negligence of such indemnified person, or (2) they relate to the duties owed by an indemnified person or any of its affiliates as a director or stockholder of Charter Communications, Inc., including any claims that arise out of claims that the transactions contemplated by this Commitment Letter and the Term Sheet involve transactions with an interested director, and (b) to reimburse Vulcan and its affiliates on demand for all reasonable out-of-pocket expenses (including reasonable fees, charges and disbursements of counsel) incurred in connection with the Facility and any related documentation (including this Commitment Letter, the Term Sheet, and the Definitive Documentation) or the administration, amendment, modification or waiver thereof; provided that expenses to be reimbursed pursuant to this clause (b) incurred through the date of execution of the Definitive Documentation shall not exceed \$1,000,000. No indemnified person shall be liable for any damages arising from the use by others of Information or other materials obtained through electronic, telecommunications or other information transmission systems or for any special, indirect, consequential or punitive damages in connection with the Facilities.

This Commitment Letter shall not be assignable by you, other than to NewCo, without the prior written consent of Vulcan (and any purported assignment without such consent shall be null and void), is intended to be solely for the benefit of the parties hereto and is not intended to confer any benefits upon, or create any rights in favor of, any person other than the parties hereto. This Commitment Letter may not be amended or waived except by an instrument in writing signed by you and Vulcan. Any provision of this Commitment Letter which is prohibited or unenforceable in any jurisdiction shall, as to such provision and jurisdiction, be ineffective to the extent of such prohibition or unenforceability without

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invalidating the remaining provisions of this Commitment Letter or affecting the validity or enforceability of such provision in any other jurisdiction. This Commitment Letter may be executed in any number of counterparts, each of which shall be an original, and all of which, when taken together, shall constitute one agreement. Delivery of an executed signature page of this Commitment Letter by facsimile transmission shall be effective as delivery of a manually executed counterpart hereof. This Commitment Letter is the only agreement that has been entered into among us with respect to the Facility and sets forth the entire understanding of the parties with respect thereto.

This Commitment Letter shall be governed by, and construed in accordance with, the laws of the State of New York. To the fullest extent permitted by applicable law, each of the parties hereto hereby irrevocably submits to the nonexclusive jurisdiction of any New York State court or Federal court sitting in the Borough of Manhattan in New York City in respect of any suit, action or proceeding arising out of or relating to the provisions of this Commitment Letter or the making of the commitment and irrevocably agrees that all claims in respect of any such suit, action or proceeding may be heard and determined in any such court. Each of the parties hereto waives to the fullest extent permitted by applicable law, any objection which it may now or hereafter have to the laying of the venue of any such suit, action or proceeding brought in any such court, any claim that any such suit, action or proceeding brought in any such court has been brought in an inconvenient forum and any right to trial by jury in any such suit, action or proceeding. Service of any process, summons, notice or document by registered mail addressed to either party shall be effective service of process against such party for any suit, action or proceeding brought in any court.

The compensation, reimbursement and indemnification provisions contained herein shall remain in full force and effect regardless of whether Definitive Documentation shall be executed and notwithstanding the termination of this Commitment Letter or Vulcan's commitment hereunder.

This Commitment Letter is delivered to you on the understanding that neither this Commitment Letter nor the Term Sheet nor any of their terms or substance shall be disclosed, directly or indirectly, to any other person except (a) to your officers, agents, auditors and advisors who are directly involved in the consideration of this matter, (b) to your lenders if required by them (in which case you agree to consult with us prior to such disclosure), or (c) as may be compelled in a judicial or administrative proceeding or as otherwise required by law (in which case you agree to inform us prior to such disclosure). Notwithstanding the foregoing, the parties (and each employee, representative, or other agent of the parties) may disclose to any and all persons, without limitation of any kind, the tax treatment and tax structure of the Facility, provided, however, that no party (and no employee, representative, or other agent thereof) shall, except as otherwise permitted herein, disclose any information that is not necessary to understanding the tax treatment and tax structure of the

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Facility (including any information to the extent that such disclosure could result in a violation of any federal or state securities law).

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If the foregoing correctly sets forth our agreement, please indicate your acceptance of the terms hereof and of the Term Sheet by returning to us an executed counterpart hereof not later than 5:00 p.m., New York City time, on April 18, 2003. Vulcan's commitment will expire at such time in the event Vulcan has not received such executed counterparts in accordance with the immediately preceding sentence, along with payment of the initial installment of the Facility Fee.

Very truly yours,

VULCAN INC.

By: \_\_\_\_\_

Name:

Title:

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Accepted and agreed to as of  
the date first written above by:

CHARTER COMMUNICATIONS VII, LLC

By: \_\_\_\_\_ /s/ Curtis S. Shaw

Name: Curtis S. Shaw  
Title: Senior Vice President

Charter Communications  
Code of Conduct

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OUR COMMITMENT TO ETHICAL BUSINESS  
PRACTICES

The Charter Communications Code of Conduct (hereinafter referred to as this “Code”) is a guide for applying legal and ethical practices to your jobs. This Code describes not only the areas of the law that are likely to affect Charter Communications and its affiliated entities (collectively, “Charter” or the “Company”), but also references Charter’s Employee Handbook. We must each strive for, and accept nothing less than, fair, honest and ethical conduct in our daily business activities.

Every Charter employee must accept personal responsibility for complying with this Code and reporting any observed or suspected violations. We need everyone’s wholehearted and uncompromised commitment to the highest ethical standards and compliance with the law to ensure the Company’s success. Thank you for your support.

Carl Vogel  
President and Chief Executive Officer

## **I. PURPOSE, IMPORTANCE AND APPLICATION OF CODE**

This Code provides guidance to all Charter employees given today's complex legal and regulatory environment. The policies contained in this Code will enable you to understand your legal and ethical obligations, the Company's commitment to these principles, and our expectations of each Charter employee.<sup>1</sup>

This Code provides basic guidelines for employee conduct. Although it covers a wide range of business practices, and identifies a number of corporate policies, no code of conduct can cover every issue that may arise. Charter employees are expected to use common sense, adhere to common standards of ethical behavior and avoid even the appearance of improper conduct.

This Code addresses topics similar to certain policies set forth in the Charter Communications Employee Handbook. This Code does not replace the Handbook, but rather supplements it and should be adhered to in conjunction with the Handbook. The Handbook will be updated from time to time to supplement existing policies, and to incorporate new policies, as appropriate.

Eric Freesmeier, Senior Vice President of Administration, will serve as Charter's Corporate Compliance Officer to administer and oversee enforcement of this Code. He will work with Curt Shaw, Senior Vice President, General Counsel and Secretary, Rebecca Walsh who will serve as Compliance Counsel, the Divisional Human Resources heads, who will be the Deputy Compliance Officers and the members of the Compliance Committee, who will provide advice and assist in its administration. Mr. Freesmeier will chair the Compliance Committee, which will in turn report to the Company's Board of Directors.

## **II. REPORTING AND ENFORCEMENT**

### **A. Reporting Suspected Non-Compliance**

It is only with your help that we can ensure compliance with this Code. Therefore, you are required to report violations of any of the policies in this Code, or other behavior which you believe to be illegal or unethical. Any employee who knows of such behavior and fails to promptly report it will be subject to corrective action, up to and including termination of employment.

In order to make reporting violations as simple and accessible as possible, the Company has established a website and toll-free number for employees to

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<sup>1</sup> The policies, rules and provisions of this document are not automatically applicable to employees represented by a designated collective bargaining representative. Such employees' terms and conditions of employment are subject to good faith collective bargaining and/or any agreement negotiated as a result thereof.

report instances of observed or suspected violations of this Code. Charter has contracted with Ethicspoint, an outside company, to handle such reports. Reports using either the website or toll free number may be made on an anonymous basis; however, the process of obtaining follow-up and clarifying information will be made much more effective if you identify yourself. The toll-free number is 1-866-ETHICSP (1-866-384-5277), and the website is [www.chartercompliance.com](http://www.chartercompliance.com). Both are available 24 hours per day, 7 days per week. Reports can also be made directly to Deputy Compliance Officers (the Divisional Human Resources heads), serving in each of the Company's operating divisions. In addition, a supervisor, manager, member of the Human Resources Department, or other individual who receives a report of improper conduct, should pass this information along immediately via the toll-free number or website.

## **B. Enforcement**

Charter will promptly investigate all reported Code violations. Proven violations of this Code will be treated seriously, and will result in immediate corrective action, up to and including termination of employment. In addition, the Company may take other appropriate legal action for violations of this Code, including reporting illegal behavior to the proper law enforcement or other government authorities or pursuing a civil lawsuit.

Charter will also periodically monitor compliance with this Code. All employees must cooperate fully with any such audits, and provide truthful, complete and accurate information to the auditors.

## **C. Cooperation with Investigations/Non-Retaliation**

Charter will not retaliate, either directly or indirectly, against any employee or other individual who in good faith reports a violation of this Code. Anyone who engages in retaliation in violation of this policy will be subject to corrective action, up to and including termination of employment. Anyone who believes that retaliation has occurred should promptly inform the Corporate Compliance Officer, or make a report on the toll-free number or the website.

Charter will fully cooperate in connection with any investigation by a government body or agency. Employees are expected to follow any instructions given by management to assist in cooperating in connection with such an investigation. Retaliation against any employee for cooperating in an investigation or providing information in good faith to a government or law enforcement entity or a Company investigator is prohibited. In addition, any request for inspection, documents or other information from a government entity should be referred immediately to the head of the facility from which the information is sought and to the General Counsel.

Any employee contacted by a government entity should promptly inform his or her supervisor and the General Counsel.

### III. POLICIES

#### A. General Business Conduct Guidelines

Charter strives to be a good corporate citizen and to achieve our business objectives in a manner which is ethical and consistent with applicable laws. In keeping with these principles, proper conduct includes, but is not limited to:

- Complying with all obligations to completely and accurately report business and financial information (including, for example, subscriber counts, revenues, categories of service subscribers, expenses and capitalization) within the Company, to the public and to the investment community;
- Acting in good faith with respect to contractual and business obligations to third parties (including, for example, programmers, software licensors, equipment vendors, contractors and franchising authorities);
- Entering into contracts and business relationships with third parties on behalf of the Company only where there is a legitimate business purpose and only where all terms of the contract or relationship are reasonably believed to be in the best interest of the Company;
- Recording the financial results of contracts and business relationships on Charter's books and records, and in reports to the public and the investment community, accurately and completely, and in accordance with proper accounting standards;
- Ensuring that proper compensation is received for all Company services, facilities and property and that courtesy or discounted services are provided only in compliance with policy and with proper approval;
- Ensuring proper handling of deposits, cash, receipts, inventory, payments, customer contracts and records;
- Placing the interests of the Company, and the public's right to have accurate information about the Company, first, and always above your personal interests, or the interests of third parties; and
- Otherwise complying with all of the laws applicable to Charter, with this Code and with the Employee Handbook.

## **B. Proper Documentation and Controls**

All Charter employees are responsible for following any operational, administrative, documentation and accounting controls applicable to their areas of responsibility. Internal controls provide assurance that the Company's interests and assets are protected and properly used, that Company reports are truthful, accurate and complete, that procedures are appropriate to achieve Company business objectives, and that administrative and accounting policies and procedures are complied with throughout the organization.

In carrying out your responsibilities in this area, you must assure that:

- Charter accounting and documentation policies and procedures are followed;
- All funds, assets and transactions are fully and accurately recorded and entered in the Company's books and records in accordance with the Company's written procedures and with applicable accounting standards, so that accounting records accurately and fairly reflect all business transactions;
- No records are falsified in any manner;
- There are no unrecorded or "off the books" funds, assets or transactions;<sup>2</sup>
- Each entry for expenditure is coded into the account that accurately and fairly reflects the true nature of the transaction;
- Reasonable steps are taken to protect Company data from errors, disasters, misuse, unauthorized access and fraud, including data which is transmitted and/or stored electronically;
- Full access to the Company's books and records is given to the Company's independent public accountants; and

Any deviation or deficiency in internal accounting, documentation or administrative control must be promptly reported to the Company's Chief Financial Officer and/or the Corporate Compliance Officer, and if not remedied, to the Audit Committee of the Board of Directors. In addition, as with all other Code policies, a violation may be reported using the toll-free number or the website. See also the Accurate Records and Expense Reports policy in the Employee Handbook.

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<sup>2</sup> Certain limited exceptions, such as research and development partnerships, may exist from time to time. In all instances, these exceptions must be pre-cleared with the Legal Department.

### **C. Contracts and Business Relationships**

Contracts and business relationships should only be entered into where there is a legitimate business purpose. All terms of the transaction should be disclosed and included in the legal documentation supporting the transactions. Transaction documents should only be signed by duly authorized officers, and documents for significant transactions should first be reviewed and approved by the Legal Department.

The terms of Charter's contracts must be complied with. Contracts must be negotiated in good faith. It is the responsibility of officers and employees administering these contracts to assure Charter's good faith compliance. Any reports of business information provided by Charter to third parties must be accurate and complete, and in accordance with contract requirements. All questions of contract interpretation should be referred to the Legal Department.

### **D. Conflicts of Interest**

Employees have a fiduciary duty to Charter at all times. A conflict of interest occurs when an individual's private interest interferes in any way – or even appears to interfere – with the interests of the Company as a whole. No one should utilize his or her position with Charter for personal advantage or gain outside of the compensation or benefits received in the normal course of employment. A more detailed description of the Company's Conflict of Interest policy is contained in the Employee Handbook and the Appendix to this Code.

### **E. Protection of Company Information and Privileged Information and Intellectual Property**

All Charter employees must ensure that all business information which is meant to be kept confidential is properly protected. Provided below is an overview of the Company's guidelines on protection of such information. A more detailed description of the Company's policies on these topics is contained in Company policies on: (i) Protection of Proprietary, Confidential and Privileged Information and Intellectual Property, (ii) Company Computers, Electronic Media, Vehicles and Other Company Property, and (iii) Inventions and Intellectual Property, all of which are contained in the Employee Handbook and in the Appendix to this Code.

#### **1. Proprietary and Confidential Information**

Proprietary information developed or acquired by Charter and not freely available to others is a valuable asset that must be protected against theft, loss or inadvertent public disclosure. Proprietary information includes, for example, marketing plans, prices, sensitive or restricted information about Charter

customers, suppliers, contractors, vendors or joint venture partners should be protected. Therefore, disclosure of such information should be limited to those within the Company who have a need to know and should not be disclosed outside the Company without authorization from the Legal Department. Because these limitations on disclosure apply even after employment with Charter ends, upon separation from employment for any reason, employees must return any material containing restricted information and must refrain from disclosing any such protected information.

## 2. Privileged Information

The law recognizes an attorney-client privilege which shields certain confidential communications between the Company's employees and its attorneys from disclosure. To protect this privilege, communications to and from the Company's attorneys, work done under the direction of an attorney, and any information designated as privileged, must not be disclosed to others unless authorized by the Legal Department.

## 3. Trademarks, Copyrights and Other Intellectual Property

The Company's corporate identity, logo, trademarks and service marks are valuable business assets that represent the Company's good will and reputation. The Company's rights may be destroyed or diluted by improper use. Similarly, many materials, including articles, software, photographs, books, magazines and other items used in the course of employment, are protected by copyright laws. Reproducing, distributing or altering copyrighted materials without permission of the copyright owner is illegal and may result in violations subject to civil penalties.

## **F. Government Relations, Campaign Finance and Franchise Compliance**

Charter engages in various activities to foster positive relationships with government entities and to express its views and the views of the industry within the political process. To that end, the members of the Government Relations Department, members of management, and all employees should strive to maintain good relations with our franchising communities, as well as complying with the terms of each franchise agreement.

In addition, the Company has established a federal political action committee (PAC) to which employees may contribute voluntarily. The PAC is independent of any political party, organization or candidate, and contributions are made from this committee to federal candidates as permitted by applicable law. The Company also makes corporate campaign contributions to certain state or local political parties, political committees and candidates for elective public office as permitted by applicable law. As a corporate citizen, Charter may also

express its views on public issues affecting the Company, its shareholders and employees or the geographic areas in which it operates. The Company may also contribute to organizations that represent the industry in the political process.

A more detailed description of the Company's policies on these topics is contained in the Government Relations, Campaign Finance and Franchise Compliance policy in the Employee Handbook and in the Appendix to this Code.

#### **G. Equal Employment**

Charter provides equal employment opportunities to all qualified persons, and expects all of its employees to adhere to laws, regulations and Company policies relating to equal opportunity and non-discrimination. A more detailed description of the Company's policies on equal opportunity is contained in the Equal Employment Opportunity, Prohibition Against Harassment, and Accommodation of Disabilities policies in the Employee Handbook.

#### **H. Electronic Communications and Use of the Internet**

Everyone who works with the Company's computer resources is responsible to use these resources appropriately and only as authorized. A more detailed description of the Company's policies on this topic is contained in the Company Computers, Electronic Media, Vehicles and Other Company Property policy in the Employee Handbook.

In addition, as an Internet Service Provider, Charter may protect itself from liability for copyright infringement, violation of child pornography laws and the transmission of other illegal materials over the internet by Charter customers. However, in order to preserve these protections, Charter must take certain steps to comply with applicable laws and legal reporting requirements. Therefore, all employees who become aware of such content should promptly inform the Legal Department or the Internet Security Manager.

#### **I. Safety and the Environment**

The Company is committed to providing a safe and healthy work environment. The Company will comply with all applicable occupational, safety, health, transportation and environmental laws and will conduct its business in such a way that minimizes the risk of injury and addresses environmental issues and concerns in a responsible manner. A more detailed description of the Company's policies on these topics is contained in the General Safety and Workers Compensation policies in the Employee Handbook.

In addition to the Ethicspoint toll-free number and website, any questions as to safety, health or environmental concerns or reports of unsafe practices, may be directed to your supervisor, the local safety head, the Corporate Safety



Department or the Corporate Risk Management Department. All governmental agency inspections (for example, Occupational Safety and Health Administration (OSHA), Environmental Protection Agency (EPA), Department of Transportation (DOT), Department of Labor (DOL)) should be immediately reported to the Legal Department, the Corporate Safety Department, the Corporate Risk Management Department or the Compliance Officer.

#### **J. Document Retention**

To safeguard Company records, employees must always retain records relating to the Company's business according to record management policies within a particular department or area, as well as any applicable legal requirements. All employees should periodically review hard copy, computer, e-mail and other files and discard obsolete or outdated documents and records in compliance with records retention guidelines. However, Charter may at times be a party to litigation or subject to investigations that would require that the Company suspend, or otherwise modify, the usual record retention policies or practices. If there is a lawsuit, government investigation or audit, any ordinary disposal or alteration of documents relating to such matters must be immediately suspended. Any questions about retention of records that may be related to litigation or government inquiry should be directed to the General Counsel.

#### **K. Compliance with Fair Competition Laws**

Fair competition laws (such as anti-trust laws) were enacted to preserve competition. As a general rule, these laws prohibit conduct that unlawfully restrains trade or seeks to maintain a monopoly in any market, and no employee should engage in behavior which violates fair trade laws. Examples of prohibited conduct include agreements among buyers of a product or service to establish a common price, or pricing a product or service at a level below its cost for the purpose of driving out competition and, thereafter, re-raising the price.

Any question regarding whether a specific practice constitutes unfair competition, or otherwise violates anti-trust laws, should be directed to the Legal Department.

#### **L. Prohibition on Insider Trading and Disclosure of Inside Information**

Trading in Charter's securities when in possession of inside information, or unauthorized disclosure to others of such information, is illegal and strictly prohibited. Inside information includes information, either positive or negative, about a company's business, operations, assets or ownership, that has not been publicly disclosed and that would reasonably be expected to result in a change in the market price or value of a company's securities. Examples of inside information include financial information or projections; news of a pending or

proposed merger or acquisition or sale of cable systems; alliances or strategic partnerships; gain or loss of a substantial supplier or contract; significant new product announcements or technological developments; significant pricing changes; financial liquidity problems; significant actions by regulatory bodies; major changes in senior management; or major disputes with material contractors or suppliers. Employees are prohibited from trading based on, or disclosing (even inadvertently), inside information about Charter or about other companies.

The rules on inside trading do not prohibit the exercise of stock options or purchase of shares pursuant to any employee stock plan that may be adopted. However, sale of shares acquired pursuant to exercise of stock options or employee stock plan are restricted by these rules. Officers, Board members and other specified individuals may be subject to additional limitations with regard to trading Charter securities.

**Employee Acknowledgment Form**

I have reviewed the Charter Communications Code of Conduct (the Code) and am familiar with its contents. I understand that the Code contains important information and that it is my responsibility to read and comply with the policies contained in the Code. I also understand that the policies in the Code may be subject to change from time to time.

I further understand that I am to report violations of the Code on the toll-free phone number at 1-866-ETHICSP (1-866-384-5277) or the secure website at [www.chartercompliance.com](http://www.chartercompliance.com). It is my responsibility to report any observed or suspected violation of the Code and failure to do so may result in corrective action, up to and including termination of employment. I understand that I will not be subject to retaliation for reporting any violation in good faith.

EMPLOYEE'S FULL NAME (printed): \_\_\_\_\_ SSN: \_\_\_\_\_

EMPLOYEE'S SIGNATURE: \_\_\_\_\_ DATE: \_\_\_\_\_

DEPARTMENT: \_\_\_\_\_ CITY/STATE: \_\_\_\_\_

## Entity Jurisdictions &amp; Type

Entity Name	Jurisdiction and Type
212 Seventh Street, Inc.	a Missouri corporation
American Cable Entertainment Company, LLC	a Delaware limited liability company
ARH, Ltd.	a Colorado corporation
Athens Cablevision, Inc.	a Delaware corporation
Ausable Cable TV, Inc.	a New York corporation
Cable Equities Colorado, LLC	a Delaware limited liability company
Cable Equities of Colorado Management Corp.	a Colorado corporation
Cable Systems, Inc.	a Kansas corporation
CC 10, LLC	a Delaware limited liability company
CC Fiberlink, LLC	a Delaware limited liability company
CC Michigan, LLC	a Delaware limited liability company
CC New England, LLC	a Delaware limited liability company
CC Systems, LLC	a Delaware limited liability company
CC V Holdings Finance, Inc.	a Delaware corporation
CC V Holdings, LLC	a Delaware limited liability company
CC VI Holdings, LLC	a Delaware limited liability company
CC VI Operating, LLC	a Delaware limited liability company
CC VI Purchasing, LLC	a Delaware limited liability company
CC VII Lease, Inc.	a Delaware corporation
CC VII Leasing, LLC	a Delaware limited liability company
CC VII Purchasing, LLC	a Delaware limited liability company
CC VIII Holdings, LLC	a Delaware limited liability company
CC VIII Operating, LLC	a Delaware limited liability company
CC VIII Purchasing, LLC	a Delaware limited liability company
CC VIII, LLC	a Delaware limited liability company
CCHC Lease, Inc.	a Delaware corporation
CCHC Leasing, LLC	a Delaware limited liability company
CCHC Mortgage, LLC	a Delaware limited liability company
CCO Lease, Inc.	a Delaware corporation
CCO Leasing, LLC	a Delaware limited liability company
CCO Property, LLC	a Delaware limited liability company
CCO Purchasing, LLC	a Delaware limited liability company
CCV.com, LLC	a Delaware limited liability company

Cencom Cable Entertainment, LLC	a Delaware limited liability company
CF Finance LaGrange, Inc.	a Georgia corporation
Charter Advertising Saint Louis, LLC	a Delaware limited liability company
Charter Cable Operating Company, L.L.C	a Delaware limited liability company
Charter Cable Partners, L.L.C	a Delaware limited liability company
Charter Communications Entertainment I, LLC	a Delaware limited liability company
Charter Communications Entertainment II, LLC	a Delaware limited liability company
Charter Communications Entertainment, LLC	a Delaware limited liability company
Charter Communications Holding Company, LLC	a Delaware limited liability company
Charter Communications Holdings Capital Corporation	a Delaware corporation
Charter Communications Holdings LLC	a Delaware limited liability company
Charter Communications JV, LLC	a Delaware limited liability company
Charter Communications Operating, LLC	a Delaware limited liability company
Charter Communications Properties LLC	a Delaware limited liability company
Charter Communications Services, LLC	a Delaware limited liability company
Charter Communications V, LLC	a Delaware limited liability company
Charter Communications Ventures, LLC	a Delaware limited liability company
Charter Communications VI, LLC	a Delaware limited liability company
Charter Communications VII, LLC	a Delaware limited liability company
Charter Communications, Inc.	a Delaware corporation

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## Entity Jurisdictions & Type

Entity Name	Jurisdiction and Type
Charter Communications, LLC	a Delaware limited liability company
Charter Fiberlink – California, LLC	a Delaware limited liability company
Charter Fiberlink – Illinois, LLC	a Delaware limited liability company
Charter Fiberlink – Indiana, LLC	a Delaware limited liability company
Charter Fiberlink — Kansas, LLC	a Delaware limited liability company
Charter Fiberlink — Michigan, LLC	a Delaware limited liability company
Charter Fiberlink — Missouri, LLC	a Delaware limited liability company
Charter Fiberlink – Nebraska, LLC	a Delaware limited liability company
Charter Fiberlink – South Carolina, LLC	a Delaware limited liability company
Charter Fiberlink – Texas, LLC	a Delaware limited liability company
Charter Fiberlink – Wisconsin, LLC	a Delaware limited liability company
Charter Fiberlink, LLC	a Delaware limited liability company
Charter Gateway, LLC	a Delaware limited liability company
Charter Helicon, LLC	a Delaware limited liability company
Charter Online, L.P.	a Delaware limited partnership
Charter Rascals, L.L.C	a Delaware limited liability company
Charter RMG, LLC	a Delaware limited liability company
Charter Stores FCN, LLC	a Delaware limited liability company
Charter Telephone of Michigan, LLC	a Delaware limited liability company
Charter Telephone of Minnesota, LLC	a Delaware limited liability company
Charter Video Electronics, Inc.	a Minnesota corporation
Charter-LaGrange, L.L.C	a Georgia limited liability company
Chat TV, LLC	a Delaware limited liability company
Dalton Cablevision, Inc.	a Delaware corporation
DBroadband Holdings, LLC	a Delaware limited liability company
Enstar Cable Corporation	a Georgia corporation
Enstar Cable of Cumberland Valley	a Georgia general partnership
Enstar Cable of Macoupin County	a Georgia general partnership
Enstar Communications Corporation	a Georgia corporation
Enstar Finance Company, LLC	a Delaware limited liability company
Enstar Income/Growth Program 1984-1, L.P.	a Georgia limited partnership
Enstar Income/Growth Program Five-A, L.P.	a Georgia limited partnership
Enstar Income/Growth Program Five-B, L.P.	a Georgia limited partnership
Enstar Income/Growth Program II-1, L.P.	a Georgia limited partnership

Enstar Income/Growth Program II-2, L.P.	a Georgia limited partnership
Enstar Income/Growth Program IV-1, L.P.	a Georgia limited partnership
Enstar Income/Growth Program IV-2, L.P.	a Georgia limited partnership
Enstar Income/Growth Program IV-3, L.P.	a Georgia limited partnership
Enstar Income/Growth Program Six-A, L.P.	a Georgia limited partnership
Enstar IV/PBD, L.P.	a Georgia limited partnership
Enstar IX, Ltd., L.P.	a Georgia limited partnership
Enstar VII, L.P.	a Georgia limited partnership
Enstar VIII, L.P.	a Georgia limited partnership
Enstar X, Ltd., L.P.	a Georgia limited partnership
Enstar XI, Ltd., L.P.	a Georgia limited partnership
Falcon Cable Communications, LLC	a Delaware limited liability company
Falcon Cable Media, a California Limited Partnership	a California limited partnership
Falcon Cable Systems Company II, L.P.	a California limited partnership
Falcon Cablevision, a California Limited Partnership	a California limited partnership
Falcon Community Cable, L.P.	a Delaware limited partnership
Falcon Community Ventures I, LP	a California limited partnership
Falcon First Cable of New York, Inc.	a Delaware corporation
Falcon First Cable of the Southeast, Inc.	a Delaware corporation
Falcon First, Inc.	a Delaware corporation

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## Entity Jurisdictions & Type

Entity Name	Jurisdiction and Type
Falcon Telecable, a California Limited Partnership	a California limited partnership
Falcon Video Communications, L.P.	a California limited partnership
Helicon Group, L.P., The	a Delaware limited partnership
Helicon Partners I, L.P.	a Delaware limited partnership
Helicon Telephone Alabama, L.L.C	an Alabama limited liability company
Helicon Telephone Company	a Delaware corporation
Helicon Telephone Delaware, L.L.C	a Delaware limited liability company
Helicon Telephone Georgia, L.L.C	a Georgia limited liability company
Helicon Telephone Indiana, L.L.C	an Indiana limited liability company
Helicon Telephone Kentucky, L.L.C	a Kentucky limited liability company
Helicon Telephone Louisiana, L.L.C	a Louisiana limited liability company
Helicon Telephone Maine, L.L.C	a Maine limited liability company
Helicon Telephone Maryland, L.L.C	a Maryland limited liability company
Helicon Telephone Mississippi, L.L.C	a Mississippi limited liability company
Helicon Telephone Missouri, L.L.C	a Missouri liability company
Helicon Telephone New Hampshire, L.L.C	a New Hampshire limited liability company
Helicon Telephone North Carolina, L.L.C	a North Carolina limited liability company
Helicon Telephone Ohio, L.L.C	an Ohio limited liability company
Helicon Telephone Pennsylvania, L.L.C	a Pennsylvania liability company
Helicon Telephone South Carolina, L.L.C	a South Carolina limited liability company
Helicon Telephone Tennessee, L.L.C	a Tennessee limited liability company
Helicon Telephone Vermont, L.L.C	a Vermont limited liability company
Helicon Telephone Virginia, L.L.C	a Virginia limited liability company
Helicon Telephone West Virginia, L.L.C	a West Virginia limited liability company
Hometown TV, Inc.	a New York corporation
Hornell Television Services, Inc.	a New York corporation
HPI Acquisition Co., L.L.C	a Delaware limited liability company
Interlink Communications Partners, LLC	a Delaware limited liability company
Long Beach, LLC	a Delaware limited liability company
Marcus Cable Associates, L.L.C	a Delaware limited liability company
Marcus Cable of Alabama, L.L.C	a Delaware limited liability company
Marcus Cable, Inc.	a Delaware limited liability company
Midwest Cable Communications, Inc.	a Minnesota corporation
Peachtree Cable TV, L.P.	a Georgia limited partnership



Peachtree Cable T.V., LLC	a Delaware limited liability company
Plattsburgh Cablevision, Inc.	a Delaware corporation
Renaissance Media (Louisiana) LLC	a Delaware limited liability company
Renaissance Media (Tennessee) LLC	a Delaware limited liability company
Renaissance Media Capital Corporation	a Delaware limited liability company
Renaissance Media Group LLC	a Delaware limited liability company
Renaissance Media LLC	a Delaware limited liability company
Rifkin Acquisition Capital Corporation	a Colorado corporation
Rifkin Acquisition Partners, LLC	a Delaware limited liability company
Robin Media Group, Inc.	a Nevada corporation
Scottsboro TV Cable, Inc.	an Alabama corporation
Tennessee, LLC	a Delaware limited liability company
Tioga Cable Company, Inc.	a Pennsylvania corporation
Vista Broadband Communications, LLC	a Delaware limited liability company
Wilcat Transmission Co., Inc.	a Delaware corporation

**Independent Auditors' Consent**

The Board of Directors  
Charter Communications, Inc.:

We consent to the incorporation by reference in the registration statements No. 333-56850 and 33-54394 on Form S-3, No. 333-41486 on Form S-1 and No. 333-61358 and 333-36628 on Form S-8 of Charter Communications, Inc. of our report dated April 14, 2003, with respect to the consolidated balance sheets of Charter Communications, Inc. as of December 31, 2002, 2001 and 2000, and the related consolidated statements of operations, stockholders' equity, cash flows for each of the years in the three-year period ended December 31, 2002, which report appears in the December 31, 2002, annual report on Form 10-K of Charter Communications, Inc.

As discussed in Note 3 to the consolidated financial statements, the Company has restated the consolidated statements of operations, changes in shareholders' equity and cash flows for the two years ended December 31, 2001, which were previously audited by other independent auditors who have ceased operations.

As discussed in Note 4 to the consolidated financial statements, effective January 1, 2002, the Company adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets."

KPMG LLP  
St. Louis, Missouri  
April 14, 2003

**CERTIFICATION OF CHIEF EXECUTIVE  
OFFICER REGARDING PERIODIC REPORT CONTAINING  
FINANCIAL STATEMENTS**

I, Carl E. Vogel, the Chief Executive Officer of Charter Communications, Inc. (the "Company") in compliance with 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that, the Company's Annual Report on Form 10-K for the period ended December 31, 2002 (the "Report") filed with the Securities and Exchange Commission:

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

/s/ Carl E. Vogel

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Carl E. Vogel  
Chief Executive Officer  
April 15, 2003

**CERTIFICATION OF CHIEF FINANCIAL  
OFFICER REGARDING PERIODIC REPORT CONTAINING  
FINANCIAL STATEMENTS**

I, Steven A. Schumm, the Chief Administrative Officer and Interim Chief Financial Officer of Charter Communications, Inc. (the "Company") in compliance with 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that, the Company's Annual Report on Form 10-K for the period ended December 31, 2002 (the "Report") filed with the Securities and Exchange Commission:

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

/s/ Steven A. Schumm \_\_\_\_\_

Steven A. Schumm  
Chief Administrative Officer and Interim Chief Financial Officer  
April 15, 2003